

Debt Cycles, Eastern Style

By John Mauldin | October 25, 2025



China: Turning Less Capitalist
Japan: The Right Kind of Debt?
“A Very Different Reality”
There’s More Than One Debt Cockroach
New York, Tulsa, Dallas, and Cleveland

Our planet has a wide array of different political and economic systems. Some work better, so you’d think we would gravitate to those over time. But even now, we still have a lot of variety. What works in one place and time might not succeed in different conditions.

All these systems, however, have one thing in common: Humans operate them, and we have a remarkably consistent nature. This is why the same problems erupt again and again.

These similarities across time and place are a key part of Ray Dalio’s [*How Countries Go Broke*](#), a book I’ve been reviewing and you should read. Today, we’ll wrap up this series with a look at the debt cycle in some non-Western economies—and a final look at Ray’s outlook as another “Big Cycle” ends.

First, though, let me thank everyone who responded to my note last week launching the Lifespan Edge longevity clinics. We are focusing on the therapy called Therapeutic Plasma Exchange, which should be the start of your longevity journey. Think of it as an oil change for your body, getting rid of the old proteins and microplastic junk you don't want in your body, which cause inflammation and worse. I mentioned how it's especially critical to read our paper if someone in your family has been diagnosed with Alzheimer's or dementia, as TPE just might be the best treatment available right now. Early studies show 70% of those with early-stage Alzheimer's saw their memory improving 15 months later. The longer you wait, the worse the prognosis gets.

Two links: the first one is a well done research paper on TPE by old friend Pat Cox:

[Therapeutic Plasma Exchange—Lifespan Edge](#)

And, of course, our website. You can ask for more information and schedule to talk to our doctors here: [Home—Lifespan Edge](#). If, for some reason, you want to talk to me or Dr. Roizen, then just leave a note with your phone number, and he will get back to you.

Now, let's talk about sovereign debt.

China: Turning Less Capitalist

One reason I found *How Countries Go Broke* so useful is the way Dalio goes to great lengths to de-personalize the debt cycle. While leaders influence how events unfold in any given situation, most of it will happen anyway. That's what "cycle" means.

However, Ray *does* get personal in the chapter on China because he has relevant firsthand experience. He began going there in the 1980s as an informal economic advisor, seeing Chinese businesses begin to engage with the West. He knows the leaders (past and present) in ways other analysts and economists don't.

He starts with a whirlwind review of China since 1945. It is a fascinating read, but I don't have space to include all of it. We'll jump in with Xi Jinping's ascent in 2012.

"Reforming the economy meant modernizing it to be more market-driven. For example, back then five major banks made loans to state-owned enterprises that were implicitly guaranteed by the government, which had the printing press to guarantee them, and there was little lending to small- and medium-size enterprises. The leadership wanted to change that, so they sought to develop capital markets that improved access to borrowing, lending, and investing. I was closely involved with that, so I saw how those responsible for it thought about it and what they did.

“I found that for most of Xi’s first five-year term, there was a) an openness to outside thinking, b) a strong desire to further reform the economy by making it more market-driven and taking actions to build and reform the capital markets, and c) strong action taken to eliminate corruption. The senior leaders chosen were the ones who were inclined to do those things. Of course, how to do these things was debated, and some people benefited from the changes while others were hurt by them, which created divisions.

“After coming to power, Xi immediately purged a prominent rival (Bo Xilai) and moved strongly to make big changes to eliminate corruption and reform the economy. Late in Xi’s first term there was a movement to consolidate political power around him via a move to ‘core leadership.’ If you think politics in the United States is brutal, you should see politics in China. This became most clear in the leadership changes that accompanied the shift from Xi’s first five-year term to his second and then to his third.

“Up until then, there were remarkable accomplishments—by many measures the greatest in human history. In the years since I first started going to China in 1984, China’s per capita income increased 20x, the average life expectancy increased by 12 years, and the poverty rate fell from 81% to less than 1%.

“At the same time, starting in 2009, China significantly increased its levels of indebtedness in real estate, local governments, and companies. That was stimulative at the time and led to accelerating debt and the debt problem that China now faces. This problem was made worse by the severe demographic issue of the one-child policy, which has created financial problems related to pensions and eldercare. Further, the way that China’s economy runs—which is driven by government, especially local government, financing and companies spending in ways that value the quantity produced over profitability and fosters severe uneconomic competition—led to profits falling short of debt service expenses. These issues remain...

