General Qiao Liang' speech, which we've been allowed to publish, was delivered at the University of Defense, China’s top military school. It casts a light on China’s new strategic thinking.

This document, which general Qiao Liang has allowed us to publish, was delivered at the University of Defense, China’s top military school, where the general is in charge of the education curriculum for the officers. The speech therefore must have the endorsement of the leaders of the school and ultimately also of the president of the Military Commission, Mr. Xi Jinping.

The document casts a light on China’s new strategic thinking. Beijing’s biggest challenge is not geopolitical but economic. This derives from a cold and cruel analysis of US behavior since 1944, the time of the Bretton Woods agreement, and more importantly since 1971, with the dollar decoupling from gold, and 1973 with the US imposing the use of the petro-dollar. Qiao Liang argues that the US goal in all these years was not just geopolitical; it was to accrue profits, and the US found a way, after the disastrously costly wars with North Korea and especially Vietnam, to make a profit out of regional crisis, with or without war. The general finds a dollar cycle of about 16 years: for 10 the US currency is weak, for 6 it is strong. The beginning of the strong dollar corresponds with a regional crisis that crashes a regional economy.

However, the US failed in its latest attempt to create a regional crisis around China in 2012 because Beijing didn’t fall for the US trap and get drawn into conflict with Japan or the Philippines over the Senkaku or the Scarborough Shoals. Qiao Liang is confident that China will not fall for a regional crisis and believes that new dramatic changes are ahead of us. The new bit money, which could well grow to dominate world finance, is challenging old transaction processes, and 3D printing may dramatically change production methods. These changes create a situation totally new for everybody and here Qiao Liang says the US should collaborate with other countries.

Therefore, according to this dispassionate analysis, China not only doesn’t see the necessity to fight a war but believes that a war directly or indirectly against America would be against Chinese national interests. It thinks that Washington will not fight Beijing for the next ten years, but to make sure that in ten years the US doesn’t change its mind, China must set its affairs in order and internationalize its currency, the RMB. This broad strategic vision also provides a deep justification for the ongoing anti-corruption campaign. China must hurry to overhaul its economy to face the risks of the next decade. If it doesn’t do it now, in a decade it could well be doomed.

This analysis then leaves ample room for collaboration with the US on the future risks that both face. In this analysis, China is confident, assured, and has a clear direction. Economists may agree or disagree with the analysis of the dollar cycles, but what is most important is that this analysis changes the playing field for the Chinese military: shooting weapons becomes not as important as understanding and managing finance. This should also help American military and strategists to better understand Chinese thinking. (by Francesco SIsci)

First, the situation surrounding China and the US dollar exchange-rate cycle

1. For the first time in history, the emergence of the financial empire.

On this issue, I believe there are many comrades, financial experts, who are better suited than me to speak about the economy. What is different is that I talk about it in strategic terms. From August 15, 1971, after the decoupling of the US dollar from gold, the ship of the dollar lifted its anchor, which was gold. Let us start from the beginning. In July 1944, in order to take over leadership from the British and their currency, the US promoted the establishment of three world systems: a political system, the United Nations; a trading system, the GATT (which then became the WTO); and a monetary and financial system, the Bretton Woods system.

The Bretton Woods system, in accordance with the wishes of the Americans, was to establish the leadership of the dollar. But in fact after a full 27 years, from 1944 to 1971, the Americans' monetary leadership was slipping because of the weight of gold. At the beginning of the Bretton Woods system, to affirm the leadership of the dollar, Americans pledged to the world: the money of different countries will be locked to dollar, while the dollar will be pegged to gold. How to peg it? With a fixed price for convertibility of $35 per ounce of gold. With this commitment to the world, the Americans could not do whatever they wanted with the dollar. Simply put, the $35-per-ounce-of-gold convertibility meant that the Americans could not just excessively print dollars; if you print more than $35, your treasury will have to have more than an ounce of gold reserves.

America could make such a commitment to the world because it possessed then about 80% of the world's gold reserves. But the situation later became not as simple as the Americans might have wished. After World War II, the United States got foolishly involved in the Korean and the Vietnam wars. These were two costly wars for the US, especially the Vietnam War. The Vietnam War destroyed almost $800 billion through military spending. With the increasing costs of war, the United States was taking on more than it could afford. According to the US pledge, the loss of every $35 meant the loss of one ounce of gold.

In August 1971, the Americans still had more than 8,800 tons of gold. At this time the Americans knew they had some troubles, and other people were creating new troubles. For example, French President Charles de Gaulle did not have faith in the dollar, so he got the French finance minister and central bank governor to check on the French dollar reserves. France then had about $2.2–2.3 billion, and de Gaulle then ordered them to return all the dollars to the US and get in return the corresponding value in gold. The French blow produced a similar response from other countries. They similarly told the Americans: we do not want dollars; we want gold. This put the Americans in a corner.

Thus, on August 15, 1971, then US President Richard Nixon announced the closure of the gold window—the dollar was delinked from gold. It was the beginning of the collapse of the Bretton Woods system, but it was also a time when the Americans went back on their pledge. But as far as the world was concerned, things were not entirely clear at the time. People believed in the dollar because there was gold behind it. The dollar had been used as an international, settlement, and reserve currency for almost 30 years, and people had become used to the dollar. If the dollar suddenly brakes and there is no longer gold behind it, in theory, it becomes a piece of simple green paper—then how can we still use it? One could stop using it, but there would be the problem of what measure to use in the international settlement of the value of goods? Because money is the measure of values, if one does not use the dollar, how can one also trust other currencies? For example, between the yuan and the ruble, Russia (then the Soviet Union) says, if you do not recognize the ruble, we do not recognize the yuan, and then one can only continue to take the dollar as a medium of exchange between us.

