

THE USA RESETS ITS FOREIGN POLICY. CHINA IS NOW ITS FOCUS.

The Anglo-Saxon architect of the blood letting amongst the Slav peoples of Ukraine, she who was part of Cheney's arch neo-con team during the Iraq war, Victoria Nuland is no more, forced to resign last week. Her ousting personifies the sea change in US imperialist policy. No longer will both Russia and China be on the front burner, now it will be only China.

A few weeks ago the [New York Times](#) revealed that the CIA and no doubt MI6 had secretly set up twelve spy bases in Ukraine, like a necklace around the Russian and Donbass border. They were responsible for intercepting Russian communications and intelligence networks, identifying and designating targets both human and material as well as guiding munitions. In short, they were active combatants in the region, not so much boots on the ground as ears on the ground, part of the undeclared war on Russia. And in the early part of the war their ability to target senior Russian military figures, including generals, was notable.

When the report was published in the NYT many questioned why the paper had decided to publish what was clearly a top secret initiative, and in such detail. It appeared to show there was growing discord in the senior ranks of the Pentagon and the State Department over the direction of US imperial policy. Previously, with the exception of Trump, the US state was unanimous in supporting the twin pronged approach to both Russia and China, that is to remove Russia from the imperial chess board by engineering regime change in Moscow before moving on to China.

This appears to be no longer the case. So what has changed? The defeat of their Ukrainian initiative ten years in the making, that's what. Ukraine has been defeated, Russia is stronger, and NATO has been ruined despite its expansion. Someone had to pay for this debacle, and who better than the architect of this debacle, Victoria Noland. No doubt she will head off to some think-tank to draw a salary and spread her malignancy, but in time if we have our way, this international criminal will be headed for the tank or worse.

However, based on Biden's State of the Union address, a rear guard fight by the White House over this realignment will continue. Early on in his speech he attacked Putin and Russia. "[Not since President Lincoln and the Civil War have freedom and democracy been under assault here at home as they are today. What makes our moment rare is that freedom and democracy are under attack, both at home and overseas, at the very same time. Overseas, Putin of Russia is on the march, invading Ukraine and sowing chaos throughout Europe and beyond. If anybody in this room thinks Putin will stop at Ukraine, I assure you, he will not.](#)" "My message to President Putin is simple. We will not walk away. We will not bow down. I will not bow down." My message to Biden, I thought in Congress you had a legal duty to tell the truth.

On the other hand he relegated China right to the end of his speech. Here his approach was different, not to conflict with China but to outcompete it. "*We want competition with China, but not conflict. And we're in a stronger position to win the competition for the 21st Century against China or anyone else for that matter.*" "*America is rising. We have the best economy in the world.*" And yes folks, that's all because of me and my various Acts designed to revive US industry, so stick with me not that other tax cutting dude without any policies, but in attacking Trump, Biden of course broke protocol by turning his state of the union address into a party political address aimed at the November elections.

Comments from European politicians and dignitaries after the speech were positive even grateful that Biden had pledged to continue his support for the Ukrainian war effort and had not abandoned them. This will encourage them to secrete even more troops into Ukraine as the Ukrainian army crumbles. This development was alluded to by the Polish Foreign Minister, part of the newly elected new neo-con government. *"Soldiers from NATO countries are already in Ukraine. I would like to thank the countries that are taking this risk. They know who they are," Sikorski said, commenting on French President Emmanuel Macron's statement about the possibility of sending Western troops to Ukraine.*" Clearly this is no surprise to the Russian high command who make a speciality of bombing concentrations of these troops and specialists. But the best the European imperialists can hope for with this deeper involvement is to drag out the war in the Ukraine for as long as possible. Victory for NATO is out of reach, and if anything, this will only invigorate Russian forces to achieve their territorial goals faster and with more violence, given Putin's restraint in the past so as to not provoke a full scale NATO response.

China.

Biden's state of the union address was as full of lies (especially over Israel and October the 7th tropes) as it was full of self-congratulation, but what was important was the emphasis. Can we take it at face value that the relation with China will be governed solely by competition. Is this a recognition that the USA can outcompete China as it once did Japan or is it borne from a recognition that the USA can no longer outgun China because China has grown too strong militarily.