“In 2015, Xi put out his 2025 plan, which described the need for China to rise and dominate certain industries. This was viewed as aspirational by the Chinese and threatening by the Americans. China could no longer ‘hide power.’ Also, China became more threatening to other countries as it grew a lot in world trade, as its riches grew, as it asserted itself more geopolitically, and as it ‘stole’ intellectual property. At this time, Americans began to blame China for their economic problems and viewed China as a greater threat. Due to middle-class job losses in the US, which were attributed to Chinese imports and China’s greater assertiveness internationally, the pendulum of sentiment toward China swung from positive to negative. When President Trump came to power in 2017 and President Xi began his second term in 2018, the great power conflict began in earnest, starting with trade negotiations that evolved into tests of power and a type of cold war.”

This is an important point. The “great power conflict” between China and the US is part of the Big Cycle and was already underway even before Trump’s first term. Whatever you think about the way Xi and Trump have handled matters, neither of them started it.

Ray Dalio describes China's economic growth as "greater in magnitude than any other country's in history." He breaks down the process into six steps. China went from...

1. A classic unproductive communist country to
2. An effective "socialist market economy" to
3. The development of its capital markets and its version of capitalism to
4. The forming of a classic debt bubble that led to
5. A classic debt bust of the type that those who have their debt denominated in their own currency and have most of the debtors and creditors as their own citizens
6. a classic great power conflict.

He then outlines China's current status in the cycle:

"Now China is 1) experiencing a big debt problem at the same time as it is also turning to less capitalist 'common prosperity' policies, while 2) there is increased internal political conflict that is being eliminated by more strict, autocratic policies directed by the president/chairman, while 3) there is increased international conflict with the United States and great changes in the world, which China is increasingly playing a leading role in shaping, while 4) climate change is happening and is likely to have a big effect on China, while 5) China is in a technology war that neither it nor the United States can afford to lose."

How this will develop remains to be seen. The US has similar challenges. Both powers have advantages, too.

Japan: The Right Kind of Debt?

How Countries Go Broke then moves on to Japan, whose opening to the West had some similarity to China's. Then World War II changed everything, and Japan took a different course. Between 1945 and 1990, the country went from ruins (literally) to the world's second-largest economy. But in the process, it also built a huge debt burden, the bursting of which is still having effects today.

"The Japanese government's handling of its debt problem from 1990 until 2013 exemplified exactly what not to do. It was the exact opposite of what I described should be done to execute a beautiful deleveraging... More specifically, policy makers did not restructure their debts so the debt burdens lingered on bank and company balance sheets making them 'zombie institutions,' they held to employment and cost policies that were rigid so that they couldn't effectively cut costs and adapt, they didn't make interest rates low in relation to both nominal growth rates and inflation, and they did not meaningfully monetize their debts until after there was deflation and interest rates were near zero in 1995.

"For nearly two decades, the amount of fiscal and free-market policy adjustments and the amounts of monetary stimulus and debt purchases were woefully insufficient to engineer a beautiful deleveraging. As a result, until mid-2013, Japan had continuous deflation and economic stagnation as companies and people didn't have the previously described financial conditions to get this debt burden crisis behind them. The Japanese government did not deal with its non-performing-loan problem until 1999 (so for nine years after the debt bubble popped) when the government finally forced the banking system to restructure its debts and injected huge amounts of capital into the banks, and it didn't monetize debt and bring interest rates significantly below nominal growth and inflation rates until 2013...

"Fiscal and monetary policies changed greatly and appropriately when Bank of Japan Governor Kuroda and Prime Minister Abe came to power in late 2012/early 2013 and initiated their 'three arrows' policy to 1) increase the money supply, 2) boost central government spending, and 3) enact economic and regulatory reforms to make the Japanese economy more competitive, which, as previously described, are classically the best policies to negate deflationary, depressionary forces. As a result, from 2013 through 2019, there was no deflation and there was low positive growth (0.9% per year) and the beginning of a healing period, though the deflationary and depressing psychological conditions lingered. The psychological overhang of 23 years of debt depression has had lasting negative effects on the strength and vibrancy that characterized Japan prior to 1990 and many times throughout history.

