

THE MILITARY RINGS ENCIRCLING CHINA ARE BEING REINFORCED.

This week Biden met Kishida the Japanese P.M. no doubt to discuss joint military action against China and to convince Japan to not circumvent US tech embargoes despite the importance of the Chinese market to Japan. It is also a feverish period during which the US seeks more bases and alliances.

[US BOLSTERS MILITARY TIES WITH JAPAN TO COUNTER PACIFIC THREAT FROM CHINA 9th](#). Top Marine Corps General James Bier-man was interviewed by the Financial Times preparatory to a summit between President Biden and Prime Minister Kishida on Friday. The General pointed to the deepening integration of US and Japanese forces. This not only covers land, sea and the air, but on Friday it was announced that it also includes space itself.

An indication of just how surrounded China is may be determined by the number of military bases adjacent to it. In Japan, the US has 120 bases and facilities housing 53,000 personnel. In South Korea, it has 73 military bases housing 26,400 staff. In the Philippines the number of bases granted to the USA has doubled from 5 to 10 recently. Imagine Mexico, Cuba and Canada being used this way by the Chinese.

Furthermore the USA is building offence in depth. Airstrips on numerous islands dating back to the Second World War have been modernised making them ideal and flexible bases for F35 stealth bombers. These strips will make the US less dependent on Guam which is its primary rear base but now vulnerable to Chinese long range missiles. Adding to Guam as well are four new military bases being built in the northern part of Australia at Robertson Barracks, Kangaroo Flats, Mount Bunday and Bradshaw Field.

In short the US military is preparing the ground work for war. As quoted in the above F.T. article: *Bierman said that the US and its allies in Asia were emulating the groundwork that had enabled western countries to support Ukraine's resistance to Russia in preparing for scenarios such as a Chinese invasion of Taiwan. "Why have we achieved the level of success we've achieved in Ukraine? A big part of that has been because after Russian aggression in 2014 and 2015, we earnestly got after preparing for future conflict: training for the Ukrainians, pre-positioning of supplies, identification of sites from which we could operate support, sustain operations. "We call that setting the theatre. And we are setting the theatre in Japan, in the Philippines, in other locations."*

I always wondered how soldiers rose to the rank of general, it seems they are tested on their ability to toe the line. So in the week that Soledar fell, with Bakhmut next, destroying up to a quarter of the Ukrainian army's manpower and capabilities, he lauds NATO's success in that part of the world. Let us hope that the crushing defeats currently being suffered by the Ukrainian army makes him more humble and gives him pause in private to rethink. But everything about these comments, uncritically retailed by the Financial Times whose coverage of the war has been appalling is riddled with mischief. (Note to editor of the F.T. if you are the *Express* or the *Telegraph* then fine, just lie and distort, but if you are writing for the rich and powerful, this kind of crap blows back.) In reality it was the US with their coup in 2014 which provoked the Russians. And it was NATO's unrelenting, escalating and inescapable provocations which detonated the 2021 Ukrainian war.

What is really ominous of course, is that if this kind of gangsterism is transferred to the Pacific Theatre, war is inevitable because that is what the Pentagon and the US State Department are preparing for. No doubt, behind the scenes with their think tanks, they are preparing a menu of possible provocations with which to tempt the Chinese when the time is ripe.

The only difference between the Ukraine and China is that the pivot to China began earlier, in 2010 under Obama who anointed himself to be the first *US Pacific President* ably assisted by his future Queen, that peace loving dove, Hilary Clinton. By then the self-entitled US government had decided it had had enough of bombing the Middle East and that it now needed to shift its attention eastwards to take on the world's fastest growing economy, and potential competitor, China. After all, Afghans were only good at making IEDs which could blow up a truck but leave US profits undamaged, whereas China was far better at making widgets and trucks for the global market which could blow up US profits in the future.

Is China intimidated?

The tone of China's foreign policy has changed recently. The new Chinese foreign minister Qin Gang, a former ambassador to Washington is a dove. He is quite effusive about the USA which is not out of line with President Xi Jinping's New Year's Address, broadcast on Dec. 31 where conciliation was the order of the day. At the same time Xi has kennelled his wolf-warriors. Its most notable spokesman, Zhao Lijian has been demoted from being a high profile agitator on world affairs, to literally walking the beach.

