

YELLEN AT CHINA even AS THE EARTH MOVES BENEATH HER FEET.

This article reviews 'two-front' Janet Yellen, US Treasury Secretary, who recently went on a lecture tour of China. It also analyses the changing balance of forces around the world which this self-entitled bureaucrat refuses to acknowledge.

Janet Yellen has recently been on a visit to China. The stated purpose was to discuss Chinese dumping practices which the US feels is overwhelming parts of its economy. As always this dumping is couched in the language of unfair business practices, namely that it is the product of state and export subsidies. [Michael Roberts](#) recently wrote an article on this subject quoting largely from the analysis of Renaud Bertrand who rebutted these allegations of dumping and unfair practices.

One of the omissions in the article is an undervalued Yuan, but unlike Japan in the 1980s and the Plaza Accords, the US does not have the means to drive up the Yuan and stall the Chinese economy. I would also add that the future of the Chinese economy, lies not so much in it developing the internal market, but in Chinese corporations becoming global players, true multi-nationals, able to compete with the best of the West and even outcompete them. This is what is happening now. China is gradually ascending the global value chain propelled by its growing technical achievements, and as it does so, it displaces western high value producers. Perhaps Xi should be emboldened enough to declare, "made in China but now sold all over the world". This is what is frightening the USA, Germany, Japan and their multi-nationals.

This is just one of the aspects of the changing balance of forces, in this case economic, the dominant aspect. When quantitatively measured, China is by far the largest industrial economy in the world. Its crude share of global production was only equaled in the mid-1940s by the US and then only after the devastation of its competitors in WW2. Now adding to this quantitative advantage is the growing qualitative advantages as well, previously China's *Achilles Heel*.

And this threatens not only US industry but the Dollar itself. While it is true that the US holds 40% of the world's financial capital, that it also has the deepest and most liquid money markets, and that it holds sway over global stock markets as can be seen by the daily influence Wall Street has on foreign bourses, this accumulation is not permanent. All it will do is to delay the inevitable. The fate of the Dollar lies in future developments not past achievements. It lies in the US's ability to continue to harvest global surplus value in the form of monopoly profits secured by technical thresholds.

Currently the smaller US industrial economy realizes twice as much profit annually compared to China and that is without adding in its proportionately larger internationally profit share as well. As the US's monopoly power recedes so too will its ability to harvest super profits from around the world. And in the end it is these surplus profits which oils its gigantic financial machine together with the Dollar.

Of budget and trade deficits and borrowed time.

This week the [Congressional Budget Office](#) released the Federal Governments credit card statement for March. Here is the current deficit adjusted for date anomalies. *"If not for the various shifts, the deficit so far in fiscal year 2024 would have been \$1,136 billion, \$46 billion more than the shortfall for the same period in fiscal year 2023."* Adjusting for the timing of outlays, the deficit would have been 3% bigger not 4% smaller, because outlays would have risen by 9% against receipts of 7%.

For the fiscal year ending in September 2024 the projection is: “CBO projects a deficit of \$1.5 trillion for fiscal year 2024, down from \$1.7 trillion in fiscal year 2023.1 Excluding the effects of shifts in the timing of some outlays, the decline in the deficit would be about \$100 billion. In June, CBO will update its estimate of the 2024 deficit.” Thus a reduction of between \$100 and \$200 billion is envisaged. I would caution we wait till June, as by then weather effects as well as more persistent inflation will have left its mark.