“During this period, extremely large debt monetization and fiscal deficit stimulus (5% of GDP deficits on average) and extremely large central bank buying of Japanese yen debt (the BoJ now holds government bonds worth more than 90% of GDP) took place, which pushed interest rates 0.9% below the nominal growth rate and 1% below the inflation rate on average, and depreciated the yen, all of which were very stimulative. The combined lower interest rates and currency depreciation led to Japanese government bonds being a terrible store hold of wealth, losing 45% relative to US bonds and 60% relative to gold.

“These and other actions provided an average interest rate that was about 2.2% below the US rate and depreciated the currency by an average rate of 5.5% per year in real terms versus the dollar. More specifically, the -45% cumulative return of a Japanese government bond versus a US government bond was almost entirely attributable to currency depreciation, since the lower carry/accrual from Japanese bonds was entirely offset by price gains (roughly 20%) due to falling Japanese yields.”

Ray then describes five dynamics he thinks are key to Japan’s improved recovery after 2013.

Dynamic 1: “Public sector deficit spending floods the private sector with cash.”

Dynamic 2: “The central bank monetizes the debt to keep long rates low, lower debt service, and boost demand. The government’s debt burden minus central bank holdings begins to fall as a percent of GDP.”

Dynamic 3: “The resulting currency depreciation acts as a sort of tax on foreign investors holding unhedged domestic bonds and lowers the government debt burden in foreign FX and gold.”

Dynamic 4: “Domestic savers are similarly taxed, though to a lesser degree because, even though their buying power abroad decreases, it’s not as bad domestically.”

Dynamic 5: “The country gets more competitive as both assets and factors of production get cheaper.”

It is definitely counterintuitive, at least to me, to think more public debt can be key to escaping a debt trap. **But maybe this highlights something we too often forget: Debt becomes a problem mainly when *used unproductively*.** Deployed carefully as part of a broader plan, it seems to have helped Japan... though, as with China, Japan’s cycle is not yet complete.

That certainly doesn’t mean the US federal debt is helping us. Ray’s final chapter explores that question.

“A Very Different Reality”

Ray finished *How Countries Go Broke* in March 2025. Much has happened since then, but his objective indicators as of that point are holding up quite well. He closes with a big-picture summary:

“The US and the existing world order are about 80 years into, which is about 90-95% through, the Big Cycle that began in 1945. The Big Cycle is like the human life cycle in that it progresses through relatively knowable stages, and while knowing about this cycle won’t tell you exactly what will happen, it will tell you a lot about what is likely to happen and roughly when...

“There are some big, unsustainable imbalances that make good bets because they likely won’t be sustained—most importantly, it is a good bet that the amount of borrowing and buying and piling up of debt assets and liabilities being faster than income growth won’t be sustained.

“We are at the maximum point of not knowing what actions will be taken and what effects they will have because the new leadership in the US has only been in power for a few weeks and President Trump seems to be more inclined to do previously unimaginable things than any president in the last 80 years—and perhaps any president ever.

“By my measures, the current configuration of conditions is most analogous with those that existed in 1905-14 and 1933-38 and many prior times in many countries throughout history, which, as just noted, is what I call Stage 5 of the Big Cycle. During Stage 5, countries are overindebted, inefficiently run, divided, and threatened by other countries, so there is a strong tendency for leaders with populist, nationalistic, protectionist, militaristic, and autocratic approaches to emerge.”

That last part brings to mind the Thomas Hobbes description of life in man’s natural state: “Nasty, brutish and short.” Hopefully, we can avoid regressing that far. Continuing:

“[T]his is where all of the major powers now are—i.e., they are overindebted, inefficiently run, and divided—and it is this configuration of conditions that is increasingly leading to the emergence of more nationalistic, protectionist, militaristic, and autocratic leaders and policies. These leaders, especially President Trump in the US, want to fight to improve national strength and are more willing to engage in economic, geopolitical, and military conflicts to win. Recent events are by and large following the classic Big Cycle template that I have laid out and that has brought the world to the brink of great conflicts and big changes...