So, the Americans used the world's inertia and in October 1973 pushed the Petroleum Exporting Countries (OPEC) to accept American conditions: global oil transactions must be settled in US dollars. Prior to this, the global oil trading could use a variety of international settlement currencies, but after October 1973, everything changed, and OPEC announced that the dollar must be used on the global oil trade settlement. Thus, after the decoupling of dollar and gold, the Americans pegged the dollar to the basic commodity of oil. Why? Because the Americans saw clearly that one may not like the dollar, but one cannot do without the energy: one can do without the dollar, but would you do without oil? All countries must consume energy, and all countries need oil; in this case, one's need for oil becomes equivalent to need for dollars, which was a very clever move by the Americans. In fact, after the 1971 dollar and gold decoupling, with the 1973 peg of dollar and oil, the US set a new milestone, though few people realized it at the time.

Many economists—financial experts—did not see clearly that the most important events of the 20th century were not World War I, World War II, and the collapse of Soviet Union. The most important event of the 20th century was the August 15, 1971 decoupling of dollar and gold. Since then, humanity saw the emergence of a financial empire, and this financial empire took all of the humanity race into its financial system. In fact, the so-called dollar leadership began at this moment. Today it is about 40 years old. After that day, we entered into an era of real paper notes, but behind the dollar there is no longer a precious metal—it uses entirely the government's credibility and support from all over the world to gain profits. Simply put, the Americans can use a piece of printed green paper to get physical wealth from all over the world. We never had such a thing in human history. There were a lot of ways to make profits in human history, sometimes with money exchange, sometimes by using gold or silver; at other times countries used war to gain plunders, but the cost of war remained enormous. But after the appearance of the dollar as simply a green paper, the cost-benefit ratio for the United States we can say became extremely low.

Because of the dollar-gold decoupling, gold no longer drags on the dollar, and the United States is freer to print dollars. If a lot of dollars stay in the United States, they will cause inflation in the US. If the dollars go abroad, then the whole world will digest the US inflation, which is one of the reasons why the dollar's inflation rate is not high. In other words, the outflow of US dollars abroad dilutes its domestic inflation. But the after of the global outflow of dollars, Americans have no money, and if they continue to print money, the dollar continues to depreciate, which is not good for the United States. So the Fed does not, as some people imagine, go on crazily printing money. Actually the Fed fully understands restraint. In the 100 years of its existence, from 1913 to 2013, the Fed issued a total about 10 trillion dollars.

In comparison, some people began to blame China's central bank. Why? From the time it started to issue the new currency—the renminbi—in 1954 up to now, our central bank has issued over 120 trillion yuan. If converted at the exchange rate of 6.2 to the US dollar, we issued about $20 trillion. But that does not mean crazily printing money in China because after the reform and opening up, China earned a lot of dollars, and now there are a lot of dollars as foreign investment in China. Due to foreign exchange controls, the dollar cannot circulate in China, so the central bank has to release RMB of corresponding dollar and other currency value. However, foreign investments in China, after they make money, may be withdrawn in the future; at the same time, there will be a lot of foreign exchange to buy resources, energy, products, and technology. In this way, a lot of dollars will eventually move out while the RMB stays. One then cannot possibly destroy the corresponding amount of RMB, but can only let the yuan in China continue to circulate, so the stock of RMB becomes a force larger than the dollar. This in turn proves these amazing 30 years of China's economic development. China's central bank acknowledged that in recent years it probably issued over 20 trillion yuan. Most of this huge amount stayed in China, which drives to talk about the following problem: why the RMB must be internationalized.

2. The relationship of the dollar cycle and the global economy

The reason why the United States has no inflation is largely because of the global circulation of the dollar. But the US cannot issue unlimited amount of dollars, which would devalue the dollar—you want control. If exercising that control means don't have dollars, what can you do? Americans have another set of solutions to this problem: they issue dollar bonds, and through the issuance of bonds, they get the dollars out of the country to flow back home. But when this outflows goes back to the United States through debt capital, Americans begin to play a new game, printing money with one hand and borrowing with the other. Printing money can make money, and borrowing can also make money, producing money with money. If it is easier to make money through finance than in real economy, then who is willing to sweat doing hard labor in the low-value-added manufacturing and processing of the real economy? After August 15, 1971, Americans gradually abandoned the real economy in favor of the virtual economy, turning into a hollow country. Today's US GDP has reached $18 trillion, but the real economy contribution to GDP does not exceed $5 trillion—most of the rest is created by the virtual economy. Through the issuance of bonds, the US gets a large number of dollars circulating abroad back to the United States and into the three US markets: the futures market, bond market, and stock market. American money begets money in this way, and then the money flows abroad, so the cycle of outflow and inflow makes a profit and with this the US becomes a financial empire. United States takes the world financial system into itself. Many people think that after the decline of the British Empire, the colonial history was basically over. In fact it is not like that, because after the United States became a financial empire, it started using the dollar as a hidden "colonial" expansion: it controlled national economies through dollars, thus making various countries of the world its financial "colonies." Today we see a lot of sovereign and independent countries, including China, that although sovereign, with their own constitutions and governments, still can't shed the dollar. In the end, the countries' wealth will be expressed in dollars and they will have their physical wealth enter the US through exchange and a steady stream of dollars.

