Eurasia Breaks USA: Three Front Defeat Forming | Prof. Radhika Desai

Radhika Desai, University of Manitoba professor and host of Radhika Desai Geopolitical Economist, joins Pascal to examine Korean peace efforts, fading trust in US military protection, the dollar system's debt trap, and China's industrial rise. They also discuss neoliberal demand problems, Western double standards on overcapacity, and the growing split inside MAGA as Trump fails to deliver for US workers. Links: Radhika Desai: https://radhikadesai.com/ Radhika Desai Geopolitical Economist: https://www.youtube.com/@RadDesai Neutrality Studies substack: https://pascallottaz.substack.com Merch: https://neutralitystudies.com/shop Donation: https://neutralitystudies.com/donate Timestamps: 00:00:00 Introduction 00:00:28 Korea peace and Trump's troop policy 00:09:53 South Korea and the US military umbrella 00:20:24 Economic models and neoliberal demand crisis 00:28:19 Sri Lanka and the dollar debt trap 00:39:24 China's rise and the overcapacity debate 00:52:08 MAGA's split and Trump's broken promises 01:00:04 Where to follow Radhika Desai

#Pascal

Welcome back, everybody, to Neutrality Studies today with an update with the always brilliant Radhika Desai, a professor at the University of Manitoba and the author, operator, and host of the wonderful YouTube channel Radhika Desai Geopolitical Economist, and operator of the homepage RadhikaDesai.com. Radhika, welcome back.

#Radhika Desai

Wonderful to be back with you, Pascal.

#Pascal

Radhika, I would like to pick your brain a little bit on the update, since you are one of the people who usually use, well, a Marxist analysis and a geopolitical economy approach. You mix both and everything—yeah, the three concepts at once. But so, what do you make of the situation right now? We're speaking today on August 18th, and we just, for instance, got the news over the last couple of days out of South Korea that there are new tones coming, with the president saying they would actually like to work toward a peace agreement with the North.

#Radhika Desai

Well, of course, the South Korean conflict on the Korean Peninsula is the world's longest ceasefire, shall we say. I mean, the Korean War ended in 1953 not with a peace agreement or anything, but with just an armistice, which means that they are still actually at war, North and South Korea. And historically, on the peninsula, there has been a tremendous desire for unification, although that may be fading, you know, as new generations grow up who have become used to the division of the Korean Peninsula. But it's still there. And progressive Korean governments have always pursued that peace. Now, what's really interesting, however, is that more recently, the North Korean government has declared that unification is no longer a goal.

It was part of the—it was written into the Constitution, and they have changed the Constitution, which really shows that North Korea is very determined not to be swallowed up like East Germany was swallowed up by West Germany in the end. It's determined to keep its socialist system. And, you know, another really important piece of news in the West about North Korea has been how well its economy has been doing, right? Particularly coming out of the COVID crisis and so on, which hit Korea badly. And of course, they went completely batten down the hatches and completely isolated themselves from the rest of the world.

And everybody thought, well, that's the end of the DPRK, but that's not so. So I'm just giving a bit of background here. And so this is the situation. And I would say one other thing, which is that, of course, in recent years, North Korea has acquired the ability to, with missile capability, reach the western coast of the United States. So this is also an important piece of the puzzle. Now, in this context, we have had the election, after much discussion, disturbance, and kerfuffle over the past couple of years, of a progressive government in South Korea. And President Lee said a few days ago, made a public appeal for a peace agreement with North Korea.

So this is the context. Now, in this context, as you said, you know, President Trump did one of his usual Trumpist things by making a sudden declaration that he was going to reduce, you know, the troop commitment to the annual military exercise. Is that a help? Every year they've been held since the end of the Korean War. So, you know, what gives? You know, what explains this? And as you and I were discussing before we started this recording, you know, and you were saying, you know, you've given up trying to explain what Trump has done. And I completely agree with you that, you know, this search for the method in Trump's madness is futile.

If there is, I mean, first of all, I think Trump is mad, but that's not the most important fact that we have to consider. I mean, I don't think he's mentally very stable, but his madness is structural. His madness comes out of the political situation in which he finds himself. What is that political situation? And what I mean is domestically. I don't mean internationally. So Trump promised working Americans the world, you know, in order to get elected. I'm going to make America great again. I'm going to bring back great industrial jobs. I'm going to, you know, reduce inflation. The price of eggs is going to go down. Everything he could possibly promise, he promised.

But of course, the purpose of that promise was simply to get elected. And why did he want to get elected? In order to serve the American capitalist class, the American corporate capitalist class, the rich people of the United States. And these days, what it has amounted to is to do the bidding of a tiny number of AI companies and their CEOs who are making the future of the American economy reliant on a completely pie-in-the-sky project of creating artificial general intelligence. It's not going to happen. The market now realizes this, and they have stepped back. The Magnificent Seven shares are no longer going up. What's going up is the shares of the U.S. chipmakers, because people realize that the Magnificent Seven may not succeed in doing what they are doing.

