

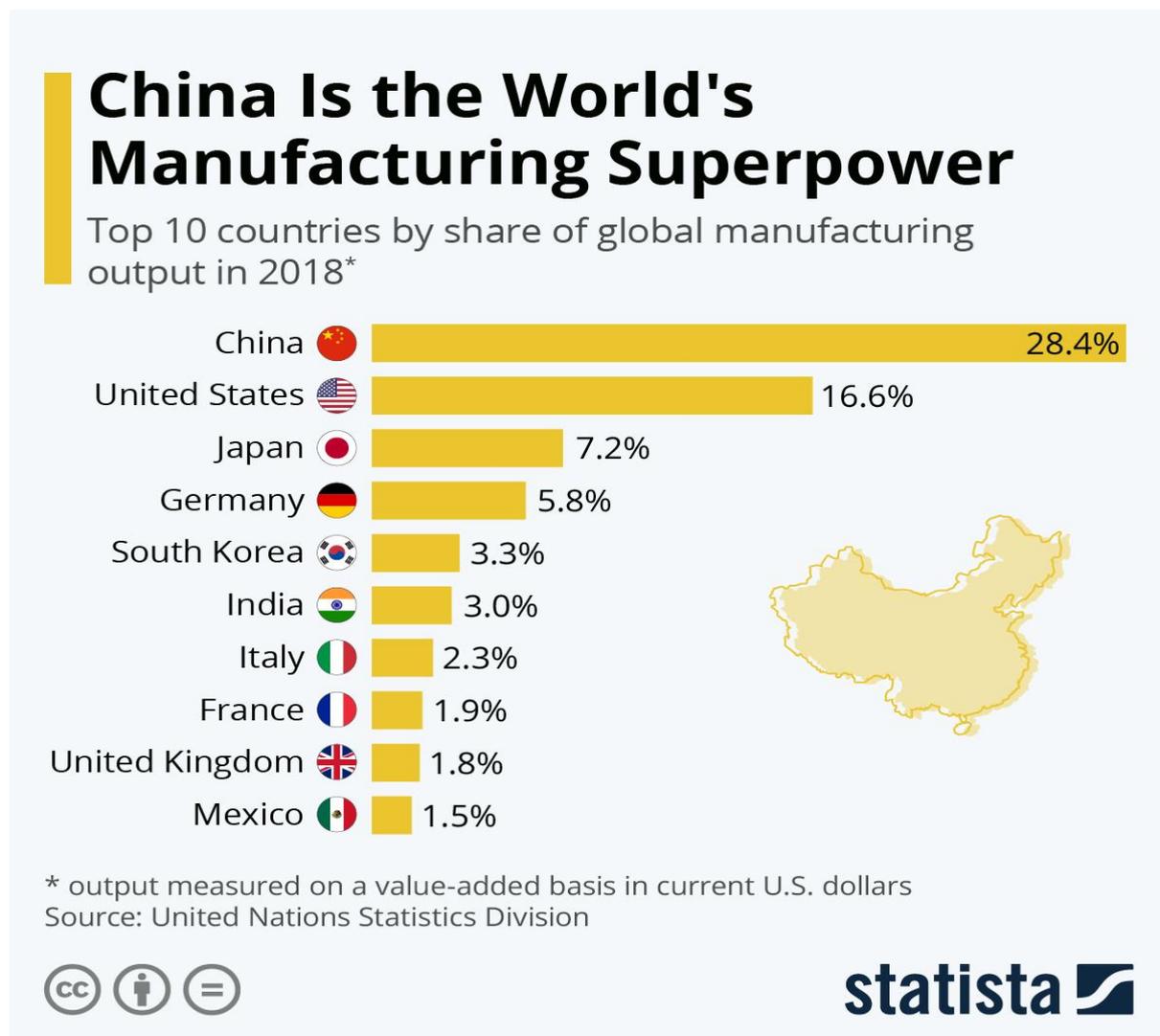
ITS PEARL HARBOUR ALL OVER AGAIN. Why the US needs to launch a pre-emptive strike.