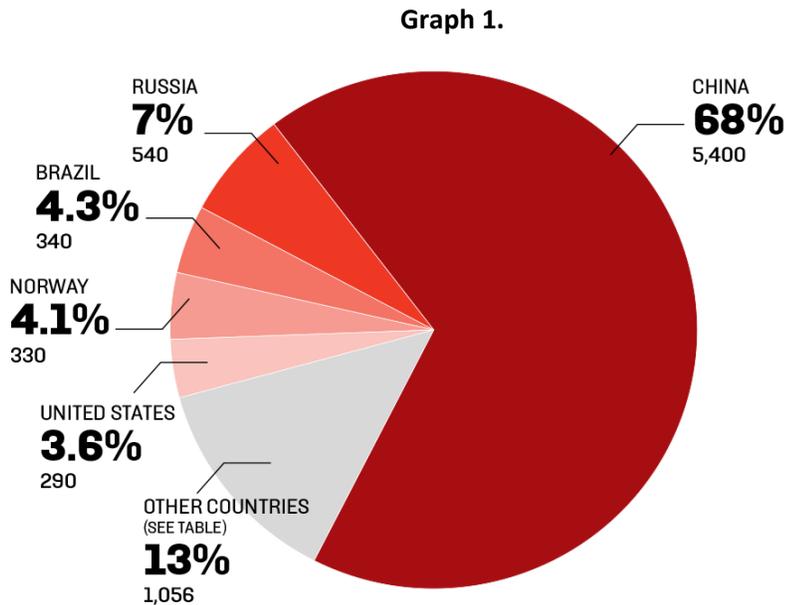
Does this change in direction mark a political shift and has China been forced into it? Three considerations apply. Firstly, is the economy in trouble aggravated by tech boycotts? Secondly, is social discontent rising and thirdly, does the Chinese government fear an imminent and irresistible provocation by the USA?

Beginning with the economy. You would assume the economy has never been better when listening to Xi's New Year speech. "[*The Chinese economy*](#) enjoys strong resilience, tremendous potential and great vitality. The fundamentals sustaining its long-term growth have remained strong. As long as we stay confident and strive for progress while maintaining stability, we will realize the goals we have set." So it is not the rate of profit nor the inescapable law of value which dictates the actual fundamentals, it is one's state of mind. Like the Capitalist this Stalinist believes that the future of the economy hinges on the subjective factor, whether it is animal spirits or simply striving for progress.

But away from the teleprompter the Chinese economy is manifesting severe structural problems. The housing crisis has not gone away nor been resolved despite the government forcing banks to provide more liquidity and reducing regulations. [For the year to November](#) residential investment fell 9.2% while that for commercial buildings was down 26.2%. The trend continued downwards as indicated by the *National Real Estate Climate Index* which fell in November to 94.42 from an average of over 100 in January. Thus even if housing construction is stabilised, and that is a big if, it will no longer be a driver of economic growth.

The same negative outlook relates to export orders which was a vital economic driver during the pandemic when the global demand for goods surged. Take the United States, China's biggest single export market, which bought over 17% of Chinese exports in 2021. [Current export orders](#) from the US are down 40%. This has little to do with reshoring supply chains but everything to do with the global slump in demand for goods. Chinese [imports](#) are now back to 2019 levels as measured by containers shipped to US ports. Though Chinese [total 2022 exports were up 7%](#) due to a rise in exports to Asian countries, the trend has reversed, going negative in the second half of the year with December's overall decline set at 9.9% yoy. With export prospects dimming, the Chinese Commerce Department has added its voice to the concerns raised by exporters.

And then there are the tech sanctions. To get an idea how vast US sanction are visit [here](#). With the Tech Sanctions the US is trying to have its cake and to eat it. It is allowing China to use tech where it benefits US corporations, generally in more dated areas and processes, while keeping leading edge tech out of the hands of Chinese companies. The purpose being to protect and expand the lead enjoyed by US corporations and to reduce or reverse China’s lead in areas such as artificial intelligence, the internet of things, electric vehicles and communications. For an revealing account of this bifurcated approach please read this edition of [China Briefing](#). The reason why the Biden Administration is taking this approach and why countries such as Japan, Taiwan and South Korea face a dilemma over navigating the US-China sanctions, is revealed by the graph below which shows China dominating, in terms of chip consumption, the tech trade.



There is a common misbelief that finer nm chips are somehow different to less fine nm chips. This is a misconception. They all work the same way. The only difference is that a 5nm chip packs more transistors into a smaller area making it faster and more energy efficient. However, three 14nm chips have the same processing power as does a single 5nm chip. But whereas a 5nm chip can be packed into a slimline phone maximising battery life, three 14nm chips cannot be, and will require a bigger casing and a bigger battery. But where space and power is not a problem 14nm chips will suffice. Thus while denying Huawei access to 5nm chips will disadvantage it’s phones against iPhones, strategically it will not prevent China catching up in the longer run.

