

Macro Roundup Article

Headline: [Power and Financial Interdependence](#)

Article

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Tweet: [@Brad_Setser](#) suggests the 2004 US-China “balance of financial terror” has evolved: “In a crisis over Taiwan, China would likely lose access to its reserves—and the G7 countries would see their supply of new cell phones disappear.”

Summary: Summers used the term ‘balance of financial terror’ to refer to “a situation where we rely on the costs to others of not financing our current account deficit as assurance that financing will continue”. Chinese policymakers have expressed concern about losses on their Treasury or Agency holdings and have sought to diversify China’s reserves [and] increasingly worry that its dollar holdings and the dollar’s global role increase its vulnerability to potential financial sanctions. The US feared China would sell its US bonds, jeopardizing US financial stability. Both parties thus worry about the possibility that financial interdependence can be weaponized yet find it hard to extricate themselves from the inevitability of financial interdependence. The debate on whether external debt is a strategic vulnerability or a strategic asset is of particular importance in the current era [as] geopolitical risks have returned.

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Primary Topic: China

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