The window for preserving US economic and financial hegemony is closing rapidly, concerted by the pandemic. The IMF data released 24th June, which is continuously being revised, gives a 9% reduction in US GDP relative to China this year. In fact, that reduction could be nearer 20%, effectively ending the reign of the US economy as the world's largest, when measured by \$GDP.

In February 2020 measured in Dollars, China's share of global industrial production amounted to \$426 billion giving it a 26% share compared to the US at \$288 billion and 17.5%. In fact, China's share was bigger than both the United States and Japan the third biggest put together. <https://knoema.com/atlas/topics/Economy/Short-term-indicators/Industrial-production> The World Bank gives a higher figure but the same ratios, It estimates industrial and construction at \$5.2 billion and \$3.2 billion respectively, making US industry a third smaller once again. <https://data.worldbank.org/indicator/NV.IND.TOTL.KD>

In terms of manufacturing China's output matches that of the US, Japan and Germany combined.

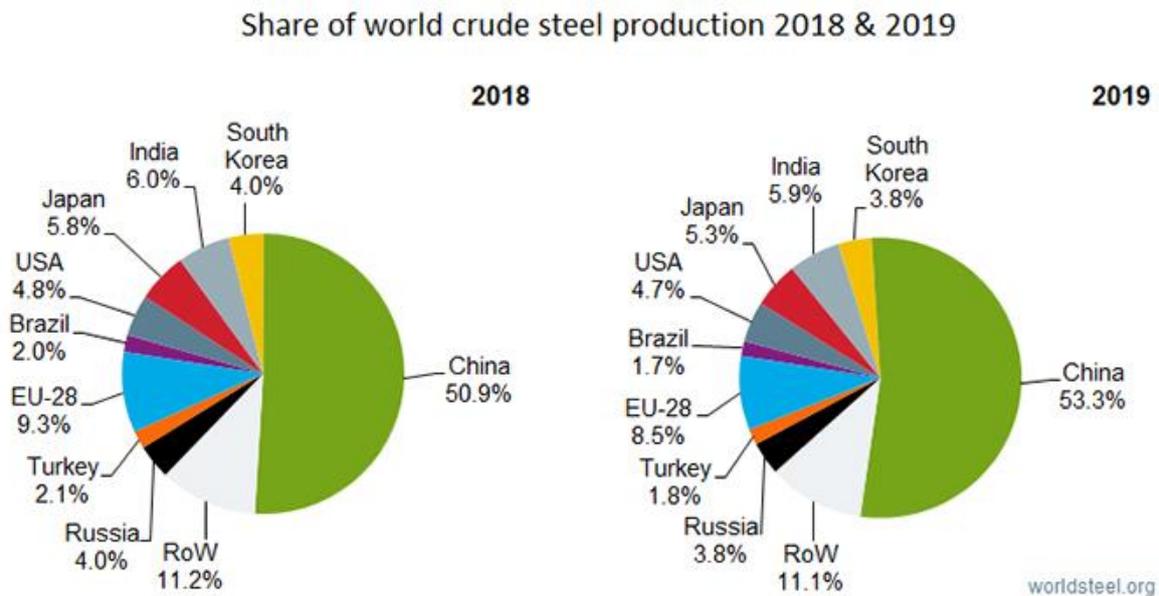
Graph 1.



These dollar denominated ratios obscure the physical reality, because of the transfer of value from China, and differing production costs which underestimates value production in China itself. If we recall that in modern warfare, soldiers are mere agents for their respective industries, and that their capacity to wage war depends on the capacity of their industry, then examining this physical capacity is vital. Here we will look at the following vital elements needed for war: steel, cement, copper, aluminium, nickel, heavy trucks and shipbuilding.

Graph 2, below details China’s domination of the world steel industry. Nothing further needs to be added.

Graph 2.



<https://www.worldsteel.org/media-centre/press-releases/2020/Global-crude-steel-output-increases-by-3.4--in-2019.html#:~:text=China%E2%80%99s%20share%20of%20global%20crude%20steel%20production%20increased,2019%2C%20a%20decrease%20of%201.4%25%20compared%20to%202018.>

In terms of cement, China produces 2.2 billion out of the global 3.3 billion tons or two thirds of world production. The US produces a mere 89 million or less than 5% of China’s total.