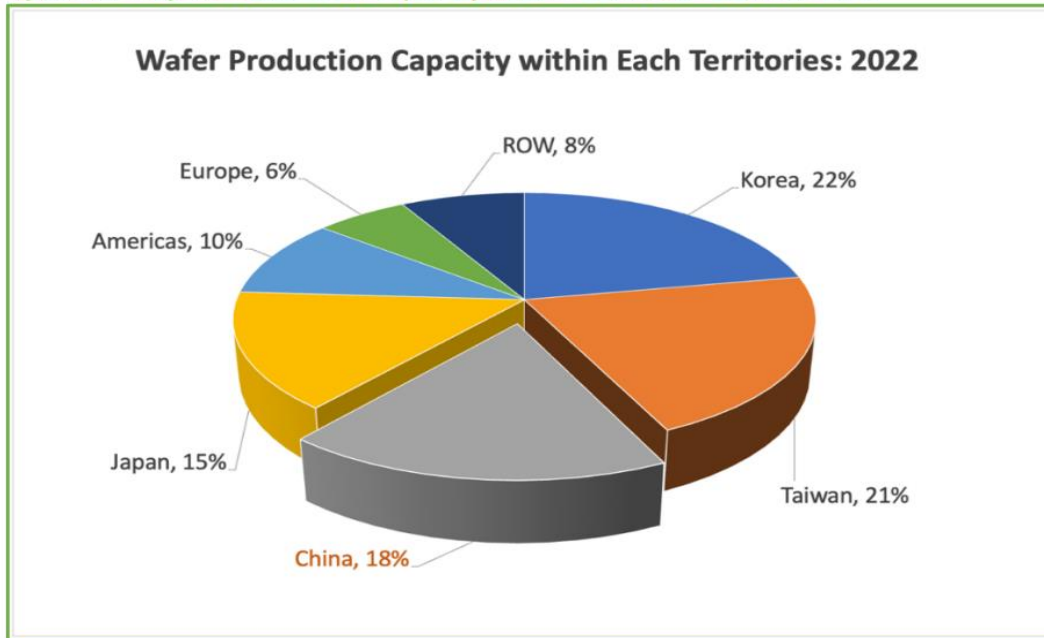
I would place more store on the sacking of Victoria Nuland than on Biden's speech. Speeches are written by speech writers spinning an agenda, while history is written by objective developments. Clearly parts of Biden's speech, though effectively delivered, were delusional. With all those achievements he mentioned one would think his approval ratings were sky high when instead they are amongst the lowest for any sitting president, actually residing below Trump's rating with 9 months of the presidency left.

It could be the case that the Pentagon and the State Department are already preparing for the next President and it ain't Biden. The sacking of Victoria Nuland, the Carlson's Putin interview, and the prospect of a Trump administration, means that the emphasis will turn to China. In fact it is likely that a division of labour will emerge, with European countries taking on more of the Ukrainian burden allowing the USA to focus on China. Ah the inept and idiotic EU leaders, they could have stood aside from the US China conflict just as the USA did in the early stages of World War 2.

Two historically specific developments will dictate the US's course of action together with one general development. The first is whether the USA can kickstart its manufacturing base to become more self reliant and to do so competitively, so that any war with China will not bring down the US economy. The second is whether the USA can prevent China catching up technologically. While the general consideration is the issue of profitability.

The US has seven of the [top ten computer companies](#) measured by market cap. China has none. The problem is that most of their success depends on contract manufacturing abroad. [47% of all chips](#) used globally in 2021, particularly high end chips were designed in the USA but only 12% were produced there, mainly lower end chips. *"According to the SIA 2023 Factbook, semiconductor sales totalled US\$ 574.1 billion worldwide in 2022, up from US\$ 139 billion in 2001. In 2022, the U.S.A. had a 48% market share, South Korea had 19%, the E.U. and Japan each had 9%, Taiwan had 8%, and China had 7%."* However, when it comes to production capacity the US share plummets.

Figure 1: Wafer Production Capacity within Each Territories: 2022



Source: Hui-Hsiu Huang, "Global Wafer Fab Overview in 2022 and Future Expansion Plans," IEK, ITRI, August 28, 2023.

