

U.S. AND CHINA: A CONFLICT ROOTED IN DEEP SUFFERING



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Watching the trade conflict between the U.S. and China unfold in the media, one might assume that China is the unstoppable manufacturing giant and the U.S. the heavily indebted superpower. But the reality is more complex—and more concerning. Both countries are facing serious structural challenges. At the heart of this conflict lies a shared dilemma: they've both fallen into the service economy trap, which has led to unsustainable debt levels and a desperate struggle for economic stability. What appears to be a power struggle is, in fact, a reflection of mutual vulnerability. Both economies are in trouble—and in an attempt to survive, they're fighting in the wrong arena.

As the manufacturing share of GDP declined in the United States over the past two decades—from 16% to under 11%—China has not fared much better, with its manufacturing share falling from 32% to 26%. During the same period, China's service sector expanded dramatically, growing from just 22% of GDP in 1980 to around 55% today. This widespread shift toward service economies, while boosting short-term consumption, has undermined the productive foundation of both economies and exposed structural vulnerabilities.

In response to mounting economic disparities and financial instability—largely fueled by this shift to a service-based and increasingly speculative economy—both countries turned to debt: using it to stabilize their economies during downturns and to stimulate growth during a slowing economy.

This approach, however, came at a cost: a decline in the export-to-GDP ratio in both nations over the past 20 years. Surprisingly, the U.S.—supported by its strength in services and

technology—saw only a modest increase, with its export-to-GDP ratio rising from 10% in 2000 to just 11% in 2024, while China, traditionally more export-driven, remained around 20% during the same period, underscoring both countries' growing reliance on domestic demand and debt-fueled expansion.

As both economies navigate increasingly unstable ground, debt levels have skyrocketed. In China, government debt-to-GDP rose sharply from 40% in 2015 to 86% in 2024, while private sector debt surged past 190%, up from 140%. In the United States, government debt-to-GDP reached 120%, a steep rise from just 36% in 2000. Meanwhile, private debt in the U.S. remained relatively stable, staying below 145%, possibly due to the crowding-out effect—where increased government spending displaces private sector borrowing and investment. Having embraced the service economy model for decades, the United States has awakened to the harsh reality that such a trend is unsustainable. In response, it has begun a scramble to revive its industrial base. On the other side, China is also attempting to reverse course, bolstering its manufacturing sector through currency devaluation and government subsidies.

However, China may be overlooking a critical point: the very force that is pressuring the U.S. to reduce its trade deficit—its ballooning national debt—is mirrored in China's own fragile financial landscape. If the trade conflict with the U.S. continues, China risks triggering a severe economic downturn. Such a downturn could unleash powerful deflationary pressures, leading to widespread defaults and bankruptcies, and bursting the financial bubbles the Chinese government has struggled to keep inflated over the past decade—most notably in its real estate sector.

Manufacturing, value added (% of GDP) - United States

World Bank national accounts data, and OECD National Accounts data files.

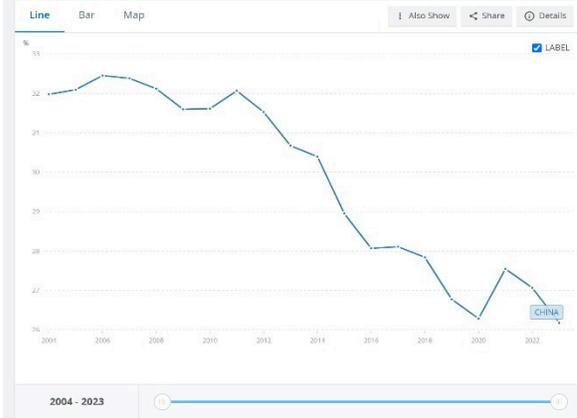
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Manufacturing, value added (% of GDP) - China

World Bank national accounts data, and OECD National Accounts data files.

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Services, value added (% of GDP) - United States

World Bank national accounts data, and OECD National Accounts data files.

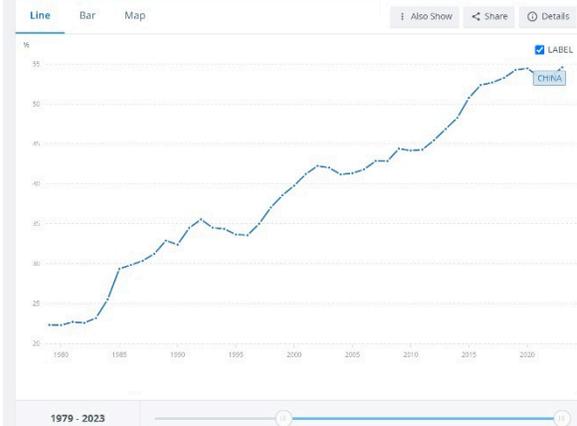
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Services, value added (% of GDP) - China

World Bank national accounts data, and OECD National Accounts data files.