In terms of copper smelting in 2018, China produced 8.5 million tons or 40% of the global total compared to the USA’s 0.6 million tons. In terms of refined copper, China produced 9.2 million tons (39% of the global total) compared to the USA at 1.1 million tons. In terms of copper alloys China produced 44% of the global total or over 4 times as much as the USA. All data in this link <https://www.icsg.org/index.php/component/jdownloads/finish/170/2965>

In terms of Aluminium production, China’s share of global production was 55% or 36 million tons compared to the USA at 0.9 million tons.

In terms of Nickel which is used to make stainless steel, China consumed 56% of the global total. That was over ten times the amount consumed by the USA.

In terms of heavy-duty trucks, China produces and sells three times more than the USA. <https://www.forbes.com/sites/jackperkowsky/2018/10/09/chinas-heavy-duty-truck-market-shows-no-signs-of-stopping/#ede73e51541f> China, the largest heavy truck market around the globe, sold

approximately 1.15 million heavy trucks (a 48.1% share of global total), <https://finance.yahoo.com/news/china-heavy-truck-industry-report-003000683.html>

In terms of shipbuilding, China is once again the world’s largest. China, South Korea and Japan produce 90% of global tonnage, the rest of the world only 10%. Clearly the latter two are allies of the USA.

Graph 3.



<https://stats.unctad.org/handbook/MaritimeTransport/MerchantFleet.html>

Thus far we have confined our analysis to heavy industry to compare it with the relationship between Japan and the USA before the Second World War. *“Around 1937 Japan’s industry amounted for 5,2% of worldwide capacity. That was on par with France or a bit more than half of the capacity of the UK or the USSR. Yet the U.S.A. had more than 30%.”* International Industrialization levels by P. Bairoch. These days the relationship between China and the USA is reversed. In terms of heavy industry, China outproduces the USA five-fold in most areas.

Of course, there are counter arguments. Firstly, how much of their industries have been devoted to arms manufacture. In the US it is much higher, a minimum of 10% has been wasted on arms, the so-called military-industrial axis which has done so much damage to the US economy. <https://www.nytimes.com/2017/09/22/business/economy/military-industrial-complex.html> This has allowed the US to build 10 aircraft carriers. But this argument can be dismissed. If China goes on a war footing, as the US did after Pearl Harbour, it will outproduce the US ten-fold because of fewer industrial bottlenecks.

If we analyse bottlenecks, then the view of the Pentagon, that the US has outsourced its industrial might to China, is valid. A recent Pentagon report highlighted 300 vulnerabilities in its military supply chain relating to China. <https://www.reuters.com/article/us-usa-military-china-idUSKCN1ME2SN> The fact is that China is the production hub of the world as the Covid 19 pandemic revealed when the world depended on it for reagents, masks, gowns, respirators and so on. Indeed, much of the world’s pharmaceutical ingredients now derive from China as well, crucially the antibiotics which every war requires. *“New Jersey used to manufacture the world’s medicine supply. But today, the majority of ingredients necessary to make your medicine, more than 80%, are sourced from China. U.S. dependence on China for the raw ingredients required to make medicines has become a national security concern.”* <https://www.washingtonexaminer.com/opinion/op-eds/chinas-dominance-of-the-pharma-supply-chain-is-highly-dangerous-to-the-us>

The opposite is also the case. China is dependent on sea borne trade for crucial commodities such as oil and iron ore, and we know who has the world’s largest deep-sea navy, the USA. One of the strategic purposes of the Belt and Braces project is to create land-based supply routes which are more difficult to interdict by the USA. Similarly, the opening of the border with Russia to give China access to

resources from Siberia via multiple pipelines makes it less dependent on sea borne trade. In terms of continental resources, other than rare earth minerals, the USA is advantaged compared to China.

Thus far we have discussed mainly quantitative disparities, what about qualitative disparities. Here the USA has the advantage in aircraft (especially engines), space, chip fabrication and communications. There is clearly still a five-year gap in these areas though it is closing fast. This makes China's alliance with Russia that much more important because Russian armaments, as shown in Syria, are in many ways superior to the over-engineered US equivalents. The strategic and costly mistake the US imperialists made, was to fail to embrace Russia in order to lever it away from China a decade ago.