We can see this very clearly over a 40-year period in the dollar exchange-rate chart. The August 15, 1971 US dollar-gold decoupling meant the Americans got rid of the shackles of gold, they could freely print dollar, the dollar circulation increased, and the dollar exchange rate was naturally low. From 1971, in particular with the 1973 oil crisis, the dollar exchange rate has been trading low, which indicates that they print a lot of dollars. This situation lasted nearly 10 years. A low US dollar exchange rate is not entirely a bad thing for the world economy because it means that the dollar supply increased, which means an increase in the flow of capital. Most of this capital did not stay in the United States but went abroad. At the start of the low dollar exchange rate, a lot of dollars went to Latin America, which stimulated investment and also brought prosperity. This was the 1970s economic boom in Latin America.

The period of dollar flood lasted for about 10 years. Then in 1979, the Americans decided to close the sluice. A low US dollar exchange rate is equivalent to the Americans opening the floodgates, and the closing of those flood gates is actually reducing the dollar's liquidity. In 1979, the dollar exchange rate became strong and dollars flowing abroad were reduced. Latin America thought it was receiving a lot of dollars that drove development. Suddenly investment was reduced, liquidity dried up, the chain of capital investment broke, and naturally the economies had troubles.

Once trouble started each Latin American country started to think of ways to save itself. Take for instance Argentina. Its per capita GDP had entered the ranks of the developed countries. But when the Latin American economic crisis appeared, Argentina was the first to enter recession. There are many ways to solve a recession, but unfortunately, when the Argentine government came to power through a military coup, the president was Galtieri, who had no sense of the economy. As a soldier, Galtieri's only idea was war, and he hoped to rescue the situation with a war. He set his goal on the Malvinas Islands, 600 km away from Argentina's mainland and called the Falkland Islands by the British. The islands had been under British rule for over 100 years, and Galtieri decided to claim them back. But Argentina is South America, which has always been regarded as America's backyard. To fight a war in America's backyard one can't avoid asking America. So Galtieri people went to talk with US President Ronald Reagan, to see the US attitude on in it. Reagan must have known that if Galtieri wanted to fight this battle, it could lead to a large-scale war with the British, but allegedly he casually declared that this was a matter between Argentina and the United Kingdom, it had nothing to do with the United States: "we do not have any position; we remain neutral." Galtieri thought it was the US president acquiescence, so he launched the Falklands War and easily recovered the Falklands. All in Argentina cheered, like an over-enthusiastic carnival. However, British Prime Minister Margaret Thatcher declared that she would never accept this outcome, and also forced the US president to take a stand. Reagan then immediately put down the mask of neutrality and issued a statement strongly condemning Argentina's acts of aggression, while standing firm with Britain. Subsequently, the British sent an aircraft carrier task force over a lengthy and strenuous expedition of 8,000 sea miles, winning back the Malvinas.

In the meantime, the dollar began to strengthen, and international capital returned to the United States in accordance with the US wishes. When the Falklands War broke out, global investors drew immediate conclusions: Latin America was in a regional crisis and there was a deterioration of the investment climate in Latin America. One after the other, investors went to divest from Latin America. The Federal Reserve saw the moment and immediately announced an increase in interest rates. After the rates rose, disinvestment from Latin America gained momentum. Latin America's economy was in ruins. The withdrawal of capital from Latin America almost all went to the United States in pursuit of the three markets (the bond, futures, and stock markets) in the US, and this brought the US the first big bull market after the dollar-gold decoupling. The dollar exchange rate had grown by 60 points then in one leap rose over 120 points, an increase of 100%. The three American markets did not keep this money there but seized the opportunity to earn more by going back to Latin America, this time to buy high-quality assets whose prices had dropped to the floor, thus savagely fleecing again Latin American economies. This was the situation after the first dollar strengthening.

If similar things happened only once, then it would be a rare occurrence; if they occur repeatedly, then it must be the rule. At the time of the first cycle—"10 years of weak dollar, six years of strong dollar"—people were not sure whether it was the rule. After the peak of the financial crisis in Latin America, the dollar exchange rate began to fall again starting in 1986. After that there was the Japanese financial crisis and the European currency crisis, but the dollar exchange rate was still low. Some 10 years later, in 1997, the dollar strengthened again. The strong dollar this time also lasted six years. This is very interesting, we can see that the dollar exchange rate showed more or less the same pattern: 10 years weak, six years strong, and then again 10 years weak, six years strong.

After 1986, the dollar exchange rate began to weaken for the second time, then after 10 years, the dollar came back like a flood, spilling all over the world. The main flood zone this time was in Asia. In 1980s what idea was hottest? The "four Asian Tigers," "the Asian Geese," and so on. Many people believed that Asia's prosperity came through the hard work, intelligence, and the business acumen of the Asians. In fact, a big reason was because Asian countries received enough dollars for ample investments. When the Asian economies were roughly prosperous, the Americans felt it was time to reap the harvest. Then, after 1997, when the dollar exchange rate had been low for a full 10 years, by reducing the money supply to Asia, Americans brought back a strong dollar reversal. Most Asian countries, enterprises, and industries suffered liquidity shortages, and some even simply broke the chain of capital financing, and so came the signs of the Asian economic and the financial crisis.