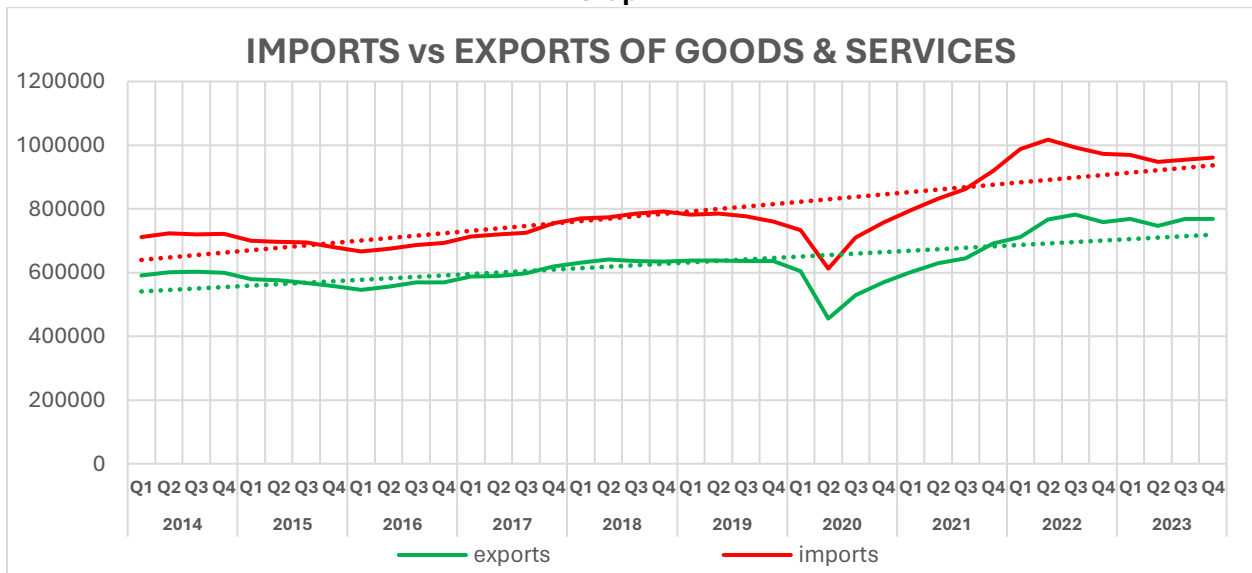
However, it is necessary to dig beneath the surface. One of the key reasons why outlays are more benign this year compared to last year is due to Covid outlays falling away together with a reduction in Student Grant support. The reduction in Covid support of \$46 billion (Table 3) being equal to a half percent reduction in the deficit. While this contribution is now more or less exhausted, the reduction in student grants will endure reducing the deficit this year by about \$100 billion.

A better guide to the state of the deficit is to compare the first three months of this year to that of the preceding year. This minimises the effects of delayed Covid receipts. By doing so we find total receipts fell from \$575 billion to \$533 billion and total outlays from \$1,216 billion to \$1,136 billion. This minimises the confounding issues with delayed Covid receipts in December 2023. The result is a fall in receipts of 7.5% which is not consistent with the real expansion in GDP of 3.2% annualised as predicted by [GDPNow](#) or about 6% nominal, which is more commensurate.

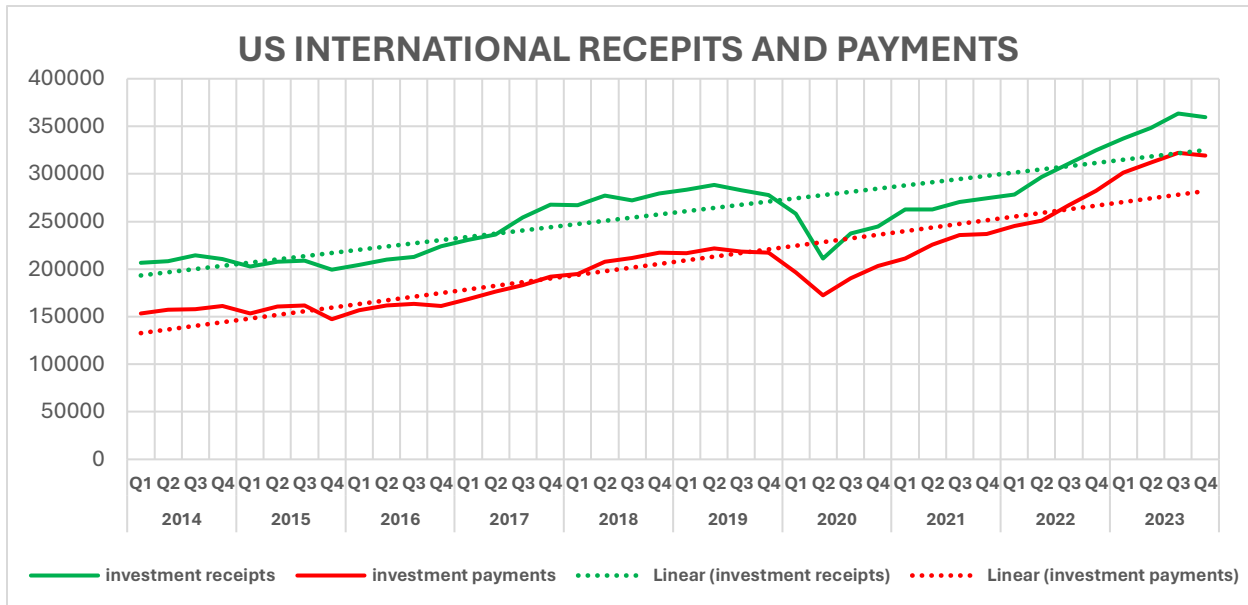
With regard to withheld and payroll taxes, these grew by \$41 billion over the three months or by 4.85% compared to average [hourly earnings growth](#) of 4.25% implying a marginal rise in employment, but not nearly as much as the 1.1% in [aggregate hours](#) officially reported.