The extent of the tension between Russia and the USA today was exemplified by an event this week. The modern equivalent of a shot across the bow, when sailing ships first fired a cannon ball ahead of the opposing ships, is to fire an anti-satellite weapon in space which Russia did this week. <https://www.forbes.com/sites/jonathanocallaghan/2020/07/24/worrisomerussia-accused-of-firing-a-projectile-in-space-from-one-of-its-satellites/#47bcb8b165a5> It was a warning to the USA not to militarise space. Just as control of the skies dominated the Second World War, so space will dominate the next war. Space satellites now play a key role in command and control, surveillance, communications and targeting, not to mention a hiding place for nuclear weaponry. A future war in near space will result in such a large cloud of debris that this area of space could become unusable for hundreds of years, trapping us on this planet.

The article linked here gives a good overview of the weaknesses and strengths of US and Chinese technology. <https://eandt.theiet.org/content/articles/2019/10/how-china-is-aiming-for-a-state-of-technological-independence/>

The history of imperialist rivalries is full of examples of the rising power gaining the advantage over its well established rival, by leapfrogging it technically. This was true of Germany and Britain at the beginning of the 20th Century and of the USA up to the end of WW2. It is also true of China. While the USA has a rotting infrastructure; witness its roads, bridges, railways and electricity supply (which sparked the wildfires in California last year), China's infrastructure is brand new and much more efficient.

And so is its communication infrastructure. China leads the world in mobile technology, though this technology for the time being is heavily dependent on western designed chips. It is no accident that Huawei dominates the 5G infrastructure. In banning Huawei, the US and Britain will have lost an irreplaceable 3 years of connectivity and lose the industries that will be spawned by the possibilities lodged in 5G.

The world is splitting into two economic hemispheres.

Even if the economic war currently being waged by the USA does not end in a shooting war, its preliminary result will be a world economy dominated by two poles, the first being the USA and the second will be China. From the standpoint of the world economy, this duplication represents a colossal waste of labour time which will end up further depressing an already depressed global rate of profit.

The schism is intensifying. Two hardware and software architectures are emerging. Huawei has now teamed up with competitors to Google and YouTube. It has joined up with Tom Tom and WeGo on mapping and Daily Motion on videoing. Within two years, Chinese smartphones will have a complete suite of software which does not use Android and which will rival Android. The losers will be the EU who will have to choose between the two architectures. The fragmented nature of the EU and the

resistance to centralisation is going to cost the EU dear. The frugal northern states in the EU were too clever by half, their conservatism has relegated what used to be the world's largest trading block, into second class economic citizens sandwiched between China and the USA.

In terms of ecommerce the two behemoths will be Amazon versus Alibaba with its much more sophisticated platform. In terms of social media, it will be Facebook versus Tencent which again is a much more advanced platform. In terms of digital pay the Chinese lead the charge with Alipay and WeChat Pay, with Apple Pay and other US platforms playing catch up. In short, when it comes to software rather than hardware, it is China who is leading the USA. This means that in the vital sphere of commercial machine learning, China will trump the USA on the ground, despite the excellent academic institutes that populate the USA.

And it is not only on the technology front that this rivalry is intensifying, it is intensifying on the ground. China is now beginning to ignore the United States and its threats of sanctions enforced by the dollar. It recently allowed Iran to highlight a potential \$400 billion deal, as a way of saying, if you push too hard, we will forge our own independent course, and that will mean reshaping the Middle East to the detriment of the Zionist State of Israel.

Already it has displaced India from Iran. The USA always saw the rise of India as a counterweight to China. But India's economy is a busted flush, a going nowhere economy, and never a match to China's. China will isolate India while exploiting its market. Modi may play the nationalist card, seeking to provoke anti-Chinese sentiment in India to bolster his support, but really he has an empty hand, and, if he is still in power this is not a sign of BJP strength but the weakness of the opposition.

This does not mean that China is not surrounded by countries allied to the USA. But the tide is turning. If they currently support the USA it is merely to play off China against the US to their advantage. They are likely to expel US bases if war looms when they have to choose between angering China or supporting the US which all recognise to be a power in terminal decline.