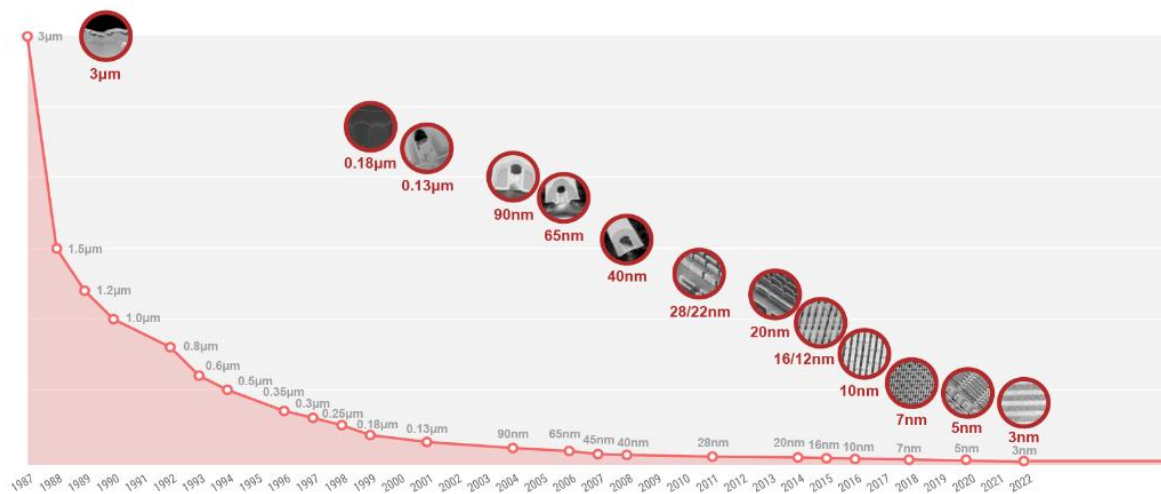
The attempts to onshore FAB production are proving very costly. According to a NYT report dated 24th of February, *"Companies that produce the most advanced semiconductors have requested more than [\\$70 billion in federal subsidies](#), roughly twice the amount of funding that is available, Commerce Secretary Gina Raimondo said on Monday."* This is in addition to the \$75 billion in loan guarantees as well as being able to recoup 25% of the cost of the construction in the form of tax credits. Much more will be needed if these companies intend to produce 20% of the advanced chips globally by 2030. Currently the US produces zero while [Taiwan produced 92%](#) of chips at 7nm and below in 2023. In fact such has been the delays and ructions in constructing the Arizona plant, that [TSMC's chairman Mark Liu](#) was forced to resign.

Chang the founder of TSMC when interviewed was slightly bemused and aghast at the US's attempts to become self-sufficient in advanced chips. To defend production remaining in Taiwan he even offered up the observation that current US production was sufficient to meet current US military needs. He considered microchips would end up costing fifty percent more to produce in the US compared to Taiwan, and that the doubling in cost could not be ruled out, the point at which he considered cost would break the US industry. *"Maybe it's double the cost," Chang said. "When the cost goes up, the pervasiveness of chips will either stop or slow down considerably."* Biden may have lauded all these FAB developments in his presentation to Congress, but they could turn out to be white elephants or in-door go cart tracks.

This ties in with the issue of profitability. With global production stagnant at best, with demand sagging, cost price becomes decisive. On-shoring in the USA could make US corporations utilizing local microchips uncompetitive. If they continue to source chips in the cheapest locations, and profit is their only master, not the US state, this could leave the US FABS exposed unless of course Trump slams on comprehensive tariffs not only against China, or Biden is willing to dig deep into the depleted coffers of the Federal Government to endlessly subsidize them. Whatever the case, this is not how capital functions. It will only deepen the crisis of US capitalism.

But it is not only the US that is suffering higher priced chips as the global specialization is broken by the US embargoes on China coupled to the reshoring which is leading to duplication and overcapacity, or what is the same thing, to a monumental waste in the labour time of the international working class. The same applies to China. China is being forced to use less advanced lithography machines to etch more advanced chips in the 5nm – 7nm range. This requires more passes which reduces throughput yielding a higher discard rate. According to *toms*HARDWARE SMIC's 7nm chips cost 50% more than equivalent chips from Taiwan's TSMC. However this cost disadvantage may disappear when SMIC starts using the homegrown SMEE DUV lithography machine which reportedly costs only one seventh the price of the Dutch one.

