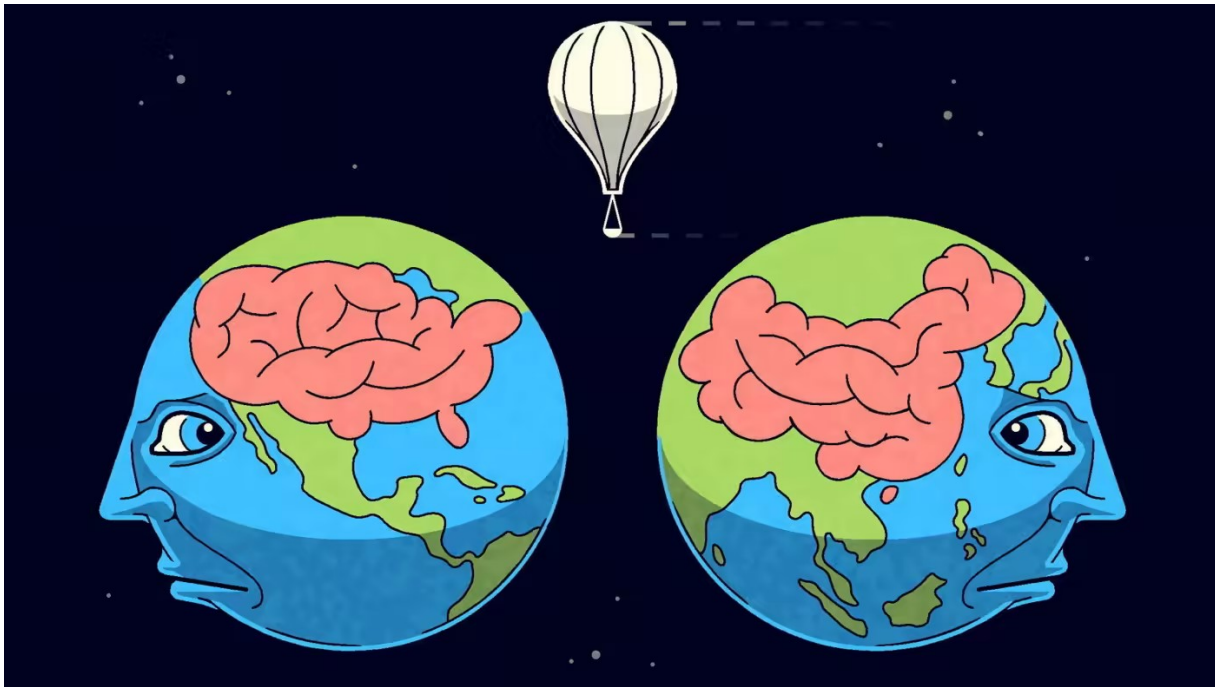


Opinion **US-China relations**

## China and America are locked in destructive codependence

The global superpowers need each other for economic reasons they would rather not admit

**RANA FOROOHAR**



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**Rana Foroohar** 7 HOURS AGO

What's the best language through which to understand the complex events of the world today? Is it economic? Political? Cultural? I've begun to think it might be psychological.

Psychologists (at least many of those I know) tend to divide the world up into [two types of personalities](#): paranoids, who operate as if they are always playing a zero-sum game, and depressives, who are more willing to embrace nuance (and thus sadness). Just as people can lean towards either of those personality poles, so too can nation states. Nazi Germany was paranoid, as Russia is today. Scandinavian social democratic states are depressive. So is the EU, at its best.

Recent global events, from Brexit and the election of Donald Trump to Russia's war on Ukraine or economic decoupling, can also be viewed through a psychological lens. As behavioural economist Robert Shiller has laid out in his work on narrative economics, such events are driven by "the prevalence and vividness of certain stories, not the purely economic feedback or multipliers that economists love to model".

Such stories may be subjective, but the effects are real. Shiller's work explores how events like the 1920-21 market correction, the sharpest in history, were driven as much by unsettling narratives about the rise of communism, influenza and race riots as by flawed interest rate policy. Stories have an impact on our psychology, and that

as by hawed interest rate policy. Stories have an impact on our psychology, and that psychology changes the world.

Nowhere is this truer today than in the [US-China relationship](#). In his recent book *Accidental Conflict*, former Morgan Stanley Asia head and Yale professor Stephen Roach applies a [psychological lens](#) to the increasing friction between the two countries. This culminated in the calling off of US secretary of state Antony Blinken's diplomatic trip to Beijing after a Chinese balloon was discovered floating over US airspace.

Roach likens the reaction, as well as the general ratcheting up of diplomatic tensions between the two countries over the past few years, to that of an insecure couple deep into the conflict phase of codependency. The couple, in this case China and the US, need each other for reasons they don't like to express. "A savings-short US economy lacks a certain sense of economic self," writes Roach, and is anxious about China's development goals, which involve putting its own surplus savings to use in ways that may move capital away from the dollar. Meanwhile, "China, lacking in its own internal support of consumer-led growth" feels threatened by American tariffs.

He's right. While US politicians on both sides of the aisle like to blame China for "stealing" jobs, it was America's own choice to build an economy based more on asset inflation than income growth. Foreign capital helped enable the profligacy. US debt relative to GDP has risen 95 per cent since 2000, and is now higher than it was before the financial crisis. Government debt grew at 0.7 times GDP, mostly as a result of that crisis and then the Covid-19 pandemic. Household debt and financial sector debt are down from their pre-2008 peaks, but are still higher than they were before 2000, according to McKinsey Global Institute data. All this would be far less sustainable if China stopped buying US debt.

China, meanwhile, may point the finger at the US for trade wars, but it has for years pursued a mercantilist economic policy, and has yet to prove that it can inspire enough domestic political confidence to get people to part with their cash hoards, or deal with the structural problems of over-leverage, particularly when it comes to real estate. If the current paradigm holds, China will get old before it gets rich.

The problem with this economic codependency, says Roach, is that it is inherently reactive. "The slightest disturbance becomes amplified, risking retaliation and a progressive unravelling. China's balloon triggers a diplomatic response from Blinken that is strikingly reminiscent of cold war 1.0 actions in 1960, when the USSR shot down our U-2 spy plane. That, of course, ushered in the most dangerous phrase of the first cold war. culminating in the Cuban Missile crisis." he says. "There is no trust in a

...not only that, but, continuing in the Cuban fashion, he says: "There is no trust in a conflicted codependency, making it hard to put the pieces of a once healthy relationship back together. That leaves the conflicted codependency hyper-vulnerable to flashpoints." With House of Representatives speaker Kevin McCarthy heading to Taiwan soon, one might wonder if that island nation will be the next Cuba.

So, how do both sides tiptoe away from such a disastrous outcome? By doing what any good therapist would advise — using “I” statements. American policymakers need to admit that debt matters, and the US must eventually start living within its means, saving more, and using those savings to fund the things that fuel real growth — infrastructure, education and basic R&D — rather than the financial kind. This White House has made a good start with the American Rescue Plan and the Chips Act, but it will take years, if not decades, to plug the gap of Main Street investment in America.

China, for its part, needs to grapple with how and why it has lost the world’s trust. From lockdowns to political attacks on the private sector to surveillance capitalism, there’s a reason that Chinese consumers still keep so much cash under their mattresses. You don’t need a balloon to see that it is not America’s fault.

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