U.S. – China Relations: 
An Unsustainable Codependency?

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America and China: The Relationship Puzzle

- Two largest economies in the world
  - PPP: China surpassed the US in 2014
  - US dollars: China surpasses the US in 2025-28

- Two largest exporters in the world
  - U.S. is China’s largest export market
  - China is America’s third largest and most rapidly growing export market

- Tensions on many fronts
  - Trade and currency
  - Security: East and South China Seas
  - Cyberhacking
  - Human rights

- Risk or opportunity?
Mirror Images: Consumption Shares of US and Chinese GDP

- **America: The Ultimate Consumer**
  - Depends on cheap goods from China
  - Depends on surplus Chinese saving
  - Depends on Chinese demand for dollars

- **China: The Ultimate Producer**
  - Depends on exports
  - Depends on America’s demand for those exports
  - Dollar-linked RMB

- An unsustainable codependency
- The rebalancing solution

Codependency as a Psychological Disorder

- “Relationship addiction” that often involves placing a lower priority on one’s own needs while being excessively occupied with the needs of others.

- Asthenic personality disorder (DSM diagnostic code: 301.6)

- Triggers reactive responses to partner; sense of self is externally oriented – not internally focused.

- A progressive disorder: From manageable and sustainable to unmanageable and unsustainable.

- Defensive Functioning Scale:
  1. High-adaptive level
  2. Mental inhibitions (compromise formation) level
  3. Minor image-distorting level
  4. Disavowal level
  5. Major image-distorting level
  6. Action level
  7. Level of defensive dysregulation

- From individuals to economies?

The Timeline of US-China Codependency

<table>
<thead>
<tr>
<th>Year</th>
<th>China</th>
<th>United States</th>
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</thead>
<tbody>
<tr>
<td>1978</td>
<td>Post-Cultural Revolution</td>
<td>Stagflation</td>
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<tr>
<td>2007</td>
<td>Four Uns of Wen Jiabao</td>
<td>Great Crisis</td>
</tr>
<tr>
<td>2013</td>
<td>Third Plenum</td>
<td>Government Shutdown</td>
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2010: America’s Dodd-Frank Bill
2011: China’s 12th Five-Year Plan
1978: In the Beginning

China: Lagging Per Capita GDP: 1950-78

America: Stagflation

Source: International Monetary Fund, WEO database
1980 to 2007: A Marriage of Convenience

China: The Ultimate Producer

- Export share of GDP (LHS)
- GDP per capita (RHS)

America: The Ultimate Consumer

- Consumption share of GDP

Source: National Bureau of Statistics (China), IMF, BEA US Department of Commerce
2007: The Wake-Up Call

China: The “Four Uns”

“Unstable, unbalanced, uncoordinated, and unsustainable”
-- Premier Wen Jiabao, March 2007

America: The Great Financial Crisis

The Wall Street Journal
AIG, Lehman Shock Hits World Markets
AIG Faces Cash Crisis As Stock Dives 61%

Yale JACKSON INSTITUTE FOR GLOBAL AFFAIRS
2009: The Response

China: Conventional Approach

America: Unconventional Approach

Source: National Bureau of Statistics (China), Federal Reserve, and BEA US Department of Commerce
2013: Divergent Policy Strategies

China: Third Plenum of 18th Party Congress
November 9 to 12, 2013

America: Government Shutdown
October 1 to 16, 2013
<table>
<thead>
<tr>
<th>BUILDING BLOCK</th>
<th>12TH FYP</th>
<th>THIRD PLENUM</th>
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</thead>
<tbody>
<tr>
<td>EMPLOYMENT LABOR-INTENSIVE SERVICES</td>
<td>GOOD PROGRESS</td>
<td>TRADE AND INVESTMENT SOE REFORMS INNOVATION</td>
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<td>WAGES INCOME LEVERAGE OF URBANIZATION</td>
<td>GOOD PROGRESS</td>
<td>LAND POLICY INNOVATION</td>
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<tr>
<td>SAFETY NET SAVING AND INEQUALITY</td>
<td>POOR PROGRESS</td>
<td>HUKOU REFORM ONE-CHILD FAMILY DEPOSIT RATE LIBERALIZ. FUNDING: SOE TAX HIKE</td>
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<tr>
<td>IMPLEMENTATION POLITICAL COMMITMENT</td>
<td>MIXED PROGRESS</td>
<td>REVOLUTION IN GOVERNANCE: LEADING SMALL GROUP</td>
</tr>
</tbody>
</table>
First Steps on China’s Road to Rebalancing

Shifting Mix of Chinese GDP

Services Share of GDP

The Saving Imperative

- Chronic saving shortfall
  - Government
  - Households

- Funding the competitiveness agenda
  - Investment in human capital
  - Investment in infrastructure
  - Investment in new capacity

- The “vision thing”

Source: US Department of Commerce (BEA)
Longer Term Outlook: Asymmetrical Rebalancing

**Chinese Rebalancing:** Likely

- Surplus saving to saving absorption
- Reduced demand for dollar-based assets

**U.S. Rebalancing:** Unlikely

- Persistent saving shortfall
- Reduced external funding from China
Mounting US-China Tensions

- U.S. presidential election campaign

- China: From inward to outward facing
  - One Belt, One Road
  - New Development Bank (BRICS)
  - Asian Infrastructure Investment Bank (AIIB)

- Trade and Currency
  - Bilateral distortion of multilateral problem
  - Renminbi policy
  - U.S. Congress: Currency Reform for Fair Trade Act
  - BIT on hold
  - TPP without China

- Hegemon vs. rising power
  - From “hide and bide” to China Dream
  - America’s Asia pivot
  - Containment or engagement?
The Hegemon and the Rising Power

Chinese vs. U.S. GDP: 1890 to 2015
(Ratio in purchasing power parity)

Source: Angus Maddison, *The World Economy: A Millennial Perspective*, OECD (2011) and International Monetary Fund *World Economic Outlook* database
From Codependence to Interdependence?

**Codependence:** The unhealthy relationship
- Expect partner to serve your needs
- Loss of a sense of self
- Leads to frictions, imbalances
- Denial and the destructive blame game
- Unsustainable – the break-up
- Fixation on relationship *risks*

**Interdependence:** The healthy relationship
- Partners responsibly satisfy their own needs
- Maintain self identities
- Appreciate mutual benefits of partnership
- Constructive interactions
- Sustainable – reinforcing growth journeys
- Appreciation of relationship *opportunities*