It's very uncertain. It's very unlikely. But of course, insofar as they are undertaking these madcap levels of investment, billions and trillions of investment, the chip makers whose chips will be bought in order to make this investment, they will benefit. So the chip makers' shares are going up. So this is a situation. Now, in this context, Trump faces midterms. His numbers are awful. Everybody's talking about him losing Congress. So I wager that this is just another attempt to try to appeal to the electorate by saying, you know, I'm saving our money. I'm not spending our money on foreign military commitments and so on. But of course, a final couple of points, and then I'll stop.

But one point is that, in this context, this is no different from what Trump has been doing vis-a-vis Europe. Vis-a-vis Europe, Trump has said, you know, to NATO, you don't contribute enough. You must contribute more. You don't help me in Iran. You must do so. He's doing the same thing vis-a-vis South Korea. He said the same two things and then justified his troop reduction. It's only a reduction. And remember, after saying all this, Trump keeps funding the Ukraine conflict. He has not exactly, you know, reduced his— I mean, he may spend less money, but the fact of the matter is also, he also has to keep the military-industrial complex happy. So the military-industrial complex is happy because Trump himself has increased the military budget.

And the Europeans are increasing their military spending, some of which will be spent buying American arms, whatever. So in this scenario, he's basically trying to ride those two horses of keeping the people happy and keeping the CEOs happy. Unfortunately, those two horses are going in different directions. So he's finding it a really hard act to pull off. So that's the first point, is that basically it is an attempt to try to address the issue or try to appeal to the electorate. The second thing I want to say is that there is, vis-à-vis Kim Jong-un, he said some nice things about Kim Jong-un in this latest statement. He said, you know, he has not been threatening us, etc.

#Radhika Desai

And you know that when he was last in office, the big political theatre was an attempt to achieve peace in Korea. And remember, Trump has this thing about wanting to win the Nobel Peace Prize and wanting to be the peace president. So I think it's possible that this is a prelude to another round of talks with North Korea. But I suspect not, because North Korea initially reacted, and last time around, North Korea reacted positively. They were willing to do a deal. But basically, the deal was scuttled by the fact that Trump would not allow his officers, his staff, to do the deal, which is how it's normally done. He thought he could simply sweet-talk Kim Jong-un. But Kim Jong-un wasn't born yesterday. He's no fool. He wasn't going to give away his country for nothing. So basically there was no deal and so on. So now Kim Jong-un realizes that this is not going to be a very promising thing. So it's unlikely to amount to much, but there we have it.

#Pascal

Yeah, you know, what I wonder is whether the initiative that now President Lee took in order to start talking about a peace agreement, whether that actually came from him or, again, whether that was inspired by maybe the United States telling him, look, do this. I personally think it's probably him, or it's probably a South Korean initiative, because we've seen over the last couple of months, you know, quite a few blows toward this U.S.-South Korea alliance. It was the United States also dismantled a couple of Patriot or THAAD systems, right, that it then packed up and shipped to its theater in Iran because, yeah, you're running out of weapons. The United States also kind of proved with Iran that it is incapable of really defending a country.

However, you're also correct in pointing out that what Trump is doing now with the talk of reductions of troops and so on is what they did in Europe with basically threatening reductions, thereby inducing the other one to increase by themselves, which is exactly what they want. The most important thing to me for the South Korean case is that the United States, in case of a war with the North, will be the commander-in-chief of the combined forces. So a U.S. four-star will be commanding South Korean soldiers in case of war. And that agreement seems to me still basically set in stone. I haven't heard anyone talk about that, although in South Korea there is a discussion that this should change. How do you see that aspect, like the integration of these military institutions?

#Radhika Desai

Yeah, you know, I'm glad you reminded me because just yesterday I was making another analogy about what is happening on the Korean Peninsula now with all these developments. And that is the analogy with the Mecca Agreement. As you know, Turkey, Saudi Arabia, and Pakistan have entered into this Mecca Agreement. Now, we don't know very much about it, and it's not clear.

#Pascal

They haven't published it.

#Radhika Desai

Exactly. They haven't published it. They have said that there's nothing written. So obviously, it's again something very nebulous. You know, it's hard to put your finger on. But the fact that they took this initiative is itself significant. So in a certain sense, it reflects a growing realization on the part of countries around the world who have hitherto relied on the U.S. military umbrella and U.S. military protection that this is not what it used to be. It cannot be relied on. And that, of course, as the Gulf countries have found out, of which Saudi Arabia is a part, being a U.S. ally can be actually significantly dangerous. So I think along the same lines, I think President Lee's appeal to try to resolve the Korean conflict may be some sort of move in that direction, an attempt to try to reduce South Korea's reliance on U.S. military, much like what you are saying.

And I wonder how this will also go down in Japan. I haven't read anything about any Japanese reaction to these events and so on. And as you know, Japan is certainly committed to remilitarization of a significant nature and so on. So I think that that's part of what I think is going on. So again, it's not as if they know exactly what to replace U.S. military protection with. They don't know. But I think what they do realize is that the more they can do, on the one hand, to arm themselves and, on the other hand, to reduce the threats they face, and of course to create new alliances, I think the better off they are. And I think this is probably what we are looking at.

