# *What China's Economic Woes May Mean for the U.S.*

The fallout is probably limited — and there may be some upside for American interests.

By Lydia DePillis

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The news about China's economy over the past few weeks has been daunting, to put it mildly.

The country's growth has fallen from its usual brisk 8 percent annual pace to more like 3 percent. Real estate companies are imploding after a decade of overbuilding. And China's citizens, frustrated by lengthy coronavirus lockdowns and losing confidence in the government, haven't been able to consume their way out of the country's pandemic-era malaise.

If the world's second-largest economy is stumbling so badly, what does that mean for the biggest?

Short answer: At the moment, the implications for the United States are probably minor, given China's limited role as a customer for American goods and the minor connections between the countries' financial systems.

In a note published Thursday, Wells Fargo simulated a "hard landing" scenario for China in which output over the next three years would be 12.5 percent smaller than previous growth rates would achieve — similar to the impact of a slump from 1989 to 1991. Even under those conditions, the U.S. economy would shave only 0.1 percent off its inflation-adjusted growth in 2024, and 0.2 percent in 2025.

That could change, however, if China's current shakiness deepens into a collapse that drags down an already slowing global economy.

“It doesn’t necessarily help things, but I don’t think it’s a major factor in determining the outlook in the next six months,” Neil Shearing, the chief economist at Capital Economics Group, an analysis and consulting firm, said in a recent webinar. “Unless the outlook for China becomes substantially worse.”

## A potential balm for inflation, but a threat to factories.

When considering the economic relationship between the two countries, it’s important to recognize that the United States has played some role in China’s troubles.

The United States is well past a boom in consumption during the pandemic that pulled in $536.8 billion worth of imports from China in 2022. This year, with home offices and patios stuffed full of furniture and electronics, Americans are spending their money on cruises and Taylor Swift tickets instead. That lowers demand for goods from Chinese factories — which had already been weakened by a swath of tariffs that former President Donald J. Trump started and the Biden administration has largely kept in place.

**How Much America Buys From (and Sells to) China**

Monthly goods imports have fallen since a pandemic-era boom.

Source: Census Bureau • By The New York Times

For years, China’s leaders have said they want to rely more on the country’s households to drive economic growth. But they have taken few steps to support domestic consumption, such as shoring up safety net programs, which would persuade residents to spend more of the money they now save in case of emergencies.

That's why some are concerned that China could again fall back on encouraging exports to foster growth. Such a strategy might succeed since the Chinese currency, the renminbi, is very weak against the dollar, and it's possible to evade tariffs on most items by assembling Chinese parts in other countries — like Vietnam and Mexico.

An export surge would have countervailing effects. It could lower prices for consumer goods, which — along with falling Chinese demand for commodities like gasoline and iron ore — would help lower inflation in the United States. At the same time, it could counteract efforts to resuscitate American manufacturing, raising the political temperature as the presidential election approaches.

"My fear is that an export-based Chinese recovery will run up against a world that is reluctant to become ever more dependent on China for manufactures, and that becomes a source of tension," said Brad Setser, a senior fellow at the Council on Foreign Relations.

And what about goods flowing the other way, from the United States to China? It's not a huge volume — China accounted for only 7.5 percent of U.S. exports in 2022. American businesses have long sought to further develop the Chinese market, especially for agricultural products such as pork and rice, but success has been underwhelming. In 2018, the Trump administration negotiated a compact under which China would buy billions more dollars in products from U.S. farmers.

Those targets were never met. With appetite fading in China, they may never be. That could mean lower food prices globally, but farmers would be hurt.

"If their demand for corn and soybeans is rising, that's good for everybody who produces corn and soybeans around the world," said Roger Cryan, the chief economist with the American Farm Bureau Federation. "It is something to be concerned about down the road."

## Insulation for American institutions and investors.

So much for general trade dynamics. But the U.S. economy is composed of millions of companies with particular concerns, and some may have more to worry about as China's economy flounders.

Tesla, for example, had made inroads in the Chinese market, but its sales there have tumbled in recent months in the face of tough competition from local brands with lower-cost models. Apple generates about 20 percent of its revenue in China, which could also take a hit as residents choose cheaper products.

American banks that do business globally have noted slowing growth; Citigroup's chief executive, Jane Fraser, said on the company's second-quarter earnings call that China had been its "biggest disappointment."

Chinese tourists also pour money into U.S. cities when they visit, which they might do less of going forward. Glenn Fogel, the chief executive of Booking Holdings — which includes travel websites such as Booking.com and Priceline — said in his earnings call that their outbound business from China had been anemic.

"I don't expect a recovery in China for us for some time, significant time probably," Mr. Fogel said.

Those effects, however, are likely to be muted. Even if the economic picture darkens, the American and Chinese banking systems are separate enough to insulate U.S. institutions and investors, aside from the few who might have invested in property developers like Evergrande or Country Garden.

"There aren't realistic channels for financial contagion from China to the U.S.," Dr. Setser said. While China's central bank may hold off on buying U.S. Treasury bonds, he noted, any impact on the overall market could be contained. "There's no real scenario where China disrupts the bond market in a way that the Fed cannot offset."

On the contrary, there may be some upside for American companies if Chinese investors, lacking domestic opportunities, move more of their money into the United States. China's direct investment in U.S. assets is relatively low and could face new obstacles as states seek to erect barriers to Chinese purchases of U.S. real estate and commercial enterprises. But places that welcome it could benefit.

"Given that the U.S. seems to be doing relatively well, you could have money coming to the U.S., both in search of higher yield and in search of safety," said Eswar Prasad, a professor of trade policy at Cornell University.

## The wild card of geopolitics.

Aside from any direct financial and economic spillovers, it's worthwhile to consider whether a faltering China meaningfully alters geopolitical dynamics and American interests.

Washington has long fretted that a China-dominated trading bloc could limit market access for American companies by setting rules that, for example, contain weak protections for intellectual property. Such a trade agreement came into force in early 2022 after the United States abandoned its push to form the Trans-Pacific Partnership.

But if China appears less mighty, it may lose its attractiveness in a fracturing world. Countries that eagerly took loans from China for large infrastructure projects may turn back toward international lending institutions like the World Bank, despite their more stringent requirements.

"The fact that the Chinese economy is seen as being in a rough spot, in addition to more aggressive outreach in Asia and elsewhere by the Biden administration, that has shifted the balance a little bit," Dr. Prasad said.

Could China's economic condition affect its willingness to undertake any military adventures, such as an invasion of Taiwan? While the Communist Party leadership might seek to stir up patriotic spirits through such an attack, Dr. Prasad thinks a shaky economy would in fact make the use of military force less likely, given the resources required to sustain that kind of engagement.

One thing to keep in mind: While China appears to be going through a rough patch, the outlook is uncertain. There's a debate in think-tank circles about whether the country's economic structure will be durable over the longer term or fundamentally unsound.

Heiwai Tang, an economics professor at HKU Business School in Hong Kong, said it would be unwise to consider China the next Japan, on the brink of prolonged stagnation.

"I remain optimistic that the government is still very agile and should be responsive to a potential crisis," Dr. Tang said. "They know what to do. It's just a matter of time before they come to some kind of consensus to do something."

Ana Swanson and Jason Karaian contributed reporting.

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