This time the water in the pot was already 99 degrees, only 1 degree short of boiling, and then with the other degree the regional crisis would break out. It is not necessarily a war like that of Argentines. To create a regional crisis, war is not the only way. Since the goal is to squeeze out the capital, even without a fight one can create regional crisis. Then we saw that financial speculators like Soros, with his Quantum Fund, and hundreds of the world's hedge funds, like a pack of wolves begin to attack the weakest economies of countries in Asia, such as Thailand, attacking the Thai currency the baht. A week or so after the baht crisis began, there was a chain reaction, all the way south, gradually moving to Malaysia, Singapore, Indonesia, and the Philippines, then north to China, Taiwan, Hong Kong, Japan, South Korea, and all the way up to Russia—the East Asian financial crisis broke out. This time the water was boiling. Global investors concluded that the investment environment in Asia had deteriorated and withdrew their capital from Asia. The Fed once again seized the opportunity to sound the trumpet for interest-rate hikes. Following the withdrawal order from Asia to the US, capital once again sought the three major US markets and brought the second great bull market to the United States. When Americans saved enough money, as they had done in Latin America, they came back to Asia to buy quality assets in Asia at floor price. This time the Asian economies had been totally smashed, with no strength to fight back. This time China was the only lucky one.

3. Now it’s China's turn

Thereafter, timely and accurate as tides, after six years of being strong, the dollar exchange rate in 2002 it began to weaken again, and then again 10 years, in 2012, the Americans began to prepare to make the strong dollar weak again. The method was still the same old one: to create regional crises for others. We have seen the Cheonan incident ; in neighboring China, the Diaoyu/Senkaku Islands dispute , and the Huangyan Island/Scarborough Shoal dispute . Almost all took place within a very short period. But very unfortunately, the United States in 2008, playing with fire in its own home, was first hit by the financial crisis. This resulted in a delay in the strengthening of the US dollar exchange rate. It seems that the Sino-Philippine dispute on the Huangyan and the Sino-Japanese on the Diaoyu Islands did not much impact the US dollar exchange rate, but does it really matter? Why did these incidents occur just at the beginning of the third 10-year period of weak dollar? Few people have been explored this issue, but it is really worth considering.

If we admit that from the 1971 dollar-gold decoupling there has been a dollar exchange rate cycle, and according to the cycle, the Americans take the opportunity to strain the economies of other countries, then we can conclude that, now it is China's turn. Why do we say so? Because now China has become a global attraction for receiving investments and a large quantity of international capital arrives in China from those optimistic about its economy. From the perspective of economic laws, it is not just China as a country. An economy the size of China's is equivalent to the whole of Latin America, even bigger than the total economic output of Latin America; and if we compare it with East Asian economies then we can say that China's economy is equivalent to the whole rest of East Asia. Moreover, in the past decade, a lot of capital came into China, making China's economy to grow at a mouthwatering speed and becoming the world's second largest. If this is so, it is not strange that the United States aims to target China for its third straining.

If the assessment is true, then, from 2012, since the Sino-Japanese Diaoyu Islands dispute and the Sino-Philippines Huangyan Island dispute, China's neighborhood disputes came one after the other, until last year’s Sino-Vietnamese clash over the "981" rig and then later the “Occupy Central” Hong Kong movement. Can the occurrence of all these events still be seen as accidental? Last year in May, when I accompanied General Liu Yazhou, political commissar of the National Defense University, to Hong Kong for a study visit, the “Occupy Central” movement was already brewing and would possibly start at the end of May. But by the end of May it did not begin, nor by the end of June or July or August. What was the reason? What was this brewing movement waiting for? Let's compare the timetable of another event: Fed QE (quantitative easing) exit timetable. Early last year, the United States said it would withdraw QE, but come April, May, June, July, and August, still it did not end it. If the US did not end QE, then they were still issuing many dollars and dollar cannot be strong, so Hong Kong's "Occupy Central" movement did not start. The timetables of both events completely overlap. At the end of September last year, the Fed finally announced the US withdrawal from the QE, and the dollar exchange rate began to turn strong in early October—and then the Hong Kong "Occupy Central" movement broke out. In fact, the Diaoyu Islands, the Philippines Huangyan Island, the 981 drilling rig, and Hong Kong "Occupy Central" movement are four explosive situations. If any of these four blows up, they would lead to a regional financial crisis, which would mean that the region surrounding China is no longer good for investment. This would fully satisfy the basic condition of the dollar revenue model: "when the dollar exchange rate becomes stronger, other areas must appear as in regional crisis; this deterioration of the investment environment in the region forces a large number of investors to withdraw capital.” But unfortunately for Americans, this time it they had to deal with Chinese as opponents. The Chinese people used the taijiquan method to solve one by one the crises in the neighborhood. The result up to the present is that what the Americans hoped for—that 99 degree hot water goes up an extra degree—has failed to occur; the water is not boiling.

If the water does not boil, the Fed has to hold on raising interest rates. It seems the United States understands it is not so easy to shear China's wool, but it has no intention of just waiting around. At the same time as promoting the "Occupy Central" movement in Hong Kong, the United States multi-pronged approach was starting to move in other areas. Where? Ukraine, where the EU meets with Russia. Ukraine, under the leadership of Viktor Yanukoviych, of course was not a perfect egg, so flies could fill it with maggots. But the United States was eyeing Ukraine not just because it was a rotten egg, but because it was good at fighting Yanukovych, a disobedient politician, and also blocking the EU and Russia from getting closer. This could also cause a worsening of the European investment environment—the ideal objective of killing three birds with one stone. Thus, a Ukrainian seemingly spontaneous popular "color revolution" broke out, and the goal of the Americans was achieved beyond the expectations of Americans or anyone on Earth: Russian strongman Vladimir Putin, taking advantage of the opportunity, recovered Crimea. Although the move was not in the American plan, it gave Americans a reason to put pressure on the European Union as well as Japan, forcing them to join the United States in sanctions against Russia, bringing great pressure to the Russian but also to the European economy.