So how far is China behind, and more importantly is it catching up? Below is the timeline provided by [TSMC](#) itself for the introduction of finer nm chips. We note the introduction of the 5nm chip in 2020. This year SMIC, the Chinese company, now the 25th largest electronic company in the world, will be etching 5nm chips for Huawei, both for its next smartphone and for its AI chip. To move from 14nm down to 5nm took TSMC five years, it only took SMIC 3 years even when using sub-optimal equipment.



In any case the race to the bottom or lower nm is beginning to be a mug's game, an advertising opportunity and nothing more. Since 2012 as [this report shows](#), the cost per transistor has been rising not falling making a mockery of Moore's law. Measured by the number of gates per chip, the cost has been rising even faster. It now makes more commercial sense to use [chiplets](#), which can use older type chips linked together, generally in configurations of three chips. This also has the advantage of dedicating each chip to a specific function speeding up processes, which means any disadvantage chiplets have compared to monolithic chips are more than outweighed by advantage.

For this reason it is likely that sub 5nm chips, besides turning the iPhone 15 pro into a toaster, offer few or no commercial advantages. The smartphone user or laptop user will find the performance of their gadget to be sufficient and any improvements to be indiscernible or cosmetic, certainly now worth the cost of upgrading. They only excite benchmark enthusiasts. Thus China is not really chasing a target that is running away from it, but a target that is slowing down due to commercial latency.

This can be seen in the case of the two market leaders, Apple, and Tesla. Both of these company's sales in China have cratered due to a sluggish market and intense Chinese competition. [Apple's phone sales](#) fell by

24% in the first six weeks of 2024. On the other hand [Huawei's phone sales](#) soared by 64% propelling Huawei to the number one spot in the Chinese market, and Huawei's sales would have risen even more had Huawei been able to produce more phones. We recall that Apple only became the world's largest corporation after Trump crushed Huawei through political means, but Huawei has now bounced back. Today [Huawei leads the global league for patent applications](#) by some margin. I was not being facetious when I said that whereas the first world war was allegedly started by the assassination of an archduke, the third world war could be started by a smartphone, the Huawei Mate P60.

The same shrinkage applies to Tesla, though in its case it had no prior political assistance to become the world's number one EV producer by number and revenue. Now it has been overtaken by [BYD as the Chinese car company](#) comes from behind smoothly accelerating and overtaking Tesla. The same goes for [CATL](#) the world's largest battery manufacturer, which has become the modern equivalent of *Standard Oil*. In fact China now produces [60% of global EVs](#). And finally the story of [the Chinese fifth generation J 21 fighter](#) now in mass production powered by the new ws-15 engine at the rate of 10 a month having finally overtaking the production rate of the US F35 which achieved a build of only [97 planes during 2023](#) compared to a projected 156 planes, and worse, the planes were only combat ready [51% of the time](#). Like Boeing, all is not well in the US aeronautical industry.

I find focusing on key commercial and military areas, or more precisely focusing on the most challenging engineering developments to be more useful to map out the antagonism between the USA and China than the broad brush approach by researchers such as the [Australian Strategic Policy Institute](#) though their findings are not to be ignored. It is worth mentioning that in most fields, they give China the advantage over the USA.

Of course in the end the issue of profitability becomes supreme. I will investigate this in greater detail later in March when the BEA announces corporate profits for the fourth quarter in 2023. What I will say in the meantime is that a [fundamental flaw](#) has been found in general LLM models which repeatedly harvest data on the internet. When they scrape up their own output as inputs the quality of their output falls. This is a fatal loop which proves that far from overtaking human intelligence, despite the blah blah, these mimics are parasitic and totally dependent on human creativity. (This flaw applies less to proprietary LLMs which do not repeatedly harvest information, and which will be responsible for much of the job losses.) This flaw becomes particularly costly because performance inescapably depends on pirating human creativity, much of which is private property protected by copyright law, and which is attracting a host of legal suits. It proves that these programs can never become free of human involvement. Investors beware.

The work report to the 14th National People's Congress.

(All the quotes below are taken from the [2024 The Report on the Work of the Government](#) delivered by Premier Li Qiang, which was adopted on March 11 at the second session of the 14th National People's Congress.) This report is written in religio-political style as perfected by the hand of Stalinism, making it soporific. It is intended to be rigorously studied, with each word turned over and over again by the diligent up and coming CCP comrades. Unless of course it makes them fall asleep first.

