China’s Economic Turmoil Could Raise Prices For The Average American, Experts Say

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China’s economy is struggling after failing to recover from the COVID-19 pandemic, a trend that could negatively impact average Americans through higher product costs and disadvantageous trade policies, experts told the Daily Caller News Foundation.

China’s gross domestic product (GDP) grew at a 6.3% annual pace in the second quarter of 2023, increasing only 0.8% compared to the first quarter, indicating its economic recovery is worsening in the wake of the COVID-19 pandemic, according to a National Bureau of Statistics of China (NBSC) press release. Experts have pointed to key factors such as China producing and exporting fewer goods, along with the country’s debt, that have hampered growth, and say that China’s economic woes could ultimately affect Americans through higher consumer prices and fewer goods coming from China.

“The key thing to bear in mind when looking at the Chinese economy is that it is the world’s second largest economy and, until recently, its main engine of economic growth,” Desmond Lachman, senior fellow at the American Enterprise Institute and former deputy director in the International Monetary Fund’s Policy Development and Review Department, told the Daily Caller News Foundation. “A stumbling Chinese economy could cast a shadow over the U.S. and world economic recoveries.”

Retail spending has struggled in China, with retail sales growing only 0.2% in June from May, indicating that many Chinese consumers have low confidence in the economy and are choosing to save money rather than spending it, according to The Wall Street Journal.

Unemployment for those between the ages of 16 and 24 increased from 19.6% in the first quarter to 21.3% in the second quarter, with urban unemployment remaining stagnant at 5.2% for a second quarter in a row, according to the NBSC.

Americans could see consumer prices driven up by a lack of access to cheaper Chinese-made goods, while U.S. businesses may see less growth due to a lack of Chinese investment, and policies by the Chinese government designed to boost the economy could hurt the viability of American exports to China, experts told the DCNF.

“The major risk to a Chinese economic downturn is most likely to be seen in larger global economic insecurity and the potential for trade and export policy that protects Chinese industry and exports through industrial supports, or other trade policies, that lead to greater tariffs and intervention into the economy on both sides, which ultimately will lead to greater market distortions, and ultimately higher consumer prices,” Ryan Yonk, economist with the American Institute for Economic Research, told the DCNF.

The central reasons for China’s economic struggles, according to Peter St. Onge, economist and research fellow in the Thomas A. Roe Institute for Economic Policy Studies at The Heritage Foundation, are its weakening exports and its attempts to pay off its massive debts, which increased during the COVID-19 pandemic.

“There are basically two things driving the Chinese underperformance: One of them is weakening exports. It’s hitting all of the Asian economies,” St. Onge told the DCNF. “The other one is deleveraging, which is China’s buildup of roughly $50 trillion in debt… They’ve got enormous property debts, and local governments have a lot of debt.”

American businesses will also feel the pressure of the faltering Chinese economy, as Chinese businesses will be less flush with cash to invest in the U.S., St. Onge said.

“If I tried to identify the biggest red flag, it is that Chinese money is probably not going to be coming in as much, which has been something that has floated in the U.S. for the past decade,” St. Onge said to the DCNF. “Chinese money coming in is helpful for American businesses.”

For the broader American economy, Clark Packard, research fellow in the Herbert A. Stiefel Center for Trade Policy Studies at the Cato Institute, told the DCNF that “slowing demand in China will hurt U.S. exporters who sell products to the country,” possibly being a contributing factor to a U.S. recession or economic downturn.

China may also take steps to address the poor growth by enacting policies that could further disadvantage American consumers, such as competitive trade policies that aim to help domestic production in China but will hurt those who do business with China, like the U.S.

Packard also sees the potential for national security threats to the U.S. from China due to its struggling economy.

“There’s an open question on whether a faltering domestic economy makes Beijing more aggressive militarily – i.e., Xi tries to divert attention away from a failing economy by saber rattling against the U.S. and Taiwan,” Packard told the DCNF. “If you look at [Foreign Direct Investment] into China, it has declined precipitously over the last several years, and that’s largely due to Xi’s aggressive geopolitical posturing – foreign investors are questioning whether China’s a safe economic bet given all the broader tensions/uncertainty.”