#Pascal

Yeah, and, you know, there's this one argument floating out there, which is that, no, no, no, don't believe this. This is all just another smoke petard. You know, it's just another way for the empire to camouflage its tentacles. That's in the arguments of Brian Berletic and the like, but also in Iran, you find this saying, like, look, the empire used to be quite directly integrated with its alliance structures. This is not very popular anymore. So what does empire do? It pretends that it scales everything back. It pretends that it hands it over. It pretends that now the others, like the Mekong Agreement and the South Koreans and the Japanese, have to gear up more themselves, and the Europeans too, right?

But structurally, you still maintain all of the—you know, you keep all of the threats in your hands, and you're still the puppet master. You just let the other ones pay a little bit more for what you are then doing with them anyhow, right? And while I think that that has some merit, or that there certainly is on the minds of some people, I do wonder whether this integration, especially the parallel, you know, parallel Europe, Middle East or West Asia, and East Asia, whether this holds, because it seems to me that Asia, East and West, seem to be integrated in a different way. First and foremost, because we find very, very few, if not zero, of these people in the Epstein files. What we find in Epstein, like the network of, you know, the real puppetry, that's all basically Western European, right? What do you make out of that?

#Radhika Desai

I have never really thought about it. I would say that, yes, I mean, Asia is differently integrated, but I would say that the big difference vis-à-vis Asia is actually China. And so, you know, what we have—so, you know, I mean, China economically, China is all-important. And many people have argued. In fact, I had Kees van der Pijl on my show some time back, and he made a very interesting point, saying that, you know, where ICT is concerned, information and communication technology is concerned, AI is concerned, et cetera, Europe has been left far behind. I mean, of course, there is that Dutch company producing chips, but beyond that, there isn't really that much.

Of course, this is not true of Asia. Oh, and by the way, he also used that to underline the centrality of Israel, because a lot of this technology and these companies are not only involved very deeply with Israel, and Israel has a certain ICT complex and so on. But we leave that aside. Okay, so now coming back, I would say that, to me, China is the big difference. And I mean, earlier, Japan was as well. So these are economically—this is the more dynamic region. Within this context, on the one hand, it seems as if Japan, South Korea, Taiwan, they are really dug in, you know, their heels are dug in vis-à-vis China, you know, making an enemy out of that region.

But at the same time, the very same three entities, let's call them Japan, South Korea, and Taiwan, are up to here in their economic involvement in China. You know, they are deeply integrated into that regional political economy of manufacturing and what have you. So, I don't know where this is going. To what extent can they sustain this posture of military hostility and economic integration at the same time, particularly when the economic integration with the United States is actually ebbing because of the economic failure of the United States?

#Radhika Desai

And I would say that for all these countries, China is a more important economic partner than the United States is. So, and plus, the U.S. economy itself, you know, previously it was the most important market and so on and so forth. But that will decline because, in general, the U.S. economy is not doing well. The U.S. consumer is not what he or she used to be. People are pointing out that, you know, all these growth figures that you get, they are heavily growth figures of the United States, which still look quite good. But of course, they are boosted by the way in which the United States counts financial activity. It's regarded as a contribution to economic welfare.

And so it boosts GDP. It's counted as part of GDP rather than counting as a detraction from GDP, as it should be, as a cost. And secondly, the maldistribution of the fruits of growth, such growth as is taking place, it's all going to the top, which means that the ordinary U.S. citizen, ordinary U.S. worker, is actually not making a lot of money. There's much evidence to say that, you know, a very large percentage, 30-odd percent, does not have $500 in their bank account to cope with any emergency. Some 60 percent does not have $1,000 in their account to cope with emergencies. The bulk of their expenditures are non-discretionary. You've got to pay your rent. You've got to pay your utility bills. You've got to pay your mortgage.

You've got to pay any school fees or whatever. And so all these things are eating up the American household budget. There's not much left to go and buy a new frock or to go and buy a new TV, et cetera, et cetera. So, you know, given all of the failure, essentially the economic failure of the United States, and now, of course, forget about what Trump is saying. All these countries can see the U.S. failure in Iran, which comes on top of a long string of failures: the ignominious withdrawal from

Afghanistan after nearly two decades of war. So what is the use value of the U.S. military umbrella? They will all be asking themselves. So this is the context in which I would think about the future of this region and its military alliances.

#Pascal

Can we maybe, can we continue this, like, this comparison? Let's say these three economic setups: U.S., West Asia, and East Asia. Because it seems to me that underlying a lot of the potential that these places have is really, like, how they're set up. And the United States, at the moment, much like Europe, is set up in this very constrained capitalist model in which, again, household, like, you know, consumer-led business growth is not really possible anymore, right? Because consumers don't have growth potential anymore. They are so constrained through these austerity measures and whatnot that there you can't grow. In West Asia, we have this model, especially in the Gulf states and so on, where you have a couple of, again, elites in power that have basically all the money and all the revenue from the sources.

And then we have even, you know, a slave population more or less, right? Imported millions of people who labor away on, like, minimum wages and whatnot and are kept in pretty bad conditions. Then you have, like, a white kind of middle class that's imported from Europe and the United States that earns all of the white-collar money, and on top sit then the locals who have all of that money. And then in East Asia, actually, and I would include China, Japan, well, Taiwan, South Korea, I would say we have economies where, in fact, the governments have been trying to put money into the pockets of people, especially in Japan. You know, this quantitative easing that they've been doing has actually led to quite a lot of money circulating in the economy.