Why did Americans have to do it? Often one looks at issue from a geopolitical perspective, rather than from the perspective of capital. After the crisis in Ukraine, Russia’s relations with Europe and America deteriorated rapidly, but Western sanctions against Russia created a deterioration of the investment environment in Europe, leading to the withdrawal of capital. According to statistics, over a trillion dollars of capital left Europe. America’s two-pronged design was successful. That is, if you cannot get capital to withdraw from China in pursuit of the United States, then at least you can cause European capital to go to the US. This was the first step to achieve a dramatic change in the situation in Ukraine, but the second step, did not go as the United States wished. The capital withdrawn from Europe did not go to the United States, according to data—most of it went to Hong Kong. This means that global investors are still not optimistic about the US economic recovery. Although its economic growth is slowing down, they still are looking to the country with the fastest growth rate: China.

This is the first point. The second is that the Chinese government announced last year it wants to have the "Shanghai and Hong Kong markets communication” so global investors are eagerly hoping to make some money through the "Shanghai and Hong Kong communication.” Western capital in the past did not dare to enter the Chinese stock market. A very important reason was China's strict foreign exchange controls, with strict exits—you are free to come in, but you cannot easily go out—so investors are generally afraid to invest in China's stock market. Since the "Shanghai and Hong Kong communication,” they can easily through Hong Kong invest in the Shanghai stock market, and they can just leave after they make money. Over a trillion dollars are now stuck in Hong Kong and have been since last September, which is the beginning of the "Occupy Central" movement. This is why the forces behind the "Occupy Central" movement have always refused to give up and always wanted a comeback—Americans need to create a regional crisis aimed at China, so the capital stuck in Hong Kong will be withdrawn from China in favor of the American economy.

Why does the US economy need and so strongly depend on international capital flows? The reason is that after the August 15, 1971 dollar-gold decoupling, the US economy gradually gave up on physical production and left the real economy. Americans consider the real economy—low-end manufacturing, low-value-added industries—as garbage industries or call them "sunset industries," and gradually transferred them to developing countries, especially to China. Furthermore, aside from the so-called high-tech industries such as IBM, Microsoft, and other companies, America has gradually turned about 70% of jobs to finance and financial services. Now, the United States has become industrially empty and does not have much of a real economy that can bring large profits to global investors. In this case, the Americans have to open another door, that of the virtual economy. Virtual economy is its three markets. As long as the international financial capital gets into the pond of its three markets, it makes money for America's own money. Then, it uses the money earned to fleece the world, and now this is the only way Americans can live. Or we call it the American way of life. The approach is that the United States requires the return of a lot of capital to support the daily lives of Americans and the US economy. Those blocking capital returns to the US are the enemy of the United States. We must understand this to think about it clearly.

Second, whose cheese was moved by the rapid rise of China?

1. Why the birth of the euro provoked a war?

On January 1, 1999, the euro was born. Three months later, the Kosovo war broke out. Many people thought that the war in Kosovo came about because the United States and NATO joined forces to fight the Milosevic regime, which had massacred ethnic Albanians in Kosovo, creating an appalling humanitarian disaster. After the war, the lie quickly burst, and Americans admitted that this was a move played jointly by the CIA and the Western media with the goal of hitting the Yugoslavian government. However, was the war in Kosovo really against Yugoslavia? Europeans overwhelmingly believe it was for this purpose, but after 72 days of war, the Europeans found themselves fooled, and why?

With the launch of the euro, the Europeans were very confident. They set the euro-dollar rate 1: 1.07.

After the outbreak of the Kosovo war, the Europeans were fully involved in the NATO action, in support the US attack on Kosovo. After 72 days of bombing, the Milosevic regime collapsed and Yugoslavia yielded. But then after all of this, the Europeans found the accounts did not match. In these 70 days of the war, the euro actually was crippled. When the war ended, the euro plummeted 30 percent, to $0.82 to one euro. Europeans suddenly realized they were sold out, and they were still counting the money for other people. The Europeans began to wake up. That is why later when the United States fought in Iraq, France and Germany—the two EU powers—firmly opposed the war.

Some say that Western democracies do not fight among each other. So far, after World War II, there has been no direct war between Western countries, but this does not mean there is no economic or financial war between them. The Kosovo war was the Americans' indirect financial war with the euro, the fight was with Yugoslavia but pain was felt by the euro. That is because the birth of the euro moved the dollar's cheese. Before the birth of the euro, the world currency was the US dollar, and the dollar was used for about 80% of global settlements—even now it is around 60%. The emergence of the euro immediately cut away a chunk of US cheese. The EU is a $27 trillion economy, and its appearance suddenly overshadowed the world's largest economy, the North American Free Trade Area ($24–25 trillion dollars). As a large economy, the European Union certainly could not be happy with the dollar settling its internal trade, so the Europeans decided to launch their own currency, the euro. The emergence of the euro cut away about a third of the dollar settlements, and now 23% of world trade settlement uses the euro instead of the dollar. Americans were vigilant enough when the Europeans started talking about the euro, but later when they discovered that the appearance of the euro was a challenge to the primacy of the dollar, it was a little too late. Therefore, the US learned a lesson, and on one hand it presses down the EU and the euro, on the other hand it must press down other challengers.