Will the dollar survive?

China is testing its "Digital Yuan" with four commercial banks this year together with Tencent and Ant Financial. This is important, because the loss of the dollar's reserve status, requires two conditions to be met. Firstly, an underlying economic crisis in the USA and, secondly, for an alternative to exist to the Dollar (a safe haven) to which investors can flee. It is the second condition that has served to prop up the Dollar though this is now beginning to end.

The Digital Yuan is an important area for investigation because in time it may fulfil the second condition. It is unlikely that the People's Bank of China sees the Digital Yuan as a vehicle to replace the Dollar. Rather, once it is in operation and widely used, it will be much easier for China to argue for the IMF or for central banks to collectively introduce a global digital currency based on all the major currencies. A special vehicle set up by the major central banks rather than an IMF version is the likely outcome. With an already successful Digital Yuan being used not only nationally but internationally, and with a new internationally based digital currency in the offing, it is likely the Federal Reserve will be forced to join in. <https://consortiumnews.com/2020/05/12/get-ready-for-next-game-changer-the-digital-yuan/>

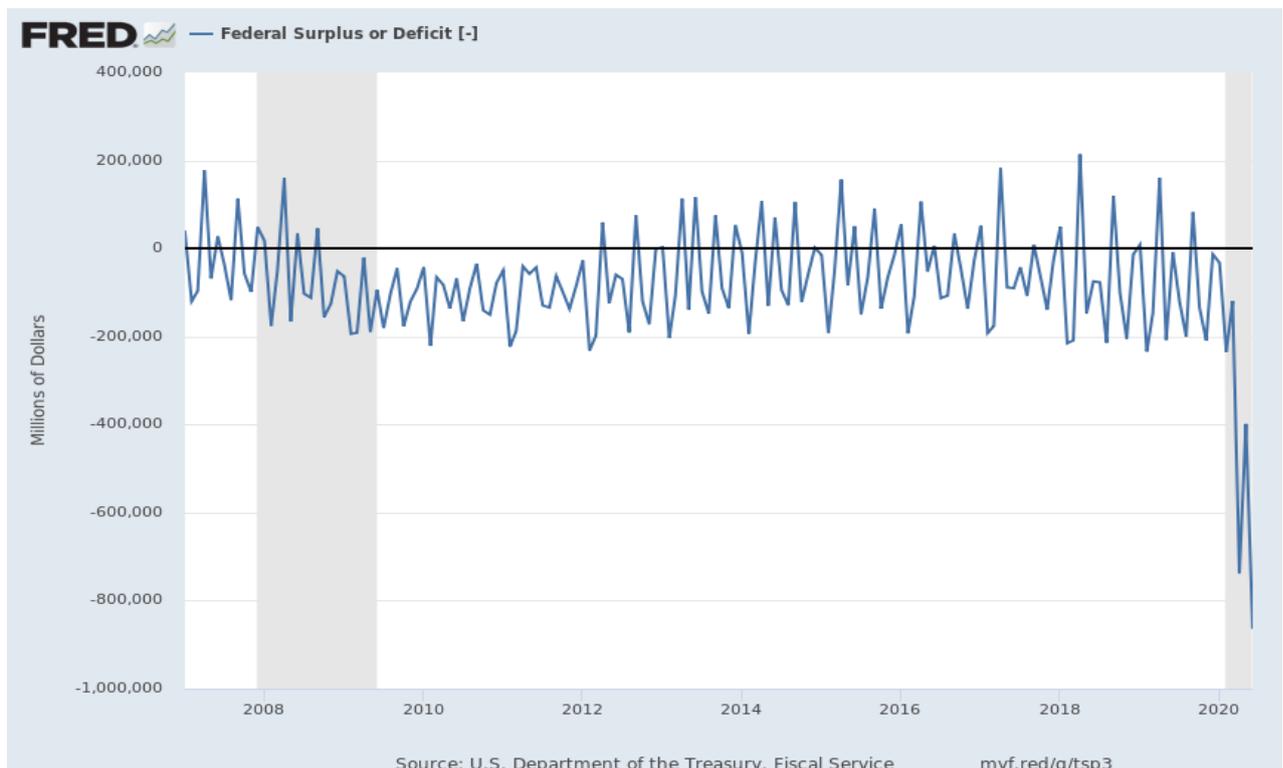
The alternative of course is that two Reserve Currencies will emerge. In the Chinese dominated sphere, it will be the Yuan, and in the US dominated sphere it will be the Dollar. It is clear is that the emergence of a bi-polar world will end the global reign of the Dollar. *"In 2019, the USD held 44% of all transactions. The Euro was used in 16% of transactions and the Japanese Yen 8.5%, while the British Pound equated*