Not only is the budget deficit adding to an unsustainable public debt pile weighing on the Dollar, but in addition, so too is the [trade deficit](#) which is expanding while the international [investment surplus](#) is diminishing. All these trends are unsupportable and are only made possible by the Dollar’s reserve currency function, but in the end, dialectically, it also undermines the role of the Dollar. This week saw mega auctions of government debt. The fundamentals were so bad that *Wall Street* spoke of a dislocated market, or the first step to a broken market at which point the FED loses control of interest rates. In particular there was a sharp fall in foreign interest in these auctions. Dollar buyer beware.

Graph 1.



Graph 2.



Ukraine and the new Under-Secretary of State.

When Kurt Campbell replaced Victoria Nuland as the new under-secretary of State many said it was a China Hawk replacing a Russian Hawk. It was, this became clear in the last ten days, not only because of Yellen's trip to Beijing but also due to statements made by Mr. Campbell. No senior US government official ever wastes a trip to Beijing by failing to issue dire warnings to the Chinese Government to change their ways or else. Yellen was no exception, warning China was putting its banks at risk with its support for Russia.

A new narrative has emerged. Ukraine has failed not because the West has failed to provide it with the necessary weapons, but because China is backstopping the Russian war effort. *"In a meeting with He, the economic tsar, in Guangzhou, Yellen warned that Chinese companies could face "significant consequences" if they provide material support for Russia's war on Ukraine, according to a readout from the Treasury Department."* And she added: *"I also reinforced that any banks that facilitate significant transactions that channel military or dual-use goods to Russia's defense industrial base expose themselves to the risk of U.S. sanctions,"* Of course dual-use is anything the US defines as dual-use. The Chopsticks Yellen battled with are dual-use, because if sharpened they could be weaponized and used against the USA.

Of course this threat was sheathed in the double speak the Biden Administration has become notorious for lately. In this case she emphasized the [need to keep talking](#) presumably so the US can create the opportunity to keep threatening. A bit like Biden condemning Netanyahu for killing too many Palestinians while passing him the bombs to do this.

Yellen's remarks were not isolated. Biden had got the ball rolling in his telephonic discussion with Xi. Blinken never to be left out had said the same at a recent [NATO EU summit](#): *"The warnings were explicit," the person said. "There has been a shift and it was felt in the room . . . this was a new development. It was very striking."* Of particular relevance

are the threats made by the new under secretary of state Kurt Cambell known previously as Biden's Asia coordinator or Czar.