2. What does America want to balance with the "Asia-Pacific strategic rebalancing"?

The rise of China makes us the new challenger. The 2012 Diaoyu Islands dispute and the Huangyan Island dispute are the latest attempt to suppress the American challenger's success. Both occurred in China's neighboring geopolitical areas, and although they failed to cause large capital outflows from China, they at least partially met American goals and created two problems. In early 2012, China-Japan-Korea negotiations on a trilateral Northeast Asian FTA were close to success; in April, China and Japan had a preliminary agreement on Japanese currency and bond swaps. But this time, the Diaoyu Islands dispute and the Huangyan Island dispute appeared one after another, and all of a sudden the Northeast Asian FTA negotiations and the Japanese currency swaps went up in the wind. After a few years, we have barely completed bilateral negotiations on a China-South Korea FTA, which has little significance, since it is quite different from the Northeast Asian FTA. Why is that? Because once China-Japan-Korea FTA negotiations succeed, it will include China, Japan, Korea, Hong Kong, Macao, and Taiwan. A Northeast Asian FTA would mean the third-largest economy would appear, a world-scale giant of about 20 trillion dollars. Then, once the Northeast Asian FTA was in place, it would not stop but would quickly move south to integrate the Southeast Asia free-trade area and form a free-trade area in East Asia generating over 30 trillion dollars. It would be the world's first economy bigger than that of the EU and North America. Then we could continue to speculate that a free trade-zone in East Asia still would not stop. It could bring in India in the southwest, then move north to integrate the five Central Asian republics, and then go west to integrate the Middle East—so that the entire Asian FTA would have a scale of over 50 trillion US dollars, more than the EU and North America put together. If such a large free-trade zone were to appear, would it be willing to use the euro or the US dollar for clearing its internal trade? Of course not. This means that an Asian dollar might be born.

But I think, if an Asian FTA is to come about, we can only promote the internationalization of the RMB and allow the yuan to become Asia's dominant currency, like the dollar became the hard currency in North America and then for the flow of goods around the world. The meaning of RMB internationalization goes far beyond what we say about the RMB: to go out and play a role in the "one belt, one road" policy and so on. It would split the world with the US dollar, and the euro. Chinese people can see it, will the Americans not see this? When Americans announced a rebalancing east, they pushed Japan on the Diaoyu Islands and wrangled with China to back the Philippines in the Huangyan Islands confrontation. If we think short-sightedly then the Diaoyu Islands dispute was started after the Japanese right-wing “bought the island” and the dispute with the Philippines started when Philippine President Corazon Aquino got carried away trying to stir trouble with China. But what we don’t see is American foresight in preventing the RMB from becoming a challenger the dollar. The Americans knew very well what they were doing because they knew they must not let such a thing happen again . If the Northeast Asian FTA were formed, it would have a ripple effect dividing the world in three. If only a third of the global money is in the hands of the dollar, how can the US currency maintain its leadership? Could a hollowed out United States, left without monetary leadership, still be a global leader? If we want to understand this point, we should see why behind all of China's recent troubles there is the shadow of the United States. This is because the United States has to think more long-term than us, see things more deeply to prevent China's "peril" in the first place, and thus always give us trouble. This is the fundamental reason the US implemented its Asia-Pacific rebalancing strategy. What do you want to balance exactly? It is really to try to balance China and Japan, China and the Philippines, or China and other countries? Of course not, the goal is to balance out the momentum of China’s rising power today.

Third, the secret that American soldiers fight for the US dollar

1. The Iraq War and the currency used in accounting oil deals

Everybody says the power of America rests on three pillars: money, technology, and military. In fact, today we can see that the real pillars of the US are monetary and military, and supporting the currency is the United States military. Wars all over the world burn money, but the US military goes on fighting despite it. But it can burn money on one hand and earn money for the US on the other hand, which other countries cannot do. Only the United States can gain a great deal through war, although the United States also has lost some hands.

Why did the Americans fight in Iraq? Most people have in mind just one word: oil. Did Americans really go to war for oil? Definitely not. If Americans went to war for oil, then why didn't the Americans take a single barrel of oil from Iraq after the victory? Moreover, oil prices went from $38 a barrel before the war, to $149 a barrel after the war. The American people did not get low oil prices because of the US occupation of Iraq. Therefore, the US war in Iraq is not about oil, but the dollar.

Why, you say? The reason is very simple. Because in order to control the world, the United States needs the world to use dollars. In order to let the world use dollars, the Americans made a very clever move in 1973: they linked the dollar and oil by forcing the leading OPEC country, Saudi Arabia, to conduct its global oil transactions in dollars. If you understand that global oil transactions are in US dollars, you can understand why the Americans fight for oil. A direct consequence of war in the oil-producing countries is the surge in oil prices, and a surge in oil prices means that the demand for dollars increases. Before the war, for example, if you had $38, in theory, you can buy a barrel of oil from an oil company. With the war, oil prices have more than quadrupled, reaching $149. So, $38 is only enough to buy a quarter of a barrel of oil, and for the remaining 3/4 of the barrel you are short more than 100 dollars. What to do then? You can only go to the Americans with your own products and resources and hand them out in return for American dollars. And then the US government can confidently, openly, and justifiably print dollars. It is through war—war against the oil-producing countries creating high oil prices—that the US creates a high demand for dollars.