“I am confident that the next 5-10 years will be a period of enormous changes in all the major orders, and that going from now until then will feel like going through a time warp into a very different reality. Many countries, companies, and people who are now up will be down, and those who are down will be up. How we think and what we do will be very different, in ways that we can’t possibly anticipate.”

This clicks with my own outlook. I'm very confident a big crisis is coming, but I can't begin to forecast what it will look like. Ray offers some hope we can get through it via a "beautiful deleveraging." He thinks that would minimize (though not eliminate) the pain and turmoil. But as he finished the book earlier this year, he saw little chance for the kind of cooperation we need.

"Unfortunately, I believe that an objective examination of how likely these things are to transpire would conclude that the chances of cooperation for mutual benefit are not good. The reality is that the events that have brought the Big Cycle to where it is today have left strong beliefs within most factions that the people in the opposing factions are doing them harm—and that the time has come to fight and win at all costs. Those in the opposing factions also believe that they must fight to win at all costs. We know from history that extreme factionalism kills."

There's More Than One Debt Cockroach

It's not just the US, China, and Japan that have debt issues. It's a large portion of the developing countries, and especially Europe. Look at this chart from The Economist. The developed world now has as much debt in terms of GDP as it did during the Napoleonic Wars. And as much or more debt (and growing!) than it did following World War II.

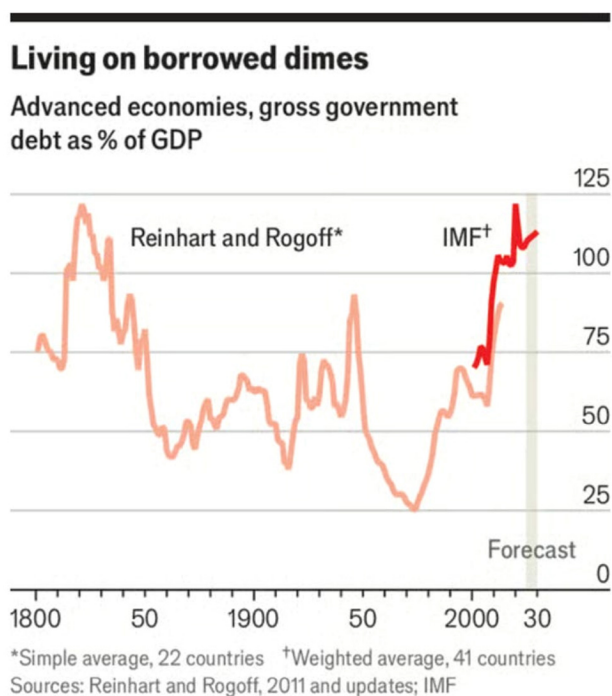


CHART: THE ECONOMIST

Source: *The Economist*

When we do have a sovereign debt crisis, it is not going to be isolated to just one or two countries. Courtesy of Rogoff and Reinhart's magisterial book, *This Time Is Different*, we can look back at the little hundreds of times that countries became over-indebted and had a crisis. Typically, it was one country at a time. The Great Depression was not a debt crisis, per se, but of course, it didn't involve many countries. We just have no parallel that I can think of where literally a dozen countries could have a sovereign debt crisis at the same time. That creates both problems and opportunities.

We are going to be talking more and more about how we structure our own lives and portfolios in the coming year. I keep saying there is time, and I keep getting questions from you about what to do. It is time for me to begin to address those questions. Stay tuned...

New York, Tulsa, Dallas, and Cleveland

I will be in NYC mid-November for the inaugural Inner Circle meeting. Then nothing else is *scheduled* until Thanksgiving, when Shane and I will be in Tulsa where all the family will gather. I will likely fly back to Dallas within a few weeks to see my new grandson. Sometime in December, I will have to go to the Cleveland Clinic for three to four days for what is called a minor procedure. Of course, when someone is messing with your private parts, it never seems particularly minor, at least to me.

If all goes right, we will open the Lifespan Edge clinic here in Dorado Beach next week. I will be getting yet another TPE procedure, and Mike will be down soon to get one as well. Mike just wrote in his weekly column that he is feeling better than he has in 40 years, and the only real difference has been TPE.