Campbell personifies the shift back to China. This is what he had to say at the [National Committee](#) on US-China Relations: *"China's closer ties with Russia risk crossing a line as sensitive to Washington as Taiwan is to Beijing, a senior member of US President Joe Biden's administration suggested on Tuesday."* And: *"The point that we're trying to make to Chinese interlocutors is that this is our strategic interest. This is the most central issue, and China is involving themselves in a way that they think that we don't completely understand."* Paradoxically when talking at a [townhall meeting](#) facing critics of the current US stance of confronting China's technological advance he said the opposite: *"I don't believe China, at this juncture, fundamentally wants to see the borders of Europe rewritten through conflict,"* Not so much Red Lines as Headlines designed to pressurise China. To the self-entitled US of All the strategic interest of the USA extends from pole to pole.

The attempt by the Biden Administration to drive a wedge between Russia and China failed with Russian Foreign Minister Lavrov arriving just as Yellen was departing. To show up the USA and cement the greeting, Lavrov even got to meet Xi which diplomatic etiquette normally frowns upon given Lavrov like Yellen are not heads of state. Xi knows full well the debt he owes the Russians. Had Russia fallen to the machinations of USATO, his northern flank would have been exposed completing the encirclement of China, making it harder if not impossible to reject their demands, no more, to avoid the capitulation of China altogether.

Instead the US and NATO are bogged down in the Ukraine as the Ukrainian army crumbles and the Russians advance. The war has exposed NATO military weaknesses and depleted NATO arsenals, which now will take years to replenish given the parlous state of the industries in Europe and the USA. It has demonstrated once more that wars are not fought by chips but by industry, steel as much as by silicon. And above all it has won China its most important commodity, time, time to technically upgrade its economy and military prowess, time to catch up to the West.

In so far as the fate of Ukraine goes, its whole future is in the balance. Instead of surrendering, Ukraine has been forced to continue the war indefinitely on the orders of its paymasters. The purpose being to tie up Russia and prevent it aiding China in any future war. But this intransigence has ensured that Russia will no longer tolerate a pro-western government in Kyiv. There is no longer any pretence of a contained *special military operation* designed to mute a NATO response. Emboldened by his victories and overwhelming superiority, and given the behaviour of the Ukrainian government, Putin is being forced to contemplate a political solution for all of Ukraine beyond the territorial integrity of the Donbass, Zaporizhzhia and Kherson. It is all out war, and interestingly the western media have now dropped their mantra of an unprovoked Russian invasion and replaced it with: *"it is now all-out war"*.

This can be seen by the changing nature of the Russian attacks on Ukrainian infrastructure especially the energy network. This change in tactics is not due to the depletion of Ukrainian air defences. It is designed to destroy the very economic and social fabric of Ukraine. Previously the Russians targeted peripheral energy nodes, damage which could be repaired in months if not weeks. Now it has taken out entire power stations which will take years to repair. This may also be of benefit to a summer Russian offensive.

On the other hand the beleaguered Zelensky continues with his fantasies. His latest fantastical proposal is to hold a peace conference in Switzerland in June attended by 100 nations, but excluding Russia, around his original *10-point peace plan*. Seems the Swiss are as bright as their cuckoo clocks. But Kyiv has nothing

to bargain with. Zelensky's army is shattered, his economy is mothballed and yet he continues to demand the Russians leave Ukraine and the Crimea forthwith. Realistically and to save tens of thousands of additional lives he should offer up a 1-point peace plan; we surrender. Instead of which he continues to charm his money brokers by declaring 2024 to be the year of defence followed by 2025 the year of offensive. Honestly, the biggest threat facing Ukraine is Zelensky. Despite Zelensky's antics, it is likely the war will be decided this year despite any additional support from the West.

Already the division of labour between the EU and the USA is clear to see. This week in a sweeping vote of 515 MEPs to 62, the EU Parliament refused to approve the EU Council's budget unless it included at least seven Patriot systems for Ukraine and preferably twenty-six out of the EU stockpile of 100 systems sitting idle except for irradiating birds when switched on. The total cost, disregarding the higher export price of these systems, would be between \$7.7 billion and \$28.6 billion with each missile costing \$4 million, often exceeding the cost of the missiles and drones they are trying to shoot down.