The American war in Iraq had more than just one goal. It was also about maintaining the dollar leadership. Why then did George W. Bush insist on war in Iraq? Now we can very clearly that Saddam did not support terrorism or al-Qaeda, nor did he weapons of mass destruction—why was Saddam finally brought to the gallows? Because Saddam thought himself smart, and played with fire with superpowers. At the official launch of the euro in 1999, Saddam Hussein seized the opportunity to play with fire between the dollar and the euro—the United States and the European Union—and he could not wait to announce that the Iraqi oil transactions would occur in euros. This is what angered the Americans, in particular, it produced a chain reaction. Russian President Vladimir Putin, Iranian President Mahmoud Ahmadinejad, and Venezuelan President Hugo Chavez, also announced the settlement of their country's oil exports would be in euros. Was this not a stab in American backs? Some people think it is too far-fetched to say that after this war in Iraq was mandatory. Then please take a look at this: what did the Americans do after winning Iraq? Even before seizing Saddam, the Americans set up an Iraqi interim government whose first decree was to declare Iraqi oil exports would be accounted in dollars and not in euros. That's why Americans are fighting for dollars.

2. The Afghan war and US capital account surplus

Some might say that the war in Iraq to for fight US dollars is understandable, but in Afghanistan there is no oil, so the US war in Afghanistan could not have been fought for the dollar, right? Moreover, the war in Afghanistan came clearly after "9/11," when the United States wanted to retaliate against al-Qaeda and the Taliban for supporting al-Qaeda. But is that really true? The war in Afghanistan started over a month after "9/11"—it was kind of rush. After a while the US ran out of cruise missiles but the war still continued. The Pentagon could not but order open the stash of nuclear weapons, remove the 1,000 nuclear warheads from cruise missiles, and put in place conventional warheads, Then they lobbed 900 more missiles and only then beat down Afghanistan. This is obvious proof that preparation was very inadequate, and in that case, why did the Americans insist on rushing into battle?

Americans could not wait any longer. In the early 21st century, the United States was an industrially hollow country and needed about $700 billion every year in net inflows to survive. But within a month after "9.11," the investment climate in the US had badly deteriorated to a level of worries and anxiety never felt before. No matter how strong it is, if the United States could not look after its own security, how could it ensure investors' financial security? As a result, over $300 billion of hot money left the United States. This forced the United States to fight a war as soon as possible. The war was not only to punish the Taliban and al-Qaeda, but also to regain global investors' confidence. As the first cruise missiles exploded in Kabul, the Dow Jones rebounded 600 points in one day, the capital flowing out began to return to the US, and by the end, there was about $400 billion moving back to the US. Does this not prove that the war in Afghanistan was for the dollar and capital?

3. Why aircraft carriers gave way to rapid global strike systems

Many people have great expectations about China's own aircraft carrier, because they have seen the history of aircraft carriers and eagerly look forward to China with its own. Then when we heard the whistle of the Liaoning, we rushed to catch the last train of a Chinese aircraft carrier. While the aircraft carrier remains today a sign of a big country, it is but a sign. Because the global economy is increasingly focused on financial technology, the role of aircraft carriers will gradually decline. The history of aircraft carriers is a product of its times. When the British Empire flourished, it promoted global trade, and it would sell its manufactured goods to the world, and then get resources in return. It needed a strong navy to ensure the smooth flow of sea lanes. Later the development of aircraft carriers was all to control the seas and to ensure the safety of sea lanes. It was the era of "logistics is king": to guarantee control of the flow of resources and products on the sea would guarantee control of the flow of global wealth. But the world today is in the era of "capital is king." Billions, hundreds of billions, or even trillions in capital flow from one place to another place within a few seconds with the tap of a few keys on the computer. Of course, the aircraft carrier sailing the oceans at the speed of logistics, but unable to keep up with the speed of capital, will not be able to control global capital.

Today, what are the alternatives? Can you keep up with the direction, volume, and speed of the flow of global capital supported by the Internet? Americans are developing a huge, rapid global combat system: using ballistic missiles and supersonic aircraft five times or ten times faster than a supersonic cruise missile, it can quickly hit any area of high concentration of capital. Now the US claims it can hit any part of the world within 28 minutes, so no matter where capital is concentrated, it can hit anywhere in the world. As long as the United States does not want a particular place to have capital, a missile can get there in 28 minutes. And when the missile goes down, capital can be still quietly and nicely withdrawn. This is the reason why a fast global combat system will replace the carriers. Of course, the aircraft carrier of the future will still have irreplaceable roles, such as the protection of maritime safety and of sea lanes, humanitarian missions, and so on, because the carrier is a very good offshore platform. But as a weapon to control future capital flows, it has far less speed than the global strike systems.

Fourth, the "Air and Sea Battle": A Gordian knot for the US

When Americans consider the use of military means to deal with the rise of China, they proposed a concept called the "air and sea battle." I think the "air and sea battle" remains intractable dilemma for the US. The "air and sea battle" against China was raised at the 2010 joint US Air Force and Navy summit. The strategy primarily reflects the fact that the US military today is weakening. US troops used to think that it could use air strikes and the Navy against China. Now the US finds neither the Air Force nor the Navy by themselves can gain advantages against China; a joint air-and-sea attack can provide a certain advantage over China. But though the US raised the idea a little more than four years ago, the Americans suddenly changed the name, now calling it a "concept of global common involvement and joint mobility."

In this joint concept of operations by air and sea, Americans believe that there will be no war between the two countries within the next ten years. After recent American studies on China's military development, they believe the US's existing capacity is not sufficient to offset some advantages the Chinese military has established, such as the ability to destroy space systems or attack aircraft carriers. The United States must then come up with ten years of development and a more advanced combat system to offset China's advantages. This means that Americans may schedule a war for ten years later. While war may still not happen in a decade, we must be prepared for it. If Chinese do not want a war in the next ten years, we need to put all of our affairs in order, including the preparation of the military and war.