But it is the near term which will be decisive. China remains disadvantaged by its heavy reliance on foreign technology especially lithography machines. For this reason, the debut in 2022 of SMEE’s (Shanghai Micro Electronics Group) 28nm immersion DUV lithography machine was highly anticipated. It did not arrive. Whether this was due to the failure of its light source or whether it has been abandoned in favour of the newer and cheaper 22nm machine developed by the *Institute of Optoelectronic Technology of the Chinese Academy of Sciences*, is unknown. Of course if the hype around the 22nm machine turns out to be true and it can be produced, then China will become a leading chip manufacturer. But this is an unknown at present. What is known is that until such machines are available and produced by Chinese manufacturers,

the whole industry remains vulnerable, which will no doubt be taken advantage of by the Biden Administration.

Much has been made of the corruption and capital recently wasted around developing Chinese Tech amounting to the loss of tens of billions of Dollars. This has not been an act of bad faith or bad actors, but was in fact caused by the absence of the real actors - the actors who make things work - the engineers and technicians with their advanced tools which are needed to develop this tech. We forget that modern Chinese industry is probably no older than 20 years, whereas the US, Japan, the EU and South Korea have been involved in the microchip industry dating back to at least the 1980s. There is still no deep reservoir of leading edge hardware talent in China comparable to the USA except it seems within Huawei which is held in high esteem by Chris Miller in his best-selling book *Chip War*.

Thus in the meantime, China is burning through its stocks of previously purchased advanced chips while the US tightens its grip on the throat of this industry, making it likely that China is being forced to play for time with its more conciliatory foreign policy. The tech embargo adds to the economic woes inflicting the Chinese economy. While it is likely that the Chinese government will embark on a sizeable stimulus programme once Covid has settled down making it less inflationary, the underlying condition of the economy, when measured by its falling rate and return and its rate of investment, continues to deteriorate. And it is this deterioration which will break the social contract between the party and society as workers no longer enjoy secure work nor rising standards of living.

Which brings us to the second element, social unrest. It was always the case that as the virus became more transmissible lockdowns would have to become more draconian sapping morale and increasingly disrupting the economy. It was therefore always likely that lockdowns would become impractical and unenforceable. But typically, a Stalinist bureaucracy which is a top down dogmatic organisation, lacks the foresight and dexterity needed to anticipate and adapt. It is clear Xi's Administration did not prepare for the abrupt abandonment of lockdown having been blind sighted by the protests which erupted. However, one would not detect this from Xi's New Year Address. *"Following a science-based and targeted approach, we have adapted our COVID response in light of the evolving situation to protect the life and health of the people to the greatest extent possible... We have now entered a new phase of COVID response where tough challenges remain. Everyone is holding on with great fortitude, and the light of hope is right in front of us."* You always know when a Stalinist is waffling when they use frothy language like *great fortitude* or *light of hope*. Contrast this to the practical statement cited in the Financial Times article below. *"The outbreak happened so quickly that authorities didn't have time to draw up an action plan," said a Beijing-based adviser to the National Health Commission. "What is certain is that the government can't afford to treat everyone for free."*

Instead of fortitude, the word bankrupting springs to mind. A [Financial Times article](#) reports on the 10th January that *China's Covid patients face medical debt crisis as insurers refuse coverage*. Anyone mesmerised by the 'socialist' propaganda put out by the CCP needs to read this article. Many hospitals and provinces have stopped providing free health care instead charging patients up to Rmb 20,000 or five month's average salary for a day spent in intensive care. Worse hospitals and insurance companies are colluding in denying patients cover under their insurance policies (tens of millions were sold) because the former are refusing to certify patients as suffering from Covid. This is storing up real trouble for the CCP because the light at the end of the tunnel could be the lightning of discontent, caused by dissatisfaction over the inadequate, underfunded and unprepared medical services.

Talking of light it is a disservice to the Chinese people to censor reports of deaths from Covid. The number of deaths reported is morbidly ridiculous and the CCP is only fooling itself while insulting Chinese society. It is snapping yet another link in its social contract with the people it rules over. Once again, it shows the administration as being socialist in name only and it proves that surveillance on its own does not guarantee control.

Certainly the regional press such as *Nikkei Asia* are convinced that Xi and his party are under pressure and scrutiny. [Faced with mounting social](#), economic and public health-related stresses, "it is reasonable to expect China's leaders will respond by seeking to calm their external environment to concentrate on challenges at home," wrote Hass, a former National Security Council director for China, Taiwan and Mongolia under former President Barack Obama.