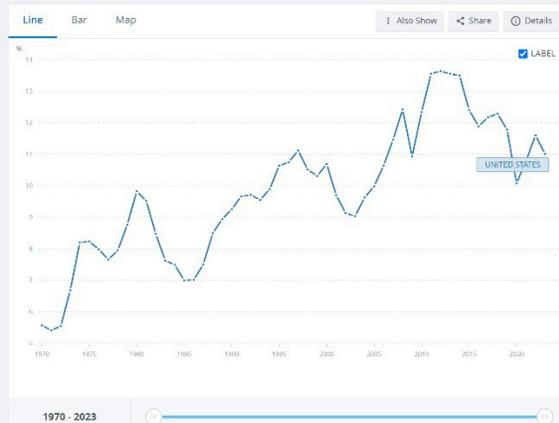
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Exports of goods and services (% of GDP) - United States

World Bank national accounts data, and OECD National Accounts data files.

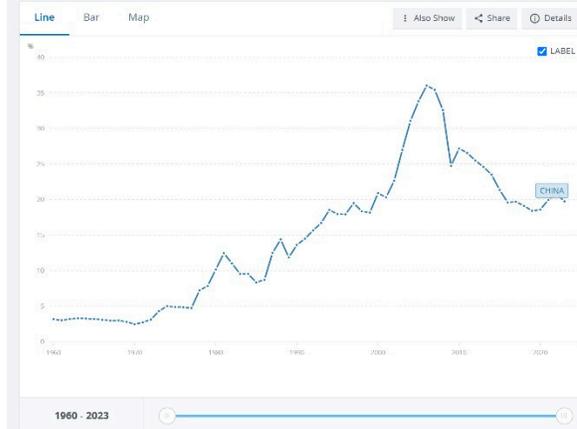
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Exports of goods and services (% of GDP) - China

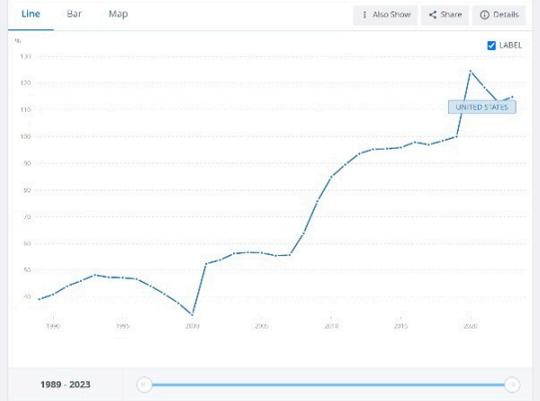
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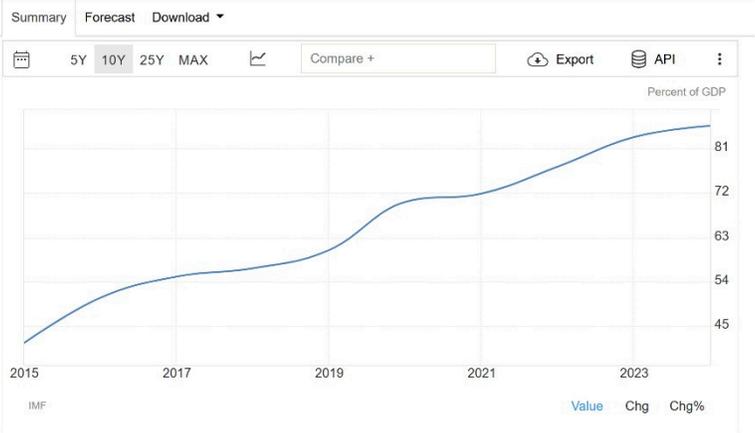


Central government debt total (% of GDP) - United States

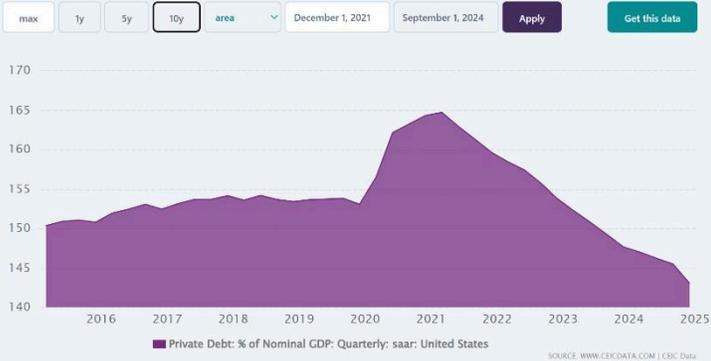
International Monetary Fund, Government Finance Statistics Yearbook and data files, and World Bank and OECD GDP estimates.
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China Government Dept to GDP



United States's private debt: % of nominal GDP from Dec. 1951 to Sep. 2024



China's private debt: % of nominal GDP from Dec. 1992 to Sep. 2024



Sincerely,

Dr. Fady Mansour
Director of the Butler Center

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