

## Is a "rival society" possible between China and the US?

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### Body

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Laguna Beach - Almost a day goes by without further evidence of rising economic tensions between China and the United States, the world's two largest economies. The immediate impact of this growing antagonism will be greater for the Asian country, with the momentum that bilateral decouple gives to a general process of deglobalization that is already underway. And the negative spillover effects for a number of countries I call "double-choice economies" can be very significant.

Even from a purely economic point of view, it is difficult to imagine a lasting reduction in Sino-American tensions in the near future. And that's without taking into account national security issues, let alone technology and human rights.

The economic and financial derivations of Covid-19 lead three sectors of the U.S. economy to a simultaneous decoupling from China. Nothing indicates that this dynamic will weaken immediately; rather, a phenomenon of mutual feedback will occur in which one, plus one, plus one adds more than three.

To begin with, the U.S. government recently intensified a long war of reciprocity, with the imposition of bilateral economic and financial sanctions on China, a move that had explicit bipartisan backing from the US Congress. Mutual accusations over the pandemic help reinforce the hardening of the U.S. stance, which will clearly continue, no matter what in November's presidential and legislative election.

Another driver of decoupling will be the U.S. corporate sector, as more and more local businesses will seek to increase resilience at the cost of efficiency. This involves a process of "near shoring", "reshoring", or "relocation," which involves taking Western supply chains out of China. And some industries (e.g. pharmaceutical and technology) are likely to receive official pressure in this regard (in the United States and other countries).

This is not to say that Western multinationals are going to leave China overnight, but rather that they will generally try to adopt a "China for China" production model. But this will reduce their involvement in the country and make them more vulnerable and less able to influence events that affect them.

It will also contribute to the decoupling of the situation of American households. The likely slow recovery following the deep coronavirus-induced recession and the fact that the global economy is in a phase of high desynchronization make it possible to anticipate that a portion of the recent increase in unemployment in the United States will be difficult to reverse immediately.

This multifaceted decoupling process will create unfavourable economic conditions for both the United States and China, but the effect is likely to be asymmetrical. In particular, China's vulnerability is greater, because its impressive development process remains dependent on the global economy. What is at issue is not so much China's immediate growth performance (since a V-shaped recovery is already underway), but economic decouple can complicate China's very difficult transition to middle-income country status, which in many other economies has been the most complex stage of the development process.

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The decoupling will also make it more expensive for China to sustain some of its latest international economic projects, such as the flagship Strip and Route Initiative (a massive transnational infrastructure investment program) and the large-scale provision of loans to many developing countries. In particular, the Chinese government will not find it so easily counteract the narrative that many of these alliances are transactional and one-sided in nature, and insufficiently strategic.

Finally, rising Chinese-American tensions can have significant consequences for countries such as Australia and Singapore, which maintain equally strong links with the United States on national security and with China on economic issues. While so far the cost of this dual strategic option has not been great, everything indicates that it will increase (a process that is already accelerating in the case of technology). These countries will have to consider being forced to choose between the two great global powers (something for which, I suspect, they have no will or are ready). Despite being the most important foreign policy issue faced by many governments, it has not yet generated much debate.

All of these factors pre-announce an extraordinarily uncertain macroeconomic and microeconomic outlook, increasingly vulnerable to policy-making errors and market shocks. The best outcome for all would be what former Google CEO Eric Schmidt calls a "society of rivals" between the United States and China, in which healthy competition does not impede cooperation and joint assumption of responsibilities, two crucial elements for addressing major global challenges such as climate change and pandemics. The hard part will be to avoid harmful interruptions during the long and complicated process towards that goal.

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