Turning to the battlefield. The Russians will soon occupy *Chasiv Yar* clearing the remnants of the Ukrainian army located near *Bakhmut* and opening the way to capturing the strategically important town of *Kramatorsk* further North. With that accomplished the Ukrainian army will have been effectively split in two and the Donetsk Oblast will largely have fallen under Russian control. Then it is a case of mopping up the Ukrainian army in the *Liman* and *Seversk* region before turning left to Zaporizhzhia and Kherson and right to Kharkiv.

To reiterate, the timing of Lavrov's visit was calculated to show that China is no longer willing to put up with the bullying tactics employed by the USA. That it now considers itself an equal, that it demands to be respected, and that together with Russia and the Global South it recognises the balance of forces is beginning to tilt its way and away from the shambles that is the US rules-based order.

It is therefore no by accident that shortly afterwards Xi ordered the [entire telecoms network](#) to get rid of all US chips and software and to move over to Chinese chips and software. The initial embargoes on China undoubtedly hurt China and slowed its progress, but as China overcomes technological pressure points the shoe is now on the other foot. This is exemplified by the revival of Huawei. Now it is the USA that is about to feel the pain led by Apple the former beneficiary of the initial embargoes. It was always said that if China was forced to develop its own chip industry, and were it to succeed, the biggest loser would be US corporations. It is now coming to pass. (I will deal shortly with problems surfacing with LLM models.)

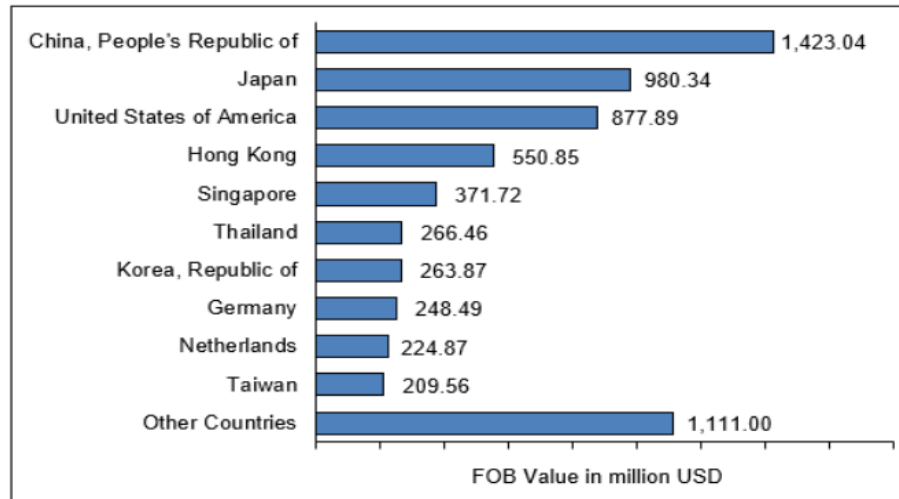
While all this is going on the US continues to cement its alliances in the Pacific. On Thursday in what was a first, Biden hosted a trilateral meeting with the leaders of the Philippines and Japan. There is also talk of enlarging AKUS to include Japan. Prime Minister Kishida when addressing both houses of Congress this week was effusive over the role the US plays in world affairs despite the US being largely responsible for Japan's *lost decade* in the 1990s: *"The world needs the United States to continue playing this pivotal role in the affairs of nations," Kishida said. "The international order that the U.S. worked for generations to build is facing new challenges, challenges from those with values and principles very different from ours,"* Translated this means economically we can live with the economic order the US has assembled but we cannot live under a new economic order assembled by the Chinese, because while we can withstand US competition we cannot withstand Chinese competition.

The sacrificial lamb in all this is the Philippines which is turning into an unsinkable US aircraft carrier as Israel once was. Despite the fact that the biggest market for [Philippine's exports](#) are China + Hong Kong,

which together exceed the combined totals of Japan and The USA, the Philippines has tied its future with that of the faltering USA.

Graph 3.