Fifth, the strategic significance of "one belt, one road"

Let's look at the Americans' passion for sports: the first is basketball and the second is boxing. Boxing typically reflects strength in the style Americans advocate: go straight, strike, the KO (knockout) wins, and everything is clear. China, by contrast, likes blur and softness, and we do not look forward to knocking you out, but want to resolve and understand all your actions. Chinese people like to practice taiji, which is indeed a higher art than boxing.

"One belt, one road" reflects this idea. The history of the rise of all great powers concerns their globalization movement. This means that globalization is not a consistent process from antiquity to the present day, but each place—the Roman Empire, the Qin Empire—has its own globalization process. Each process of globalization was being pushed by the rising empire; every empire is associated with a period of globalization, with its heyday of globalization when it reached a peak. And globalization will also be limited by their strength, which is the maximum range that can be achieved by their vehicles—that is, it's the end point for each phase of globalization. Therefore, both the Roman and Qin Empire globalization, today only seem like a process of regionalization of imperial expansion. The real globalization of modern history came from the beginning of the great British Empire, which was the globalization of trade. After the United States took over the mantle of the British Empire, it carried on with the globalization of trade, while the truly American globalization was the globalization of dollars. This is the globalization that we are experiencing today. But I do not agree that today's Chinese strategy of "one belt, one road" is an integration into the global economic system. To say that the dollar will continue its globalization and integration is a misunderstanding. As a rising great power, "one belt, one road" is the initial stage of China globalization. As a big country, the process of rising must be about the plan for advancing globalization.

"One belt, one road" is by far the best strategy China can put forward. It is a hedge strategy against the eastward move of the US. Some people will question this, believing hedging should be in the same direction—how can you hedge by going in the opposite direction? Right, "one belt, one road" is China's hedge strategy of turning its back to the US eastward shift: You push in one direction; I go in the opposite direction. Didn’t you pressure me to it? I go west, neither to avoid you nor because I am afraid, but to very cleverly defuse the pressure you gave me on the east.

“One belt, one road" is not a strategy of two parallel lines, but there should be primary and secondary focuses. Given that China's sea power is still weak, the first choice of “one belt, one road" should be to compete on land, which means "the way (sea lanes)" should be a secondary attack direction and "the belt" should be the main direction. If "the belt" has become the main direction, it means that we must re-recognize the role of the Army. Some people say that the Chinese Field Army is invincible. If they mean it within the scope of Chinese territory, yes, the Chinese Army is invincible. Who would want to set foot on Chinese territory to fight large-scale battles? The problem is, does the Chinese army have expeditionary capabilities?

Last year I talked about this issue at the Global Times forum. I said that in choosing China as its rival, America chose the wrong opponent and the wrong direction. Because in the future, the real challenge to the United States is not China; it is the United States itself, and the United States will bury itself. Because it does not realize that a great era is ending, the United States will fall with time because financial capitalism has been brought to the highest stage. On the one hand, through the virtual economy, the United States has already eaten up all the profits of capitalism. On the other hand, through scientific and technological innovation—of which it is proudly is a world leader—the Internet, big data, and the cloud are pushed to the extreme will eventually bury in the United States, as the representatives of the most important opponent of financial capitalism. .

On last year's "double 11" , online shopping reached 50.7 billion yuan in a day for Alibaba's Taobao. Over the three days after the Thanksgiving holiday, US online and on-the-ground store sales had a total equivalent to 40.7 billion yuan, less than Alibaba sales in one day. And China was not even counting Netease, Tencent, Jingdong, or revenue from malls. This means that a new era has already arrived, while the American reaction is still slow. Alibaba deals were all made directly with Alipay. What does direct pay mean? It means that the currency is already out of the transaction stage, and the American leadership is built on the dollar. What is the dollar? It is a currency. In the future, when we no longer use money, traditional money settlement will become useless. When money becomes useless, will an empire built on money still exist? That is the question to be considered by the Americans.

3D printers also represent a future direction and will bring a fundamental changes in the mode of production in today's society. Because production is changing and trade is changing, the world is bound to change radically. But history has proven that real change can lead to changes in the social nature, which will be led by these two and no other factors. In China from the period of the late Qin Emperor, people began to rebel: Chen Sheng Wu Guang rose a revolution and uprisings occurred many times during 2,000 years of history. Rebellions, wars, revolutions—do they solve the problem? They do not solve the problem; they just bring a change of rulers, a low-level water circulation. These movements could not change the nature of the farming community, nor did they change the modes of production or the ways of trade. They could only bring a regime change. In the West too, Napoleon brought the glory of the French Revolution and led a new army baptized in the revolution across Europe, throwing down one crown after the other, but when he failed at Waterloo, Napoleon stepped down. All European kings were restored and immediately they returned to feudal society. The Industrial Revolution came when the British steam engine allowed humanity to greatly enhance its production and a large number of surplus products appeared. With the remaining products there was surplus value, and thus capital and capitalists. Capitalist society had arrived.

So today when capital may disappear with the disappearance of money and when production will also change with the emergence of 3D printer, mankind is about to enter a new social stage. This time China and the United States stand on the same starting line, the starting line of the Internet, big data, and cloud computing. We have to compare who is better at entering this era, rather than the vie for who will suppress whom. In this sense, I was saying that the United States picked the wrong opponent. The real opponent is the United States itself—or is this era. Precisely on this point, Americans appear amazingly slow. Because they are too eager to keep their leadership and never thought to share power with other countries, approaching this new social stage jointly still has many unknown areas and many uncertain barriers.(17 Luglio 2015)