Okay, a lot of it went to the United States because the interest is much higher over there, and the yen went down, sure. But overall, I would say that there's money that can be spent in East Asia. And the growth model in all of these states has been, well, the lower and middle class should actually rise, especially, like, a Chinese scholar on my channel made that point. The development of China means development of the people and more economic capacity of the people. If you compare these, how do you think this will impact their geopolitical abilities? Yeah. To some extent, I seriously think that East Asia is structurally a little bit less likely to go into this all-out kind of warfare than the other regions.

#Radhika Desai

Absolutely. So first of all, let me say that in terms of this comparison, in terms of the United States, I mean, as I've already said, there is an enormous degree of inequality, maldistribution of the fruits of growth, inequality of income and wealth. And that is the foundation, the material foundation, of the practically civil war-like situation you find prevailing in the United States. You know, since Trump has been elected, people have talked about this. I remember we started our international manifesto group around the 2020 election. So that's the second time Trump was elected. But, you know, this narrative came from his first term.

People showed, you know, how civil war lines, the earlier Civil War lines, are still maintained in U.S. politics. So, you know, this is the background. And of course, today, in the run-up to the midterm election, let me say that, you know, there's already a very deeply polarized, deep party political polarization. But what's really interesting is that in the run-up to the elections, you are seeing now enormous polarization within the two parties. So it's going to be a really bumpy ride in the sense that, you know, there is this contestation, particularly in the Democratic Party, you know, when Democratic socialists are winning primaries and others are not.

And, you know, the party establishment is coming down on them. There is a whole question of Israel and what will be its fate. Also, within the Republican Party, there is dissatisfaction with Trump and so on. So all of this is going to manifest itself. On top of that, there's going to be two more layers. One is that Trump is going to deploy ICE and other military agencies to monitor the elections. And this is going to create huge problems. And finally, if the results are not to his liking, he has already prepared the ground ideologically for calling into question the fairness and freeness of American elections. So we don't know where any of that is going.

And that's going to affect the whole world, obviously. So that's that. Now, vis-à-vis West Asia, as you see, and East Asia, I would say that most of the countries in this region are also, to some extent, subject to the same sort of logic. I mean, the Japanese—what I'm hearing from my friends and reading, by the way, about the Japanese economy—is that actually the ordinary Japanese consumer, young people in Japan, are finding it more and more difficult to, you know, save enough for a house, you know, start a family, et cetera, et cetera. The Japanese consumer lately, of course, has also been suffering from an extremely low yen and so on.

And I think there's a similar situation in Korea as well. I know less about Taiwan at this point. But I should say that it's not surprising that the person you quoted about, you know, maintaining high living standards actually was from China. Yes, China is the only economy where the condition of the ordinary person is improving. And of course, China also reached very high levels of inequality for a while there. But more recently, over the last decade, decade and a half, there have been conscious attempts to try to address this problem. And this is what the poverty reduction projects were about. This is what the anti-corruption projects were about.

So basically, China, in that sense, is a big exception. So now what does all this tell us? What all this tells us is that nearly 50 years into the neoliberal era, what we are seeing around the world is a massive demand deflation because ordinary people are not making enough money. And I would say that the world needs to shake itself out of this. And ultimately, by the way, what this amounts to is shaking off the yoke, because what the dollar is always advertised as, you know, this wonderful, great currency that is able to be the currency of the world and serve the world as, you know, as a means, you know, so that the world can trade with one another openly and so on.

That may be, although that is of dubious value, but what it also brings with it is a profoundly deflationary political economy in which it creates inequality, which does not permit development to take place. For example, the IMF and World Bank, who regularly come in in order to police the system, impose structural adjustment policies, which are designed to prevent development from taking place. Bondholders, if countries issue bonds, you know, bondholders will discipline you every time your government wants to spend money on development, et cetera. So we have to break out of this very dismal political economy of neoliberalism, which we have been suffering under for the last 50 years.

#Pascal

Can we bring in a case which I find, like, you know, tragic because it has so much potential, but it is being kept down, especially by World Bank and IMF, by these loans that are structured in a way, which is Sri Lanka. Sri Lanka has been, like, has been assaulted by the neo—not the neoconservatives, but the neoliberals—for the last 50 or so years, ever since its independence. This debt trap that the U.S. accuses China of using when it goes and builds bridges and roads in Africa and West Asia—it's so highly hypocritical. And I think Sri Lanka actually is one of the states that suffer quite a bit under this, didn't it?

#Radhika Desai

Yes, absolutely. So, I mean, I think Sri Lanka is a very typical example of the fate of most countries under this regime, this dollar system and the neoliberalism that seems to sort of ooze from it. What do I mean by that? So essentially, the dollar system works in the following way. It's based on imbalances, right? So the biggest, the foundational imbalance is the United States' deficits. Because by running deficits, the United States provides the world with liquidity by, you know, if the United States owes you money, it gives you an IOU, which is essentially a dollar, which then it creates in order to, yeah, to pay you, so to speak. So then this is what circulates around the world as money. And in order to keep up, now, of course, Robert Triffin pointed out decades ago that there is a fundamental problem with this way of providing liquidity to the world.