Figure 5. Value of Philippine Exports by Major Partner Country
March 2023^p

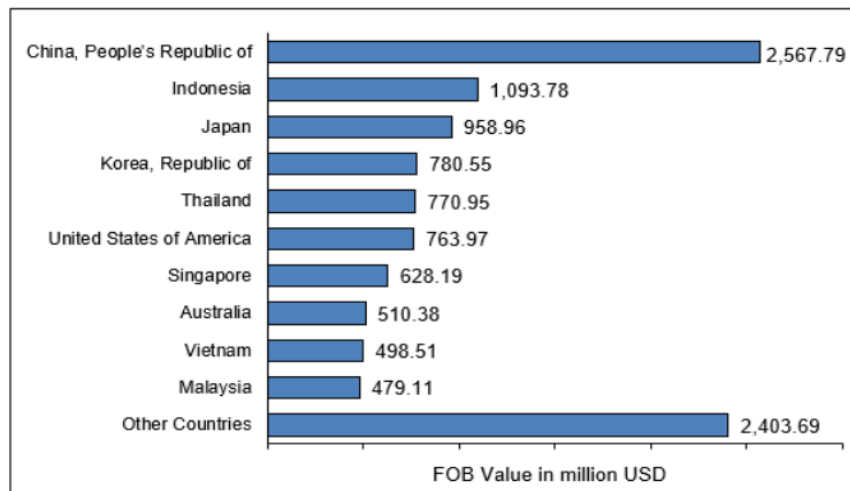


p – preliminary
Source: Philippine Statistics Authority

This becomes even clearer when we consider imports into the Philippines where China dominates once again. With the exception of investment, where Chinese investments are discouraged, the Philippines is more integrated into the Chinese economy than any other major economy and its future is more aligned with a prosperous Asian community than it is with North America.

Graph 4.

Figure 11. Value of Philippine Imports by Major Partner Country
March 2023^p



p – preliminary
Source: Philippine Statistics Authority

In the event of a military conflict with China, the Philippines will become the next Ukraine, damaged beyond repair. In many ways the Marcos dynasty and that of Zelensky are comparable. Both are stooges of the USA while both recognise the risk to their countries this involves. The Philippines are in the cross hairs. It is often said that the Taiwan threat is the most probable trigger for war, but the actual trigger could turn out to be a rusting Philippine ship grounded on the Second Thomas Shoal, part of the Spratly Islands in the South China Sea. These Islands have long been contested by a number of countries including China and the Philippines.

Duarte who preceded Marcos as Prime Minister had come to an understanding with China on how to manage the resupply of the Philippine marines vacationing on this hulk. Marcos however has gone out of his way to break this agreement with the result that there have been frequent clashes between the Chinese and Philippine navies around the wreck. Swap the Spratly Shoals for Ukraine and now it is China who is accused of engaging in unprovoked and aggressive actions just like Russia before it. Really, one would think this was the Gulf of Mexico they were talking about, rather than a sea thousands of miles away from the US coastline. It's enough to make a politician blush.

As for Japan another analogy will suffice. In the first world war Germany crushed Russia, but twenty five years later during the second world war it was the Soviet Union who crushed Germany. Pre and during the second world war it was Japan who brutalized China, but in a future war it will be Japan that will be flattened. Ah, the capitalists, especially the imperialists, they forget everything and learn nothing.

But workers must never forget that it is the poor who suffer the most in wars, for it is they who provide the cannon fodder, it is their communities which suffer the most damage, and it is they who in the end are forced to pay for the cost of the war through harder work and lower pay. If the China Sea is not to turn into the Red Sea, then workers need to flex their muscles, link arms, and stop what is coming. The USA has everything to gain from a war. And common to all crumbling Empires it does not care how many countries it drags into this conflict and what happens to them. They are merely collateral damage.

Gaza.

NATO not only got bogged down in the Ukraine, but Israel has become bogged down in Gaza as well. Western imperialism's regional agents are all in trouble, accelerating the changing world order. Whatever the Zionists may say, they have not beaten the Palestinian resistance. After four months of intense fighting the Zionists pulled out of Khan Younis. They claimed it was for [tactical reasons](#) to free up their troops for a regional conflict. But on the day they pulled out [Israeli troops received a bloody nose](#) from Hamas in what was clearly a well coordinated and organised ambush which demonstrated that despite everything the IDF had been throwing at them, Hamas's local command structure was intact and functioning. Furthermore the resistance was then able to [celebrate the Israeli withdrawal](#) with a fireworks display over Israel.