However, by keeping wide awake and reading between the lines, much can be learnt from this turgid and overelaborate even haughty document. Firstly, there is a common thread running through it, the need to stabilize the economy in the face of mounting external and internal challenges. Here is Qiang's assessment of the prospects for the economy: *The foundation for China's sustained economic recovery is not solid, the*

effective demand is insufficient, some industries have overcapacity, social expectations are weak, there are still many risks and hidden dangers, there are blockages in the domestic cycle, and there are interferences in the international cycle. Some small and medium-sized enterprises are struggling to operate.” The decline in external demand and the lack of domestic demand have collided, cyclical and structural problems coexist, and the risks and hidden dangers of real estate, local debt, and small and medium-sized financial institutions in some places have become prominent,” “From an international point of view, the world economic recovery is sluggish, geopolitical conflicts are intensifying, protectionism and unilateralism are on the rise, and the adverse impact of the external environment on China’s development continues to increase.”

And the following quote shows the need for a turn, that things cannot continue in the old way: *“Stability is the overall situation and foundation, and all regions and departments should come up with more policies that are conducive to stabilizing expectations, growth, and employment, prudently introduce contractionary and repressive measures, **and clean up and abolish policies and regulations that are contrary to high-quality development.**”* My emphasis. Old practices have to be shed. There is the need to: *“Implement the deepening and upgrading of the reform of state-owned enterprises, and introduce policies to promote the development and growth of the private economy.”* And: *“We need to deepen reform and opening up with greater determination and intensity, promote a better combination of an effective market and a promising government, continue to stimulate and enhance social vitality, and promote high-quality development to achieve new and greater results.”* *“Efforts should be made to stabilize and expand private investment, implement and improve support policies, implement new mechanisms for public-private partnerships, and encourage private capital to participate in the construction of major projects. We will further dismantle all kinds of barriers and allow private investment to enter, develop, and make achievements in more fields.”* Not a word which goes against the grain of capitalism. More capitalism not less.

While the guiding hand of the government is never denied, the tone of the work paper is to encourage the private sector, both national and international, to take on a greater burden in converting stability into higher growth. *“We have given full play to the role of government investment in leveraging, formulated policies to promote private investment,” “Promote the reform of key areas and key links, give full play to the decisive role of the market in the allocation of resources, give better play to the role of the government, create a market-oriented, law-based, and international first-class business environment, and promote the construction of a high-level socialist market economic system.” “Intensify efforts to attract foreign investment. We will continue to reduce the negative list for foreign investment access, fully remove the restrictions on foreign investment access in the manufacturing sector, and relax market access for service industries such as telecommunications and medical care.”*

Marxists such as Michael Roberts may describe the Chinese economy as transitional, but nothing, let us be clear, nothing in this working paper substantiates this, or even alludes to it. It is not a road map to a future society, but one seeking to first stabilize then invigorate a troubled economy by realigning the state and private sector. But whatever the realignment, one thing is unalterable, it has to take place within an economy which market led and driven. Or put simply, it is regulated by generalized commodity production and that is inviolable.

One can approach the Chinese economy in one of two ways to determine its mode. Firstly, by examining what is different about it, or secondly, by examining what is common about it. Structure versus essence.

Essentially, the Chinese economy is driven by commodity production, by the separation of production and consumption, by the fact that the labour of the individual only becomes part of the labour of society indirectly, by having to be exchanged first via the medium of money acting as the embodiment of social value.

I provided Michael Roberts with an insightful article in the [Financial Times](#). It describes the issues facing Chinese SME's which provide 80% of urban employment.. It describes their financial woes due to liquidity issues arising from the slowdown in the rate of turnover of circulating capital. It is often forgotten that most companies collapse from issues relating to circulating capital rather than to fixed capital.

I have been pointing to this phenomena for a few years as I tracked the rate of turnover in China. Part of the turnover period is formed by the payment period. The primary turnover period is defined as the period between cash going out in the form of purchases and cash returning in the form of sales revenue. Here is the data at the end of 2023. "[the average collection period for accounts receivable was 60.6 days, a year-on-year increase of 4.4 days.](#)" The normal average which is based on data gleaned from many economies is 37 days. Thus Chinese SMEs have to find an additional three weeks of working capital. Not only do these SMEs need additional funds on the capital side but they also forfeit the equivalent of 100 days p.a. in which to realise their profits. Little wonder the rate of profit has fallen absolutely as profits have fallen.

