

China Is Now the World's Largest Economy. We Shouldn't Be Shocked.

Description

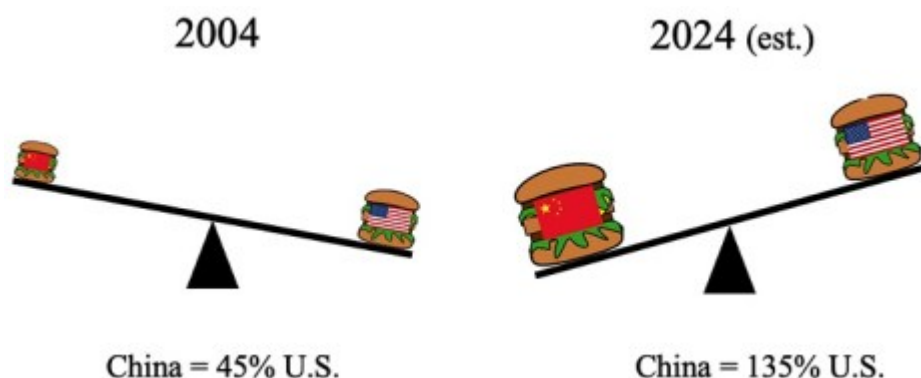
by [Graham Allison](#) via [The National Interest](#) Oct. 2020, Excerpt

China has now displaced the U.S. to become the largest economy in the world. Measured by the more refined yardstick that both the IMF and CIA now judge to be the single best metric for comparing national economies, the IMF Report shows that China's economy is one-sixth larger than America's (\$24.2 trillion versus the U.S.'s \$20.8 trillion). Why can't we admit reality? What does this mean?

This week, the IMF presented its [2020 World Economic Outlook](#) providing an overview of the global economy and the challenges ahead. The most inconvenient fact in the Report is one Americans don't want to hear—and even when they read it, refuse to accept: [China](#) has now displaced the U.S. to become the largest economy in the world. Measured by the more refined yardstick that both the IMF and CIA now judge to be the single best metric for comparing national economies, the IMF Report shows that [China's economy](#) is one-sixth larger than America's (\$24.2 trillion versus the U.S.'s \$20.8 trillion).

Despite this unambiguous statement from the two most authoritative sources, most of the mainstream press—with the exception of *The Economist*—continue reporting that the U.S. economy is No. 1. So, what's going on?

Obviously, measuring the size of a nation's economy is more complicated than it might appear. In addition to collecting data, it requires selecting a proper yardstick. Traditionally, economists have used a metric called MER (market exchange rates) to calculate GDP. The [U.S. economy](#) is taken as the baseline—reflecting the fact that when this method was developed in the years after [World War II](#), the U.S. accounted for almost half of global GDP. For other nations' economies, this method adds up all goods and services produced by their economy in their own currency and then converts that total into U.S. dollars at the current "market exchange rate." For 2020, the value of all goods and services produced in China is projected to be 102 trillion yuan. Converted to U.S. dollars at a market rate of 7 yuan to 1 dollar, China will have an MER GDP of \$14.6 trillion versus the U.S. GDP of \$20.8 trillion.



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For the U.S. to meet [the China challenge](#), Americans must wake up to the ugly fact: China has already passed us in the race to be the No. 1 economy in the world. Moreover, in 2020, China will be the only major economy that records positive growth: the only economy that will be bigger at the end of the year than it was when the year began. The consequences for American security are not difficult to predict. Diverging economic growth will embolden an ever more assertive geopolitical player on the world stage.

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