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U.S. and China to Meet as Shifting Economic Fortunes Alter Relationship

Buoyant American growth, struggling Chinese economy are likely to shape this week's talks

By Andrew Duehren Follow

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Treasury Secretary Janet Yellen and Chinese Vice Premier He Lifeng greet each other Thursday in San Francisco. PHOTO: JOHN G MABANGLO/EPA/SHUTTERSTOCK

As Treasury Secretary Janet Yellen meets Chinese Vice Premier He Lifeng this week, the two sides find themselves in an economic role reversal.

The U.S. economy, buoyed by consumer spending and generous government subsidies for certain industries, bounded forward this year, notching 4.9% growth in the third quarter and defying forecasts of a recession. China, meanwhile, is mired in a property slump that has weighed down its entire economy, raising questions among economists about whether Beijing's growth engine is permanently downshifting.

The comparative U.S. strength and Chinese weakness is a change from previous rounds of diplomacy between the world's two largest economies, when China's rocketing growth fed anxiety among American officials about Beijing's geopolitical ambitions. Tensions have eased in recent weeks, though the Biden administration's restrictions on exports to and investments in China will loom over the talks.

Over the two days of talks in San Francisco this week, the American and Chinese teams are likely to be more focused on their macroeconomic fortunes, officials and analysts say. Beijing is concerned that high U.S. interest rates are battering its currency, while the Biden administration worries that China's slowdown could spur a rush of cheap exports that hurt U.S. businesses.

"Having an honest discussion is in some ways more important than the usual deliverables everyone asks for," said Brad Setser, a senior fellow at the Council on Foreign Relations and a former Biden administration official. "A substantive dialogue about broader economic policies is actually more important."

Trade is expected to be a crucial consideration during the coming U.S.-China talks. PHOTO: PATRICK T. FALLON/AGENCE FRANCE-PRESSE/GETTY IMAGES

Yellen's talks with He come ahead of a meeting next week between President Biden and Chinese President Xi Jinping in San Francisco, where world leaders are gathering for the Asia-Pacific Economic Cooperation summit. Global issues such as Israel's invasion of Gaza and Russia's war in Ukraine, as well as the governance of Taiwan, are expected to be prominent in those talks.

The presidential summit will be a culmination of months of diplomacy this year —including trips by Yellen and other cabinet officials to Beijing—aimed at steadying volatile relations between the superpowers. But even with relations relaxing, at least for now, American and Chinese economic leaders will have plenty to discuss—and disagree about.

U.S. officials hope to learn more about how China plans to address its economic slowdown. The American concern is that Beijing will focus solely on steps such as cutting interest rates, which boost China's exports and can undercut U.S. companies. Treasury officials said they plan to suggest that Beijing offer direct financial support to households to stimulate growth, though Chinese officials haven't embraced such moves.

The Chinese economic team is expected to seek Yellen's view on the Federal Reserve and elevated interest rates in the U.S., which have helped drive the yuan to near record lows. Beijing has been intervening to prop up its currency in recent months, a shift from the years when the U.S. worried about China weakening the yuan to gain a trade advantage.

For some economists and analysts, China's support for its currency has raised the prospect that Beijing could be selling from its vast holdings of Treasurys, which could have helped fuel a bond rout this year. Treasury officials said they can't tell whether China is doing that. The Chinese Embassy declined to comment.

Beyond the macroeconomic topics, He and his staff are expected to raise their concerns about recent steps to limit Chinese access to advanced U.S. technology and investment, analysts say. With the restrictions on U.S. investment into China, the Biden administration is still completing the rules for the prohibitions.

"There does seem to be a somewhat pragmatic view in Beijing that at least over the next few months the best possible outcome is no further escalation of any measures that limit trade investment between the two countries," said Eswar Prasad, who led the International Monetary Fund's China division and frequently travels to the country.

In remarks at the start of the meetings, He said that he hoped to bring U.S.-China economic relations "back on track."

"I will also take this opportunity to communicate with you, Madam Secretary, some of our key concerns in the economy, so as to create a better investment and business environment for enterprises of our two countries and to also take effective measures to bring our economic and trade relations back on track," He said through a translator.

Yellen has cast steps such as the investment restrictions as part of a targeted effort to protect national security while still maintaining a healthy economic relationship with China.

"A full separation of our economies would be economically disastrous for both our countries, and for the world. We seek a healthy economic relationship with China that benefits both countries over time," Yellen told He at the start of the meeting.

Still, U.S. trade with China has been declining compared with its relationship with other APEC countries, as both nations increasingly turn to alternative partners in the Indo-Pacific and around the world. With the U.S. headed into a closely contested election next year, policy makers might feel pressure to take hawkish steps toward China.

Some lawmakers and lobbyists for U.S. automakers are concerned about the Chinese electric-vehicle industry. The U.S. already imposes a 27.5% tariff on imported Chinese cars, and the Biden administration is grappling with how to make sure Chinese companies don't benefit from a $7,500 consumer subsidy for purchasing electric vehicles.

The concern is that Chinese carmakers, which are heavily subsidized by Beijing, could offer such low-cost vehicles that they are less costly than American-made alternatives, despite the tariffs and U.S. support for the domestic industry. China became the world's largest car exporter earlier this year, overtaking Japan.

Reps. Mike Gallagher (R., Wis.) and Raja Krishnamoorthi (D., Ill.) sent a letter to the Biden administration this week calling on officials to raise tariffs on Chinese vehicles. The administration has been conducting a yearslong review of Trump-era tariffs on roughly $350 billion in Chinese imports. Officials have said that the U.S. could lower levies on some imports while raising them on others as a result of the review.

"The Chinese companies that are highly subsidized are changing the international landscape," said Wendy Cutler, vice president at the Asia Society Policy Institute and a former senior U.S. trade official.

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