to 6.5%. The Chinese RMB reached about 2% and is still a globally minority player.” (My emphasis) This figure however is deceptive because dollar funding was mainly between the G7 countries. Looking at the emerging market sphere the picture changes. “But the emerging market currencies, which include the Chinese RMB actually grew in transactional volume by 20% in 2019, with the Chinese RMB being the most traded currency of this grouping, along with the Hong Kong Dollar, Indian Rupee, Indonesian Rupiah, South Korean Won and the Russian Ruble.” Thus in this terrain which will comprise much of China’s sphere of influence, the Yuan is beginning to act as a reserve currency, and this is particularly true for countries associated with China’s belt and braces project which already account for thirty percent of China’s external trade and where trade and capital flows are growing rapidly. <https://www.silkroadbriefing.com/news/2020/07/22/digital-yuan-bsn-track-replace-us-dollar-china-trade/>

The hurdle facing China is not the schematics of the Digital Yuan. It is the technological development of China itself. What made the Dollar prominent was US monopolisation of the commanding heights of the value chain via its corporations after world war 2. Only technology serves to breed monopolies. While US multi-nationals continue to dominate strategic industries around the world, this domination is being challenged from all sides, not only by China. Once world scale Chinese manufacturing multi-nationals emerge, once China transitions from a contract manufacturer to a true innovator, once it attracts value rather than bleeds value, the Yuan will emerge as a world class currency.

Covid 19 of course could bring the demise of the Dollar forward. The latest CBO Monthly Budget Report puts the fiscal deficit for the first 9 months of this financial year (October 2019 to September 2020) at -\$2.744 trillion of nearly 15% of current GDP. <https://www.cbo.gov/system/files/2020-07/56458-CBO-MBR.pdf> It should be noted that the June deficit soared to \$855 billion from \$399 billion in May despite the so-called return to work in June. If Congress passes a further support bill, likely to be in the range of \$1.5 trillion, the deficit this calendar year will exceed 25%.

Graph 4.