Of course, it goes without saying that structure mediates, but state capital cannot overcome the contradictions found in commodity producing economies. Michael Roberts focuses on this, but the fact is that all the state entities can do is delay not avoid the consequences of the law of value in a society dominated by commodity production. Despite Michael Roberts identifying a charmed loop between state banks, state enterprises and the state, the *Financial Times* article quoted above concludes that the state banks have themselves not escaped the bad debts accumulating in the economy. Banks are banks and bankers are bankers, who have to act as bankers despite party officials sitting on their shoulders. The literature is full of analyses exposing how the state banks duck and dive to avoid pressure by the Party to lend, not dissimilar to the way enterprise managers in the USSR engaged in a guerilla war with GOSPLAN. [Here is one such article.](#)

Bankers are caught in a cleft stick, if they lend indiscriminately, shall we say politically, that is by throwing good money after bad, all that happens is they accumulate bad debts. If they accumulate too many bad debts, which is now happening, the bank will become unprofitable and the party will dismiss them for being irresponsible managers, so they try very hard to steer a course between these two extremes which makes a mockery of so called planning or intervention.

I am troubled by Michael Robert's [recent article on China](#). Firstly, he examines the Chinese economy indirectly by means of rebutting economists in the west and their predictions of the imminent stagnation of the Chinese economy. Instead he should have directly investigated the economy using the methodology bequeathed to us by Marx. He relegates the issue of falling profitability right to the end of his article almost as an afterthought despite it being central, and which affects the state sector as well the state banks whose lending margins have become wafer thin. In addition, the working paper assessment discussed above is not that far removed from the western view. It would have been wiser for Michael Roberts to have waited to address the working paper conclusions rather than depending on western observations.

Let me be blunt. The property issue is not the dominant fetter. The make or break issue is whether China can master high quality production, whether it can overcome the technical bottlenecks which makes it

vulnerable to US sanctions. If it does it will become the dominant global economy, and if it does not, it will fall back. Double circulation be damned. Chinese capital has outgrown China and unless the large Chinese corporations, state or private, become true multi-nations, profiting not only at home but abroad, Chinese capital will be stunted.

Whatever the outcome, the future growth of personal income appears to be more bleak than Michael Roberts' suggests, which may explain the rise in worker unrest and youth protest. This is what the working paper says on the issue. *"Household income growth and economic growth are synchronized; the expected target for economic growth is about 5%, which takes into account the needs of promoting employment and income,"* Of course GDP and National Income are synchronized, they are two sides of the same coin, the production and income side, but this tautology tells us nothing about the distribution of that income. Nowhere, from what I could see, was there any discussion over wage growth. What was revealed on the other hand was an insult to those who are sick as well as old, because the increases proposed are derisory, amounting to only \$4.5 for healthcare and \$3 dollars for pensioners. *"The per capita financial subsidy standard for residents' medical insurance will be increased by 30 yuan. The minimum monthly standard of basic pension for urban and rural residents will be increased by 20 yuan,"* I am of the opinion, that given the enduring fall in the rate of profit, the days of significantly rising standards of living for the bulk of the Chinese working class, is over.

In conclusion.

No doubt China is more confident that it can stand up to the USA now that NATO has been defeated in the Ukraine, yes that same NATO which the US is extending to the Pacific called POTATO (Pacific and Taiwanese Atlantic Treaty Organisation). And no doubt China was assisting the Russian war effort under the noses of US spy satellites. How else to explain the dramatic seven-fold increase in Russian arms production of certain munitions and armaments.

No doubt again, the Chinese leadership was aware of the linear approach by the West to war with itself. First, Russia then China. And finally China must be aware that this has now changed to a parallel war, bog down Russia, attack China. That is the lesson to be drawn from Newland's departure. And this being so, China is preparing for war. *"We should comprehensively strengthen military training and preparation for war, **make overall plans to advance preparations for military struggle**, do a good job in military training in actual combat, and firmly defend national sovereignty, security, and development interests"* so concluded the Chinese Premier. He is clearly looking inwards rather than outwards, despite considering himself a good Marxist Leninist, thereby dismissing the one force that can prevent another world war, the international working class. This is the ultimate nuclear option, the weapon to end all wars, by ending the cause of wars – capitalism – an option the 'communist' Li Qiang dare not make known, because in the end, this counter-revolutionary is beholden to capitalism.

Brian Green, 13th March 2024.