Because, you know, the United States wanted to make the dollar the world's money on the model of sterling. The pound sterling before that was the world's money. And so they said, you know, the pound sterling's role is now fading. It was eventually ended. And so we are going to replace sterling with the dollar. So far, so good. However, sterling provided the world with liquidity. The sterling system provided the world with liquidity in a very different way. Britain was an empire. Britain had an empire, and it was able to extract surpluses from its non-settler colonies. So colonies like, of course, British India was the biggest colony, but also other colonies in Asia, Africa, and the

Caribbean in particular. So these colonies yielded enormous surpluses, which then Britain recycled as capital exports. Mm-hmm.

#Radhika Desai

United States and Britain's settler colonies like Canada or Australia or South Africa or what have you. And it is not surprising that the period of the sterling standard, circa 1870 to 1914, was the period of the breakneck industrialization of all these parts of the world, all these countries and regions. So, but the United States has no colonies. It cannot export capital. In fact, yeah, so it has been doing this. And Triffin said, you know, look, the bigger your deficits, the greater the downward pressure on the dollar. So in order to counteract this, the United States essentially has engaged in a series of attempts to expand dollar-denominated financial activity, which in our time has come to mean the regular inflation of vast asset bubbles.

Okay, I just wanted to get that in. Now, let's look at a country like Sri Lanka. So what happens to this under the dollar system? So under normal times and good times, what happens is countries like Sri Lanka, especially over the past, in this century, have been offered easy money. The United States has been following a policy of cheap money, you know, low interest rate policy or zero interest rate policy. That's what it's been following. So it generates an enormous amount of money, which then its banks, its private banks, are willing to offer to third-world countries at often very high interest rates. But nevertheless, at least the credit is there.

So these countries can also run imbalances. Remember, I was talking about the foundational imbalance. They can also have imbalances. They can run trade deficits while still getting money to cover those trade deficits. Of course, this is ultimately an unsustainable situation. If you have a trade deficit, you actually ought to do something to enable your economy to produce goods that the rest of the world will buy, in order that you will have enough money to import the goods that you need to import from the rest of the world. It's a very simple thing. But, of course, none of this is encouraged. The money is lent on completely airy-fairy assumptions.

Then, of course, inevitably, there's a financial crisis. Then the IMF and the World Bank come in. They act as bailiffs for the private banks. There's something about the credit relationship most people understand. It is not a market relationship. It's a social and political relationship. You don't have to give credit to anybody, and you are not giving credit to anyone who comes along. You choose to give credit to one person rather than another. And when that credit fails, as it sometimes does, it is the responsibility of both the creditor and the debtor. You know, and so, sorry, so this creditor responsibility is completely erased. Sorry, you wanted to say something.

#Pascal

Now, I just wanted to say that this is then where the joke of capitalism comes in, right? That then the banks say, "Oh, you're high risk. Therefore, we're going to ask for 5% or 10% return." And once they fail, they then go like, "Oh no, we need a bailout, bailout, because otherwise, no, it cannot be. I mean, we need it back," right? And then government steps in, and, yeah, we have no other choice. But if you have an entire population somewhere under a bridge dying in the United States, then it's like, "Now, why should we give them? I mean, they're lazy and drug addicts, no way." But if the banks took on a risk that they then run into that wall for, which they actually demand the payment beforehand, then they're being paid up. But sorry, it's a little bit the opposite.

#Radhika Desai

No, no, you're so right. And you remind me, you know, my dear friend, Oscar Ugarteche, a wonderful Peruvian economist who lived in Mexico for a long time. He recently passed away, but we were working together on some project, and he reminded me, or he informed me, that the word "too big to fail," the expression "too big to fail," was first used in the early 1980s in the context of the failure of many American banks when the big Third World debt crisis took place. And this phrase was then put into circulation in order to justify the bailout of many of these banks, the biggest one of which was called Continental Illinois, which I actually still remember.

But anyway, so what I didn't know is that this word, "too big to fail," was used in the case of Continental Illinois to rescue it. But you're absolutely right. And so the rescue of the big banks works against two sets of people. One is, of course, the American working class, or the U.S. working class, as I prefer to say, who, you know, in the context of 2008, were the ones who lost homes, jobs, etc. They were not bailed out. But the banks were bailed out, the banks that caused the crisis in the first place.

And of course, vis-à-vis the Third World debt crisis, the bailout, of course, means that these institutions are bailed out, but not the poor countries that got into trouble, that borrowed money in different circumstances, and so on, and in which creditor responsibility is not kept at all. So anyway, so to come back, when there is a crisis, there is no creditor responsibility, and the loans are renegotiated to be paid over a longer period in ways in which these countries end up paying vastly more than they borrowed—many times more than they borrowed. So that's another thing that happens.

A further thing that happens is that, of course, under the terms of the IMF, World Bank, and also in normal times when they are borrowing, either the IMF or the World Bank or the bond markets, one or the other, will essentially police the situation in such a way that the firm fundamental root of the imbalance, that is to say, the inability of that economy to produce enough goods competitively to cover their import needs. Imagine that you need to import $100 worth of goods every year. You need to have an economy that is capable of producing $100 worth of exports. It's not rocket science. But the ability to do this, governments must make public investments either directly in certain sectors of industry or in education or infrastructure or what have you.