It seems the authorities need to calm the situation at home as well. On January the 7th workers employed by Zybo a company incorporated in the city of Chongqing were summarily laid off. They vented their anger by trashing the company's offices, chasing away the police and overturning their cars. The causes and workers' responses at Zybo were similar to what occurred in the Foxconn factory producing iPhones. And it seems that it is not only workers whose fuses are short. When Tesla announced steep discounts on its new cars, previous buyers mobbed their showrooms. This did not happen in the US and the EU where similar discounts were announced. Whether this is a blip or a sign that Chinese society is fed up with the lies and being taken for granted, cannot be determined yet. Whatever the case, the reality is far removed from Xi's aspirations outlined in his New Year Address. *"When the 1.4 billion Chinese work with one heart and one mind, and stand in unity with a strong will, no task will be impossible and no difficulty insurmountable."* As expected, he forgot say *and with one wallet*.

Finally, is the CCP convinced that war is imminent? It is likely that [Xi would not have visited Yan'an](#) after the Congress to relive the CCP's most challenging period during the 1930s were he not of the opinion that the party is being encircled once more.

Firstly we need to address the war in the Ukraine. The progress of the Russian army, especially its enhanced ability to destroy NATO supplied heavy weapons is draining NATO's arsenals of everything bar aircraft which have been held back. This is not opinion but fact. Top US navy commanders worry about their reserves of weapons including [Admiral Daryl Caudle](#), the service's Fleet Forces Commander, who says he has to *"rob Peter to pay Paul"* to keep his aircraft carriers fully armed. And it will get worse. NATO will have to throw more and more weapons into the ring, not less and less, to prevent Ukraine's retreat turning into a rout. Thus what began as a provocation intended to weaken Russia, and by doing so to expose China's flank, has turned into a debacle for the West, though listening to their lying press, this is not scented through the stinking drivel found on their pages and screens. Thus hopefully the events in the Ukraine may give NATO and its Pacific variant POTATO (Pacific Ocean Taiwanese Treaty Organisation) cause for reflection, but we should not hold our breath.

However this set back is unlikely to prevent a future war only alter its character making the deployment of nuclear weapons more likely. The trigger was and remains, any failure by the USA to intimidate China and corral its technical development. Should there be such a failure, the USA has everything to gain from war and little to lose by it, because the warmongers know the economic cost to the USA from losing its technical supremacy, therefore its hegemony and the dollar, will be greater than a controlled war. We must remember that this is a country which brutalised German and Japanese workers in the 1940s through indiscriminate carpet bombing followed by the unnecessary dropping of two nuclear bombs.

The Japanese and their short memories, both of what was done to them and what they did to the Chinese all those years ago, have jumped on the war wagon. They have joined the arms race having pledged to up their Offence Spending to 2% of GDP. After meeting Biden on Friday this is what Prime Minister Kishida had to say: *“Japan and the United States are currently facing the most challenging and complex security environment in recent history,”... “And in order to ensure peace and prosperity in the region, and to contribute to that and also safeguard peace and security of Japan... late last year Japan formulated a new national security strategy.”* To underline his commitment to provoke China, Japan had earlier dispatched a joint ship and aircraft strike force in the direction of Taiwan.

Also read the [declaration](#) published in December by “*peace loving*” Japan in anticipation of the heads of state summit.

Conclusion.

Both the US and Chinese economies are in trouble.

When in doubt statistically, always reach for the tax figures. According to the [Congressional Budget Office](#) which released its Oct-December 2022 data this week (January 2023 edition), the following Federal Tax Income is found.

Table 1. (Figures in millions of \$s)

Year	Payroll Taxes	Income Taxes	Corporate Taxes
Fiscal year 2021/2022	\$1,484	\$2,632	\$425
First quarter 2022/2023 annualised	41,428	\$2,016	\$420
Nominal difference	-3.8%	-24%	-1.2%
Real difference after 7% GDP deflator	-10.8%	-31%	-8.2%

Despite Covid anomalies in the base year of 2021-2 the fall in tax takes are significant which tends to indicate the US economy is in contraction despite robust GDP figures pointing in the opposite direction. This is further confirmed by the relentless downward trend in the New York FED’s [Weekly Economic Index \(WEI\)](#) which in the week ended Jan 7 stood at 0.87 compared to 1.54 in 2019.

With global weather increasingly turbulent and a world economy increasingly distressed, the period the international working class finds itself in once more, is the period of *War or Revolution*.

Brian Green, 14th January 2023.