And with that, I will hit the send button. You have a great week and spend some time with family and friends. And don't forget to [follow me on X!](#)

Your constantly thinking about cycles analyst,



John Mauldin

subscribers@mauldineconomics.com

<http://www.mauldineconomics.com/members>

© 2025 Mauldin Economics. All Rights Reserved.

Thoughts from the Frontline is a free weekly economic e-letter by best-selling author and renowned financial expert, John Mauldin. You can learn more and get your free subscription by visiting www.MauldinEconomics.com.

Any full reproduction of Thoughts from the Frontline is prohibited without express written permission. If you would like to quote brief portions only, please reference www.MauldinEconomics.com, keep all links within the portion being used fully active and intact, and include a link to www.mauldineconomics.com/important-disclosures. You can contact affiliates@mauldineconomics.com for more information about our content use policy.

To subscribe to John Mauldin's Mauldin Economics e-letter, please click here: <http://www.mauldineconomics.com/subscribe>

To change your email address, please click here: <http://www.mauldineconomics.com/change-address>

Thoughts From the Frontline and MauldinEconomics.com is not an offering for any investment. It represents only the opinions of John Mauldin and those that he interviews. Any views expressed are provided for information purposes only and should not be construed in any way as an offer, an endorsement, or inducement to invest and is not in any way a testimony of, or associated with, Mauldin's other firms. John Mauldin is the co-founder of Mauldin Economics, LLC. He also is the President and investment advisory representative of Mauldin Solutions, LLC, which is an investment advisory firm registered with multiple states, President and registered Principle of Mauldin Securities, LLC, a FINRA and SIPC, registered broker-dealer. Mauldin Securities LLC is registered with the NFA/CFTC, as an Introducing Broker (IB) and Commodity Trading Advisor (CTA).

This message may contain information that is confidential or privileged and is intended only for the individual or entity named above and does not constitute an offer for or advice about any alternative investment product. Such advice can only be made when accompanied by a prospectus or similar offering document. Past performance is not indicative of future performance. Please make sure to review important disclosures at the end of each article. Mauldin companies may have a marketing relationship with products and services mentioned in this letter for a fee.

PAST RESULTS ARE NOT INDICATIVE OF FUTURE RESULTS. THERE IS RISK OF LOSS AS WELL AS THE OPPORTUNITY FOR GAIN WHEN INVESTING IN MANAGED FUNDS. WHEN CONSIDERING ALTERNATIVE INVESTMENTS, INCLUDING HEDGE FUNDS, YOU SHOULD CONSIDER VARIOUS RISKS INCLUDING THE FACT THAT SOME PRODUCTS: OFTEN ENGAGE IN LEVERAGING AND OTHER SPECULATIVE INVESTMENT PRACTICES THAT MAY INCREASE THE RISK OF INVESTMENT LOSS, CAN BE ILLIQUID, ARE NOT REQUIRED TO PROVIDE PERIODIC PRICING OR VALUATION INFORMATION TO INVESTORS, MAY INVOLVE COMPLEX TAX STRUCTURES AND DELAYS IN DISTRIBUTING IMPORTANT TAX INFORMATION, ARE NOT SUBJECT TO THE SAME REGULATORY REQUIREMENTS AS MUTUAL FUNDS, OFTEN CHARGE HIGH FEES, AND IN MANY CASES THE UNDERLYING INVESTMENTS ARE NOT TRANSPARENT AND ARE KNOWN ONLY TO THE INVESTMENT MANAGER. Alternative investment performance can be volatile. An investor could lose all or a substantial amount of his or her investment. Often, alternative investment fund and account managers have total trading authority over their funds or accounts; the use of a single advisor applying generally similar trading programs could mean lack of diversification and, consequently, higher risk. There is often no secondary market for an investor's interest in alternative investments, and none is expected to develop. You are advised to discuss with your financial advisers your investment options and whether any investment is suitable for your specific needs prior to making any investments.

All material presented herein is believed to be reliable but we cannot attest to its accuracy. Opinions expressed in these reports may change without prior notice. John Mauldin and/or the staffs may or may not have investments in any funds cited above as well as economic interest. John Mauldin can be reached at 800-829-7273.