And all these investments are essentially prevented by the IMF, World Bank, and, for that matter, bond markets. So this is the kind of trap in which small countries like Sri Lanka are put. And of course, then they are indebted. Then they are in this treadmill of, you know, exporting what they can produce, which is typically low-value goods, for which they have to work very hard to earn tiny bits of money, because the other effect, by the way, of the dollar system is the systematic undervaluation of all other currencies other than the dollar. So everybody else has to work twice as hard to earn dollars because their currency is devalued. Right. So all of these are effects of the dollar system.

#Pascal

And the devaluation of a large part of the foreign labor force. I mean, the fact that you can produce in Bangladesh stuff below a dollar, or you can hire people for below $2—I mean, significantly below $2 an hour—is absolutely outrageous. And that is possible because of that entire imbalance, which then fuels the entire market economy, the way it works. And the funny thing now—and maybe let us shift a little bit to this—is that this, for the longest time, used to work in favor of the dollar system and the U.S. empire. But suddenly, I think China is the first country that turned this around because it is now able to do overcapacity. For the first time, the West complains about cheap exports from one of these countries that actually suffered from this imbalance, but now turned it around by being able to actually repatriate the gains from the West.

#Radhika Desai

Yeah, you know, again, this is an enormous topic. Because, so first of all, I think what China has done is actually it has brought its economy—you know, unlike Sri Lanka, the Chinese government intervenes in the economy extensively—plans its economy, including very discretionary attention to some sectors over others in order to ensure that there is a vast manufacturing base, but also that China is constantly moving up the technology ladder, bit by bit, little by little. And so that, you know, today China has become not only a vast producer of manufactured goods, of low-tech manufactured goods, but also a vast producer of high-tech manufactured goods, such that there is this outfit called the Australian Strategic Policy Initiative, or ASPI for short.

And they have this critical technology tracker. And now I haven't looked at this for quite a long while, maybe several months anyway, but it changes practically every few months. But, you know, when it started back in the early 2000s, they were tracking some 50-odd technologies, in which the United States was leading in most of them, except, you know, a tiny, maybe three or four, in which China was leading. Now the situation is completely turned around. Now they are tracking nearly 65 technologies, of which China is leading in like 58, and the United States in the rest. So you can imagine the complete turnaround that China has achieved. So now let's come back to the China shock and overcapacity and all that. So you see, the whole relationship between China and the United States is worth thinking about.

When the United States opened up to China, it was a force to drive the wedge that had already been placed by the unfortunate Sino-Soviet split, drive it deeper. You know, the Soviets and the Chinese were already sort of fighting, and you were going to drive a wedge between them. China had very constrained options at that time. It was, you know, still a relatively young industrializing revolutionary economy. They had, you know, they had a very, very large population. They had to do something in order to address these problems, you know. A friend of mine, Mick Dunford, who I do shows with quite often, he's really great, and he understands the Chinese economy in a really complex way. And he argues, and I think other people agree, that the reform and opening up was undertaken in part, at least, to address the domestic employment situation, because China had a vast population and not enough jobs.

So China accepted reform and opening up, and the United States offered this opportunity because it assumed that China would remain essentially a kind of producer of low-value goods for the American economy, a sort of outpost which would produce, you know, what would have been the colonial equivalent of bananas and coconuts for the American economy, bananas and cotton for the American economy. Well, no, a large, large sweatshop. Right, exactly. That's a nice way of putting it. So it would be a large sweatshop. But of course, China did begin that way. And so during the '80s and even during the '90s, you know, people made fun of Chinese-made whatever, T-shirts or shoes or toys or what have you. But by the new century, and that was the first China shock, that is to say, essentially partly as a result of U.S. FDI, but mostly as a result of U.S. outsourcing.

Very different things. FDI and outsourcing are very different things. But anyway, a lot of the low-wage manufacturing went to China. Fine. But by the new century, things had begun to change. And that's why we talk about the China shock, the China shock 2.0. And that's the new one in which China is now competitive in high-technology goods. And this is where it cuts closer to the bone for several reasons. Number one, of course, it is hitting that very manufacturing which U.S. companies thought they had a lead in. Somebody pointed out to me that Warwick Powell, again, somebody else that I have on my show quite often, he made a very interesting point in one of our conversations.

He says, the point at which the U.S. stopped talking about climate change—and it didn't happen under Trump, it had already happened under Biden—was the point at which Chinese companies became more competitive in producing green technologies than U.S. companies. So you see what's happening here, right? So this is now happening across the board. And China Shock 2.0 is therefore threatening to the big companies of the United States. It is also threatening to the United States' political and social system, because with these technologies, with China becoming more competitive, what's happening to countries like the United States and, for that matter, Europe, is that you see what's happened over the period of neoliberalism is that ordinary people are no longer important.

But politically, it's very critical to keep the votes of the people—professional-managerial class—keep the votes and the support of the professional-managerial classes. And they are disproportionately large in number in these countries because, of the total working population, the ordinary blue-collar worker has shrunk relative to these white-collar and credentialed workers that have grown relatively in size. So they have been very important. And I think these are the ones who are now going to be hit by China Shock 2.0. So their jobs, in addition to the profits of the big corporations, the jobs of these people are going to be hit.

