CHINA'S PATH TO THE WORLD'S LARGEST ECONOMY: LIMITS OF EXTRAPOLATIONS

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Executive Summary

1. China has just overtaken Japan as the world's second largest economy by size, measured by nominal gross domestic product (GDP) at market prices. Measured by GDP based on purchasing power parity (PPP) terms, China has already been the world's second largest economy since 2002.

2. Thirty years ago China was the world's 11th largest economy by economic size, equivalent to less than 8% of the then US economy. After years of hyper growth, its economy is now over 31% of the US economy at market prices and 60% of the latter by PPP GDP.

3. Recent forecasts by pundits of China studies have projected various scenarios of China overtaking the US by total economic size in the 2020s. Such forecasts have become an important reference note for international geopolitics.

4. A closer look at such forecasts reveals their nature of extrapolating the existing growth trends. Results of such extrapolations should be read with caution. Their validity largely hinges on whether China is able to overhaul its current growth model that relies too much on cheap labor, export expansion, and extensive use of natural resources.

5. On its path to becoming the world's largest economy, China will face many challenges and uncertainties. Entering the rank of middle-income countries, China will find it more difficult to move up further with the burdens of a rapidly aging population, the fast deteriorating environmental conditions, and rising social inequality.

6. A sure thing to happen is the considerable slowdown of China's GDP growth in the coming years. That will pose serious challenges to a society that has so far grappled with severe polarization of income and wealth by hanging on to a fast growing economic pie.

7. Even when China becomes the world’s largest economy, its per capita income and overall level of development will still be far below the level achieved by countries like Japan and the US. If China can overtake the US economy in the early 2020s, its per capita income will still be more than a dozen of years behind the Latin Americans’.