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ECONOMY | U.S. ECONOMY

China Slowdown Could End Up Being Good News for U.S.

Economists say it would keep a lid on consumer prices and possibly give a boost to U.S. service industry exporters

China's economic slowdown could help reduce the cost of steel used by auto makers. Above, robots weld BMW X4 SUV body frames in May at the company's assembly plant in Greer, S.C. *PHOTO: LUKE SHARRETT/BLOOMBERG NEWS*

By **BOB DAVIS**
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China's economic slowdown and Beijing's fumbling policy response have battered U.S. markets recently. But a slower-growing China, over the long haul, could be a plus for the U.S. in several ways.

On the economic side, a China slowdown would keep a lid on consumer prices as weak demand in China would depress the price of commodities such as copper, oil and steel used in cars, electronics and other consumer favorites, economists say.

And if China presses hard to remake its economy to focus on its service industry, as Chinese reformers have long urged, that would give a boost to U.S. companies, like software and entertainment firms if China gives them space to operate, and would cut overproduction in China's industrial sectors.

Another plus: big Chinese firms, say economists, would be likely to invest more in the U.S. as returns on investment shrink in China and expand in the U.S. Similarly, some of China's brightest talent, who are already educated in the U.S., might choose to stay abroad rather than return home if economic prospects in China fade.

On the geopolitical stage, slower growth would put off for decades the time when China could boast it was the world's largest economy, a threshold some estimate it may cross by 2030. That would weaken China's claims to global leadership and undermine the "China model" of development, where the state plays a big role directing the economy. In contrast, U.S. arguments that growth depends on entrepreneurial innovation, freedom of thought, and minimal government constraints would be bolstered.

"China's economic struggles are likely to subtly shift the balance of power in both bilateral and multilateral negotiations in favor of the U.S., whose economic recovery continues to gather momentum," said Eswar Prasad, a Cornell economist who was a senior China official at the International Monetary Fund. "The U.S. will go into meetings of the G-20 and international institutions with a stronger hand relative to China."

For many countries, strong Chinese growth is critical. They include China's neighbors in Asia, which depend on China trade, and commodity producers in Latin America and Africa. Moody's Analytics calculates that every 1 percentage point fall in Chinese GDP growth reduces global gross domestic product by 0.5 percentage point. (The global number also includes China, which makes the result seem more dramatic.)

But the U.S. isn't all that closely tied to China. U.S. exports to China are about 1% of U.S. GDP, and Chinese direct investment in the U.S. is just a fraction of a percent of total foreign investment.

"If China disappeared from the map," said Paul Ashworth, an economist for Capital Economics, U.S. GDP growth would fall by about 1 percentage point. "That's not even a recession."

Potential gains for the U.S. from a China slowdown have become fodder for some finger-pointing in Beijing. Yao Yudong, a researcher at China's central bank, blamed the Federal Reserve's plans to raise U.S. interest rates—not China's economic problems—for the global market turmoil.

Prices for electronic goods, many of which are produced in China, could stay low as China's economy slows.
PHOTO: RICK WILKING/REUTERS

How large a gain the U.S. would reap depends heavily on how China responds to its problems.

A significant shift toward a consumer-based economy would require China to reduce barriers that keep migrants from living in cities, strengthen the country's weak social safety net so consumers don't feel they need to save so much and sharply reduce state control of banks, among other big changes that are opposed by powerful local governments and state-owned firms.

Those changes would produce a big opportunity for U.S. banks, insurance companies, health-care firms, Internet and entertainment companies to do more business in China, specialists said. The changes would also de-emphasize old-line industries, such as steel and tires, that are burdened by overcapacity and export their excesses—prompting big trade fights around the world. Many of those money-losing companies would go out of business if Chinese banks made loans based on profitability, rather than government direction.

But even if China were to ignore reform, look to its old playbook and try to boost exports once again, the U.S. is unlikely to be hurt much. As the world's largest exporter, said University of California at San Diego economist Gordon Hanson, China doesn't have much room to expand exports, and the U.S. has already absorbed the bulk of the shock from the China export juggernaut.

A China looking to expand its industrial sector would resemble Japan in the

1990s, which was losing steam economically, layering on debt to keep companies afloat and looking for the government to create an industrial strategy that would pull the country out of its funk. Japan's vaunted bureaucrats never succeeded.

"The (Chinese) government would make bets on industries," said Mr. Hanson. "Some would work out and some wouldn't." Chinese Premier Li Keqiang has been pushing China to develop 3-D printing, the Internet-of-Things, and a homegrown semiconductor industry, among other pet projects.

Of course a sharp economic slowdown at home could tempt China's leaders to try military adventurism abroad to retain support. But even here, slower growth would work to the U.S. advantage. "It's one thing to expand your military budget 10 % a year, when you're growing 7% a year," said former Obama Treasury official Ted Truman. "It's another thing to do it when you're growing 4%. It would eat up the rest of the budget. That would lessen China's challenge to U.S. dominance."

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