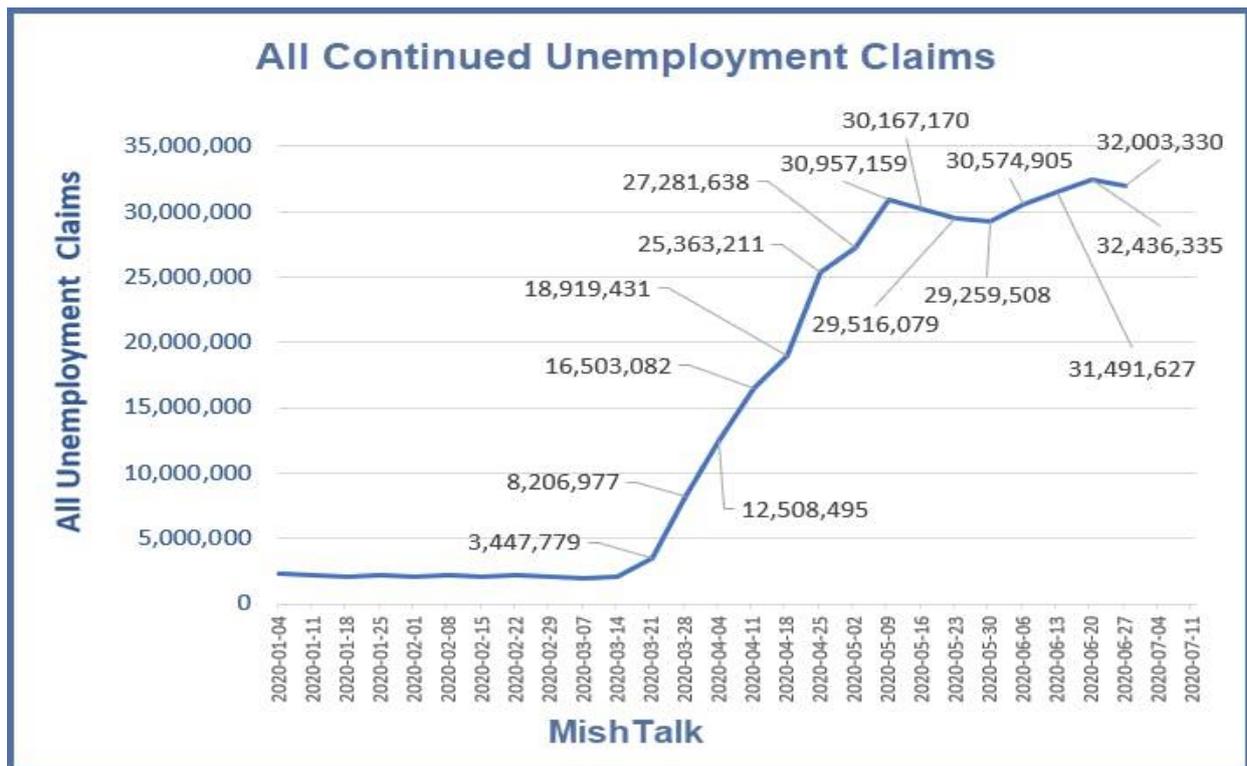
Already total public debt which stood at 108% at the end of March as a share of GDP has increased to 120% and could rise to 135% by the end of the year. Not all this public debt is owned by investors, 23% of the total is owned by the government itself. However foreign investors hold more of this debt than does the US government; \$6.78 trillion versus \$5.9 trillion. Thus, the monetising of this debt by the Federal Reserve does not avoid US dependency on foreign investors helping to help finance its deficit. <https://www.thebalance.com/who-owns-the-u-s-national-debt-3306124#:~:text=> This is the Trojan horse. If these foreign investors recognise that the US is relying on the dollar, rather than fiscal prudence, to settle its financial affairs, they could take fright, causing a run on the dollar from which it will not recover because the US is simultaneously running a balance of payments deficit.

Social conditions in the USA.

It was always the view that the brittle CCP domination of China would be short lived. The opposite is the case. It is the US that is in political turmoil exemplified by the nightly demonstrations and riots in Portland. It is in the US that we have an out of his depth con artist as President. It is in the USA that we have a future Zombie President called Biden. It is in the USA that we have a dysfunctional political elite rotten and corrupt to its core.

And it is in the USA that the social fabric is tearing apart. Readers will know I have been banging on about the unreliability of US employment data. These massaged figures may please the markets but they cannot hide the reality, and when a society tries to disguise its pain, it really has reached the end of the road. Mike Shedlock is a libertarian who specialises in analysing employment data in the USA. His graph below the real extent of unemployment.

Graph 4.



There has thus been a ten-fold increase in unemployment. And unemployment is rising again. Furthermore, most of the unemployed are about to lose their \$600 weekly entitlement. Some will be

able to fall back on \$378 a week unemployment benefit, but most will not be able to do so. Congress is discussing extending the furlough scheme but the Republicans will not extend it on the basis of \$600 a week which they see as a disincentive to find work, because at \$600, it is more than many workers receive in wages. It is likely to be no more than the \$378.

In addition, there are many reports that workers are returning to work on a different basis to the arrangements they enjoyed pre-Covid. There has been a significant rise in casualisation (Gig work). Additionally, employers have used the opportunity to introduce machine learning during Covid into the workspace thus robbing many white-collar workers of their jobs. To save on office rents, and in order to exercise more control, many employers continue to encourage workers to work from home. Covid has therefore accelerated the structural reorganisation of the labour market to the detriment of the worker.

And all this is occurring before the avalanche of insolvencies and bankruptcies. Whole industries will not recover for years from the pandemic and closures. This will cause a ripple effect across the whole economy because the circulating capital in these industries pays for the inputs from other industries.