In every way the Israelis have played into the hands of Hama's strategy for winning a Palestinian state. In some ways Hamas has taken a page out of the Zionist playbook. In the late 1930s in an interview with the *London Times*, [Ben Gurion](#) spoke of his willingness to sacrifice thousands of Jewish children to secure the future of a Jewish state. Will the holocaust in Gaza force the world to grant statehood to the Palestinians as it once did for the Jews? This cannot be ruled out. The current formal request by the Palestinians to be recognised as a nation by the United Nations is progressing further than before.

But this is not a desirable strategy. In both cases, it was a passive and disorganized European working class that allowed then and allows these events to unfold today. One thing is certain, Israel will exist only as long as the European and Arab working classes allow it to exist.

In most countries Hamas and Islamic Jihad have been described as terrorists making it a criminal offence to support these two groups. But just as Western Countries are falling foul of international law by supplying weapons used in war crimes, so too they may have fallen foul of the law in declaring Hamas and Islamic Jihad to be terrorist organisation. International law and UN decisions make it quite clear that peoples in occupied countries and territories have the right to self-defense especially when the occupying force is imperiling rather than protecting the local population. As the Chinese presenter to the ICJ hearing said, the Palestinians under international law have the right to bear arms: *"China has backed the right of the Palestinian people [to use armed force](#) to combat Israel's occupation of their land, calling it an "an inalienable right well founded in international law".*

It is clear that the out of control Zionists have become both a political liability and an embarrassment to its allies. In many ways the imperial relationship between the US and Israel is a relic of the cold war. Besides Syria, Iran, and Yemen there are no Arab countries which threaten US and EU interests in the region requiring an Israeli hammer. Egypt, Jordan, and the Gulf States are all loyal US subjects who were even willing to sacrifice the Palestinians prior to October the 7th. It is difficult to see what purpose the Zionist state plays in the imperial project except for the sole exception of a future war between the US and China.

The failure to follow Washington's instructions was always going to end badly for Netanyahu. With the Democratic Party in disarray before the November Presidential elections, with younger voters shunning Biden because of his support for the Zionists, it was always going to be a choice between keeping Netanyahu in power or keeping Biden in power, and it was clear the Israeli Prime Minister would come off worse. Last week it appears that Biden finally read him the riot act, this coming after Biden's pathetic calls for restraint had been called out by an increasingly skeptical audience both in the USA and abroad.

As the unfolding livestreamed Genocide sways more hearts and minds around the world, increasingly desperate supporters of Israel once more wheel out the alleged atrocities committed on October the 7th. This time it is the rancid EU commission led by that perennial friend of Israel the immaculate Ursula van der Leyden. It just sanctioned Hamas and Islamic Jihad for widespread sexual violence during the seventh of October last year. *"EU countries said fighters from the two Palestinian groups ["committed widespread sexual and gender-based violence in a systematic manner, using it as a weapon of war"](#). The abuses by Hamas fighters included "the rape and subsequent murder of female minors, mutilation of corpses as well as genital mutilation", the decision said.* The irony is that in Israel itself, [fewer people](#) still believe these rapes occurred, compared to those in western countries primarily because of the culpability of its media.