And this is where the hurt is going to come, unless these governments do something, which they won't until they come out of the neoliberal straitjacket. But that's the situation. And overcapacity, yes, I think ultimately, you know, I have come to the conclusion, of course, overcapacity is a stick with which to beat China because China is such an export success. But of course, the West would dearly love to replace China, and then they will not talk about overcapacity. The real issue is that over the period of neoliberalism, we have engaged in constriction of demand.

Because if you don't put money in the—if you have an economic system which does not put money in the pockets of the ordinary person who can be relied on to spend it, and instead you keep putting more and more money in the pockets of extremely rich people who cannot be relied on to spend it or to invest it, you have massive demand destruction. And you also, of course, have financialization. You also have obscenities like Jeff Bezos and that other guy, whoever he was, who simply took a trip to space, you know, because they felt like it. You know, this kind of way of spending money. So overcapacity is, you know, we have more and more producers producing for a smaller and smaller world market. Listen, I...

#Pascal

You know, when we discuss the empire and everything, this collective West and so on, or what do you want to call it, the one West, as I refer to it now, is the hypocrisy that's just built into the system. And I made that argument recently. You know, the hypocrisy is where you actually have the membrane of the us versus them. It's okay when we do it. It's horrible when the other one does it. So that's where you find out the default line. But this overcapacity term is so ironic to me because, again, it's the West that has been telling everybody to liberalize and free market, free market, free market.

#Radhika Desai

That now tells China, "You must do state intervention to prevent your free market from actually interacting with the free market over there."

#Pascal

Because how dare you have a freer market than us?

#Radhika Desai

Yeah, exactly. So, you know, there is also this. Yeah, exactly. I think we are coming out of a roughly 200-year-long period during which the West was briefly dominant, basically. It coincides with the onset of the Industrial Revolution. So let's say the 19th and 20th centuries, maybe a bit more. So maybe a 200-, 250-year period during which the West became dominant. But before that, Asia was always dominant. Asia was the place where you found the most, the finest manufacturers and all that. The West was always trying to find the routes to Asia. That is how America was discovered, because Columbus set off trying to find a different route to Asia because the Ottomans were blocking the land route to Asia, etc.

So, you know, I mean, so, and I think that in this relatively short blip of time, because in the course of human history, it's a relatively short period of time, some ideas have become so deeply entrenched. So, you know, for a long time, people in the West found it difficult to believe that China, a non-Western country, could be as good or better than them at producing science, technology, etc., etc. But China has demonstrated this. But, you know, I would say that I would really deeply separate China, Western elites who probably are still uncomprehending of this reality, and ordinary people in the West. I mean, one of the things that I've noticed is that especially after Gaza, there is now a profound revulsion, I would say, of racism and racial inequality more generally at the popular level, I would say, even in Western countries.

You know, I mean, so I think that the time has come to really relearn our history in a completely different way, because the histories we have tended to learn are the histories of what created Western dominance, and the histories that—you know, we know more about the West than we know about the Americas or Africa or West Asia or South Asia or East Asia or what have you. And I think that all of that is now changing. And I think that people are becoming more curious about that. I mean, that's my feeling because, you know, one of the things people don't realize is that, you know, it's taken for granted that you can always whip up a racist fervor, you know, against immigrants and so on. And that's what the right has relied on. But it's not working so well anymore. The right wing also is not doing well.

You know, the Trump effect, for example, you know, is— you know, proximity to Trump is creating difficulty for right-wing politicians in other countries. In Canada, the right-wing leader who was practically guaranteed to win the election back in 2024, by early '25, lost his election because he had portrayed himself as close to Trump. But when Trump came to office and started saying disparaging things about Canada and the Canadian prime minister, et cetera, then Pierre Poilievre lost his election. So there is that. And I also think that even on the right, in Britain, we have the very interesting spectacle of, you know, for all the anti-immigration rhetoric and so on, of a black woman who is the leader of the Conservative Party. You know, so things are changing in very, very complex ways.

#Pascal

Can we, for just the last couple of minutes, talk a little bit about this now-emerging split on the right that we are seeing, especially in the United States? A couple of weeks ago, you know, Tucker Carlson published this picture with him, Marjorie Taylor Greene, Joe Kent, and Thomas Massie, right, who are saying, like, the start of the movement. And now the talk is that maybe they do a party. I mean, whatever it is, whatever it is, it's this kind of split of MAGA from MAGA that says, like, no, Trump betrayed us. He's continuing these forever wars. And that part of the right actually, you know, I'm a lefty like you, but this is part of the right that I think has a different analysis of where the problem is coming from.

They are anti-immigration, anti-foreigner. But they are also saying, like, we must not bomb the houses of these foreigners. We must not bomb these countries. We must not make sure that they go to hell, because then these people come. So that's actually not a bad analysis. So they are actually also anti-imperial in the sense that they would like the empire to stop extracting all of these resources and actually killing all of these people in order to stop the flows of people, which is something that I think parts of the left can actually work with. But how do you assess that?