Thus, the growth of a surplus population disturbed and angry at the government's inept and dishonest handling of the pandemic is the fuel for aggravated social disturbances. Black Lives Matter in this sense is only a lightning rod for the disaffection growing in the United States of America. This internal disaffection makes war more likely, not less likely, unless it creates a mass anti-war movement which is currently being deflected by organised media animosity towards China.

Conclusion.

Commentators currently talk about the antagonism to China subsiding after the elections. That it is a mere electoral ploy. This is not true. Biden is a neo-con in the mould of Hillary Clinton, a true war monger. This said, Biden the Zombie president will make even Bush Jnr appear animated. He is the ideal sock puppet for the capitalist establishment who will be straining to hold on to their economic and financial domination of our world by all and every means.

Those who have followed the rising antagonisms to China, like John Pilger the journalist, have shown that the US military pivot to China has been years in the making. China is now surrounded by layers of US bases in the Pacific. Had the cement poured to build these bases, shipyards and airfields been poured in the USA, much of its infrastructure could have been renewed and repaired.

The purpose of someone strutting around in your backyard with their big gun holstered is to force you to submit, to kneel, to know your place. If this does not work, then either the gun has to be drawn or the assailant has to jump over the fence and disappear. The gun will be drawn. The USA has prepared itself for a pre-emptive strike by oiling its gun. This is the purpose behind the repurposing of US strategic weapons from city busters to target busters. Trident war heads with a yield of up to 250 kilotons have been replaced with warheads of 5 to 10 kilotons or equal to the destructive yield of a 500-bomber run in World War 2. No doubt the same is true for the cruise missiles. A 250 kiloton warhead deters war while a 10 kiloton nuclear warhead invites war.

In 1942 Japan bombed Pearl Harbour and occupied a line of islands between Hawaii and Japan. It did so with the intention of making it too costly for the USA to reach Japan, therefore laying the grounds for a negotiated settlement. They failed. Translated into today's capabilities, the US will seek to destroy Chinese ports, infrastructural hubs, and military bases with their low yield weapons making China too weak to engage with US forces. As in 1942, all they will achieve is to arouse a giant, which in this case is not asleep.

Some may find this perspective alarmist. It may be, but it is also credible because when looking forward, history is always a useful guide. No hegemonic shift in economic power, within the realm of private property and especially capitalist private property, has ever occurred peacefully and seamlessly. It has always occurred convulsively consuming many millions of lives and leaving uncountable physical damage in its wake.

It is but one more example that capitalism is at the end of its days, and that unless it is removed, it has only the potential to harm. We need to be building a global anti-war movement now. We need to be signalling to the capitalist; we the worker will not let you go to war, nor will we allow you to use us to fight your battles over markets and profit.

In 2003 Britain saw its largest ever political protest, a 2 million strong anti-war demonstration in London on the 15th February. It failed. The SWP who led Stop the War were like children in a sweet shop. So many shelves of sweets, so many anti-war supporters. Intoxicating. They played the popular frontist role. They were like shepherds seeking to herd the biggest possible flock. Nothing must be done to frighten away any of the flock, especially the ones from the Shires and their priests. Unity on the basis of the lowest denominator was needed, even if that denominator was fundamentally anti-working class.

So they rejected the call for more militant working class tactics. That would disturb the flock they said. They silenced all public criticism of their tactics. When the great assembly gathered in Hyde Park to listen to all the good and great, including Tony Benn, nothing was said about the way forward, about what was needed, what the next escalatory steps should be. And so a historical moment passed freeing Blair to pursue his goals. And predictably the whole movement collapsed. For every British Person on that February march, one Arab in the Middle East and Africa was to subsequently die because of imperialist interventions this Century. Shame on us.

The next anti-War movement must not play the numbers game otherwise we forfeit the tactics needed to intimidate and neutralise the capitalist state. It must be recognised that history will never forgive us for failing. The stakes are immense. The next few years will mark the inevitable cross roads, the point humanity was always going to reach, the moment when it will be decided whether humanity moves forward to renew itself and repair the planet or whether it will be thrown back, to renegotiate that bloody and torturous path paved with capitalist private property.

Brian Green 26th July 2020.