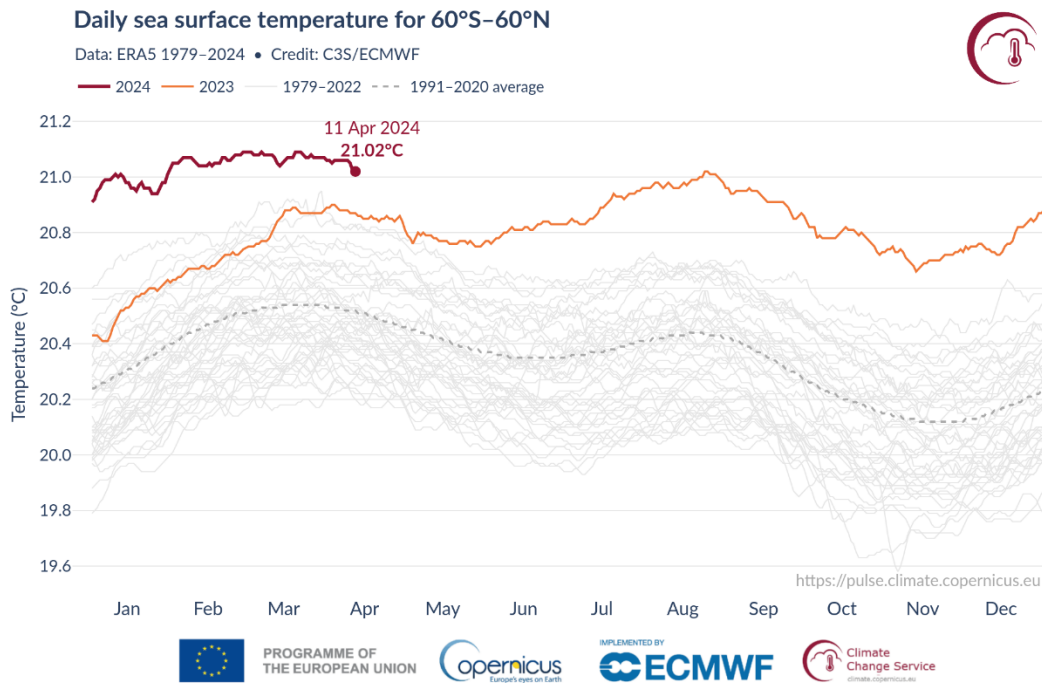
It is unlikely that Iran will strike back at Israel for the attack on its embassy in Syria, an attack which under international law is an attack on Iran's sovereign territory and therefore a declaration of war. The reason Iran will not provoke Israel is political not military as Iran has the ability to wipe out the Israeli economy. Whereas most Israelis back their government the same cannot be said for Iran. In the elections in Iran recently, a record low 42% of voters turned out to vote. Clearly a low turnout is always a referendum on the way the political establishment is viewed, something which no government can ignore. The Iranian government is therefore vulnerable which is why the Israelis were emboldened to attack their Embassy in Damascus in the first place knowing war between their countries would destabilize the fragile cleric-political establishment in Iran and therefore would not be welcomed by Iran.

Nevertheless it demonstrates that Israel is a loose cannon. The Biden administration does not want a regional war this year, not when oil prices could skyrocket ending the goldilocks economy upon which Biden has pinned his hopes of re-election. This does not mean that the USA will not need to take out Iran in the future. Any future war with China requires that the Western Imperialists secure the shipping lanes in the Middle East or Western Asia as it is now being called, and this means neutralizing Iran and Yemen. This means that if Israel is to strike at Iran it will be at a time chosen by Washington, and not at a time of its own choosing, especially when such an attack is aimed at dragging the USA into the conflict now that Israel is bogged down in Gaza and being worn away by Hezbollah in the North.

Conclusion.

It is quite clear that the US is readying itself for a future war. It is preparing to become self-sufficient in key industries, it is assembling and fortifying its alliances and reigning in its agents. Clearly the time is not yet ripe for a war with China. We the workers of the world must ensure that it is never ripe for war by building a revolutionary anti-war movement. Not only will such a war damage the planet and its peoples but so will preparations for such a war. Preparations for a war add to global emissions of hothouse gasses, and it diverts resources and attention away from reversing climate change. As the [Copernicus Institute](#) reported this week, annual global air temperatures are now 1.58% above pre-industrial levels, something which should not have happened for another decade. And worse sea temperatures remain above 21°C, which is more consequential, because the oceans are the world’s heat sink and regulator of weather.

Graph 5.



China may have bought time for itself, but the world is running out of time. It is time for workers to act and to act decisively. This summer is going to be an urgent wake up call which dare not be ignored.

Brian Green, 13th April 2024.