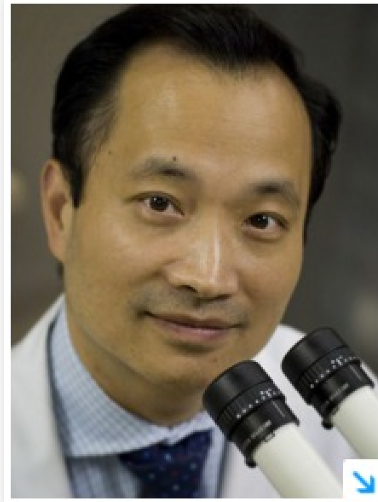
China slowdown's effects on U.S. are limited

Dr. Ming Wang 2 p.m. CST January 27, 2016


(Photo: Submitted)

STORY HIGHLIGHTS

- The U.S. went through this same transition in the 20th century, coming out of it more stable.
- Our economy has never become dependent on selling goods to China.

In August 2015, we had the first stock market correction (defined as a 10 percent decline from recent peaks) in more than four years. Yet barely four months later, the U.S. is already experiencing another one. Though the recent oil price drop did contribute to the most recent correction, the real culprit for both corrections is the same — China. As the president of the Tennessee Chinese Chamber of Commerce, I would like to discuss the trends of the Chinese economy in recent decades, and the global impact of its recent slowdown, particularly in the U.S.

For the last 30 years, China has worked hard to become the "factory of the world." The country did everything it could to convince companies all over the developed world to move their low-end factory and assembly jobs to China. China was spectacularly successful. It was rewarded by GDP growth averaging over 10 percent a year for 30 years. Hundreds of millions of Chinese moved from subsistence farming in rural villages to factory work in big cities. Huge modern cities similar to those that took hundreds of years to develop in the West were built in less than a decade in China. Never in human history have so many people moved from poverty to middle-class living in such a short time.

But that incredible proliferation is now at a standstill. Factory work is ongoing in China, but the significant growth has run its course because at this point, every company that was able to move to China has already done so. Future growth of China's export businesses will be limited by global growth, which will not be anywhere near the rate of increase China enjoyed for so long. Over the last 30 years, many businesses in the West — and entire countries in the developing world — have made money by feeding China's economic miracle with oil, copper, iron and more. The effects of decreasing growth in those areas, therefore, are hitting economies all over the world.

Chinese leaders have been very upfront about this challenge. They have openly stated that they know this part of their history is over, and they will now work hard to change their economy from one where domestic consumers accounted for as little as 20 percent of the GDP to one more like the United States, where consumer spending accounts for closer to 70 percent of the GDP. The good news is that consumer-led economies like ours are far more stable and resilient, but the bad news is that they typically grow at a rate of 3-4 percent, not 10 percent. So China's growth, predicted to be just above 6 percent this year, will very likely continue to trend downward for several more years before arriving at a stable level more consistent with that of the developed world.

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For some countries, this is a disaster. Emerging markets like those in Brazil and Indonesia depend heavily on an endless Chinese demand for their commodities. They have both been thrown into recession, and they will have to adjust their economies to something more sustainable if they want to recover.

Here in the United States, in contrast, the future seems much brighter. Our economy has never become dependent on selling goods to China; such direct exports make up less than 1 percent of our GDP. Of course, some of our larger trading partners do a large amount of business with China, so the total impact is significant, but hardly catastrophic. In fact, the U.S. economy is picking up steam; the recent increase in jobs is a great example. In December we added 292,000 new jobs, as well as many other leading economic indicators, such as positive consumer confidence and consumer credit growth. In fact, possessing these positive indicators in the face of global disarray is exactly why the Chinese want what we have — an economy dominated by the domestic spending of its own citizens.

So why is the U.S. market declining so much in the face of the Chinese slowdown if it doesn't really seem to be seriously affecting our economy? The short answer, as usual, is fear. Despite evidence to the contrary, there is great anxiety that this problem in China will eventually create a big problem for the U.S. I disagree. I believe this fear will moderate; the continuing stream of good news here at home will eventually encourage investors back into the stock market, and 2016 will turn out to be a good one for investors. At the same time, more volatility is, of course, inevitable.

In the meantime, as Americans we need to be patient as we go through our stock market correction and China's transition into a developed economy more like our own. While the instability surrounding this change may be unsettling in the short run, everyone will be better off in the long run, with a more modern, consumer-oriented Chinese economy. This new China will be more likely to buy American goods and will be more determined to maintain peace with its neighbors, since the biggest fear of any consumer economy is instability that causes shoppers to stay home and not spend their money. It may be comforting for us to remember that the United States went through this transition in the 20th century ourselves, and we came out of it more stable and motivated to maintain global peace throughout the world.

Dr. Ming Wang, MD, Ph.D., is the director of Wang Vision 3D Cataract and LASIK Center, president of Tennessee Chinese Chamber of Commerce, honorary president of Tennessee American-Chinese Chamber of Commerce, co-founder of Tennessee Immigrant and Minority Business Group and co-owner of Shanghai Aier Eye Hospital Group, the largest private eye hospital group in China. He can be reached at drwang@wangvisioninstitute.com.

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