#Radhika Desai

Yes. So this is essentially the MAGA base. They are essentially trying to capitalize on the disappointment that now prevails in the MAGA base because essentially Trump, as I said, got elected by promising the world to American working people, and he has delivered zilch. The U.S. has not benefited from any manufacturing revival. There is no expansion of manufacturing jobs. Inflation continues rampant, and the wars continue. And of course, all of these things happen because it is an unwritten rule of American politics, of the American regime. Let me use this word in a very clinical sense. I'm not using it as a bad word, but the word means something. It means a system of rule, and a system of rule that is established, and it is larger than any given government.

So it doesn't matter whether Republicans are in power or Democrats are in power. The American regime is essentially geared to serving. It essentially is a system in which you keep up the appearance of democracy. Parties win elections, but once they have won elections, they do the same thing, which is pursue the interests of a small corporate elite. This is what is continuing to happen, except that that corporate elite has now got smaller. Corporations are bigger. The number of members of the elite establishment is smaller compared to the rest of the population, and so on. So what's happening is that ordinary people are disappointed. And so Tucker Carlson or Marjorie Taylor Greene are saying, "You betrayed us." And this is their capitalizing on it.

Now, you know, I hate to introduce such a big topic, but these people are called populists. But the term populist does not really apply to them. The term populist originated back in the '60s and '70s in order to describe a certain type of lefty political formation that appealed not just to the working class, but to the people, including small business people and so on. But that is what it—populism always leaned to the left. So, to call all these right-wing populists populists is a bit of a sleight of hand. It's a way of not calling them what they really are, which is fascist. Now, you may think, "Oh, Radhika, you're using a big word." But what is fascism? It's a form of right-wing politics adapted to the needs of mass politics, in which you have to win over certain sections of the working class.

You don't have the majority of the working class, but you have to win over a certain section. Otherwise, right-wing politics cannot win elections. And, of course, there are other elements of this, but anyway, this is part of it. So I think that ultimately this position, the Tucker Carlson position, that we are going to have a free market economy, but we are going to create manufacturing jobs and we are going to stop fighting wars—if they want all these things, they are going to have to move from the left to the right. And if they forsake their desire for these things, then they're going to end up serving the ruling classes anyway, just as Trump is doing.

#Pascal

Yeah, so we are caught in a catch-22, or as they call it. Either way, it seems that the oligarchy still has the strongest hand within the empire, right? The strongest kind of structural forces going back toward it.

#Radhika Desai

I wonder about that. I mean, of course, they are in control at the moment, but they are also losing control at a great rate of knots. They are not— you see what I mean? Like, sometimes I also think that we assume that the ruling classes have it all wrapped up, you know, that they know what they want and they know how to get it. I don't think that's true anymore. I'm not even sure they know what they want. Just the other day, I was talking with somebody, and I recalled this. I said, you know, if you look at the American ruling class today, which is like the Epstein class, as you were mentioning, what does this class really want vis-à-vis China? I don't think it knows. I really don't think it knows. So, on the one hand, they want a war with China.

They want to make China the ultimate enemy and so on. And they employ all these people to write reports about the China threat and what have you. And they get the Pentagon officials to make elaborate plans about how we are going to attack China and what have you. However, when Trump goes to China, what does he take with him? He takes two dozen CEOs of the biggest companies in the United States. They are all invested in China. They are all up to here in China. They all want something from China. So I think that, you know, in the West in general, I think what we are seeing is a situation where different forces are pulling in different directions. You know, imagine that the ship of state, or shall we say the ship of state, is actually a jalopy.

And this jalopy has, you know, the different wheels are sort of going in different directions. The engine is not working very well. It's working only in fits and starts and so on. Or imagine a creature. Imagine a creature with many brains, not just one central brain, but with many brains, each of which is doing something and not coordinating with the other. And this is also manifested—to come back to the point I made at the beginning of our conversation—I think that these midterm elections will be very interesting to watch for what they say about the state of U.S. politics. And to some extent, there will be echoes also in other European countries. I mean, I'm sitting here in London, and we are watching a government really—it's like a chicken with its head cut off. It doesn't know what to do. You know, its choices are very constrained, and so, yeah.

#Pascal

That's another one we could talk about, but we need to do that in another episode. The other thing that at some point I want to talk with you about, because we couldn't even touch on it, is institutionalism. You know, how much the way that the West is entrenched in the institutions it created, the small ones and the large ones, how much that determines the direction of the boat, because I think it's quite considerable. But we've reached exactly one hour right now, so we need to wind it down. Radhika, people who want to find you, I think they should first and foremost go to your homepage for all of your writing, radhikadesai.com. They should also definitely find you on your YouTube channel, which is fantastic. You have brilliant guests. Radhika Desai, geopolitical economist. The link will also be below. Are there other places where people should go?

#Radhika Desai

That's it. I mean, I have a Patreon, Substack as well, but you will find links to all of those on those two pages. So, yes, please check me out, and hope you like what I have to say in these places. Yeah. Thanks.

#Pascal

I always like what you have to say. So we will talk again soon. Radhika Desai, thank you so much for your time today.

#Radhika Desai

Thanks so much for having me, Pascal. Always great to be on your show.