China Surpasses U.S. As World's Largest Economy; Americans Don't Seem To Notice

After 144 years, the United States is no longer the world's largest economy. In 2013, the U.S. had a GDP of $16.77 trillion, surpassing every nation, with China coming in second place at $16.15 trillion.

But for the first time since 1880, the United States is no longer the world's largest economy. China's GDP in 2014 of $17.63 trillion was higher than that of the United States at $17.42 trillion, according to International Monetary Fund's "World Economic Outlook," which computes GDP for 190 nations using purchasing power parity.

China will take a bigger lead in coming years as its economy continues to grow at a faster rate, with the IMF projecting its GDP at $19.23 trillion in 2015 (compared to the United States at $18.29 trillion); $22.8 trillion in 2017 (compared to the U.S. at $20.17 trillion); and $26.87 trillion in 2019 (compared to the United States at $22.15 trillion).

China's rise to number one "happened sooner than almost anyone thought — the earliest forecast was for 2016," notes Dr. Deborah Allen Hewitt, professor of economics and finance and the Graduate School of Business Administration at the College of William & Mary.

Prior to the 2008 U.S. financial system collapse, forecasters expected China's GDP to surpass the United States' by 2018 at the earliest. Most expected the crossover to occur around 2025. But as the U.S. economy slowed, China continued growing at a robust clip.

American citizens and their politicians have not taken much notice — although the news is monumental. "It isn't recognized because there is no market for that knowledge here," says Hewitt. "People don't want to hear it." As someone who does a lot of public speaking, when Hewitt talks about the development she gets one of two responses: "They either think you are un-American; 'How can you say that?' And I say, 'I am just pointing it out to you because it is a fact now.' The other is that there must be some manipulation of the data behind it."

Usha Haley, professor of management at the University of West Virginia and author of the recent book *Subsidies to Chinese Industry*, says the fact that China is now the largest economy has little bearing on its role as a global leader. When measuring by inflation-adjusted income per capita, China remains a poor nation. The average per-capita income in the United States is almost $50,000, compared to $12,000 in China, the same as that of Albania. "But nobody is talking about Albania because it has a small population compared to China, which catapults it

(Continued on page eight)

Gross Domestic Product, 2014
Based On Purchasing Power Parity
(In Current International Dollars — Billions)

1.	China	$17,632,014
2.	United States	$17,416,253
3.	India	$7,277,279
4.	Japan	$4,788,033
5.	Germany	$3,621,357
6.	Russia	$3,558,640
7.	Brazil	$3,072,607
8.	France	$2,586,524
9.	Indonesia	$2,554,311
10.	United Kingdom	$2,434,932
11.	Mexico	$2,143,499
12.	Italy	$2,065,933
13.	Korea	$1,789,758
14.	Saudi Arabia	$1,651,718
15.	Canada	$1,578,921
16.	Spain	$1,533,509
17.	Turkey	$1,512,127
18.	Iran	$1,283,629
19.	Australia	$1,100,449
20.	Nigeria	$1,057,831
21.	Taiwan	$1,021,607
22.	Thailand	$990,093
23.	Egypt	$945,388
24.	Poland	$941,417
25.	Argentina	$927,382
26.	Pakistan	$884,204
27.	Netherlands	$798,106
28.	Malaysia	$746,821
29.	Philippines	$694,615
30.	South Africa	$683,147
31.	United Arab Emirates	$604,960
32.	Algeria	$551,720
33.	Venezuela	$545,704
34.	Bangladesh	$535,645
35.	Vietnam	$509,466
36.	Iraq	$494,453
37.	Belgium	$467,116
38.	Singapore	$445,174
39.	Sweden	$434,175
40.	Chile	$410,277
41.	Hong Kong	$400,607
42.	Romania	$386,511
43.	Peru	$376,737
44.	Austria	$376,721
45.	Ukraine	$373,141
46.	Norway	$339,518
47.	Qatar	$323,191
48.	Czech Republic	$299,679
49.	Greece	$284,318
50.	Kuwait	$283,862
51.	Portugal	$275,997
52.	Israel	$268,283
53.	Denmark	$248,683
54.	Morocco	$244,331
55.	Hungary	$239,934
56.	Ireland	$224,730
57.	Finland	$221,539

Source, IMF, "World Economic Outlook Database," 2014

Brown On China... *(From page two)*

Ohio] sat in my office and lobbied me. He asked me to vote for PNTR. I did not, but he continued to press me. He said it would be good for his company, his workers, our community, our tax base, our schools, our police force. A few years later after PNTR passed, he moved a good bit of production to China. This time, I sat in his office and he told me, 'The reason I moved to China is that my competitors are now in China. American manufacturers are now in China.' "

Because the rules of trade and taxes changed with China, an unprecedented and ubiquitous American business model was established: shut down production in the United States, move it to China and ship the products back to the United States.

The U.S. Trade Representative every year produces an annual report on whether China is abiding by the international commitments it made when it joined the WTO. Hundreds of pages are dedicated to illegal subsidies the Chinese government provides its state-owned enterprises, its "rampant" theft of intellectual property; its lack of transparency; its discriminatory treatment of foreign companies. And yet, the USTR and the U.S. federal government do nothing about it. "We have paid a heavy price for our inaction," said Brown.

"A policy of principled resolve means we make clear what international obligations we expect China to meet on cyber security, human rights, international trade, workers rights and other issues. Then we demand that China meet those standards now," said Brown.

The U.S. should insist that China issue visas to foreign journalists. It should insist that it release its political prisoners and shut down its forced labor camps. It should require that its currency appreciate "and take explicit, permanent steps to comply with its WTO obligation," he said. The United State should require China to allow workers the right to organize unions and start enforcing its environmental laws. "The Chinese could do all of this today. Why should we give China more opportunities to fail to live up to its commitments?"

A new approach would treat China the same on human rights as it does on its international economic obligations. "If China does not respect the human rights of its own people, how can we expect China to respect its agreements with us?" asks Brown. "We must not treat these issues separately in the vain hope that improvement on market access eventually will lead to the better treatment of Tibetans."

Brown spoke recently with *Manufacturing & Technology News* about issues that will be addressed in the upcoming session of Congress and what went wrong for Senate Democrats in the last election. Here is what he had to say:

Question: Will there be any type of manufacturing agenda in Congress over the next session?

Brown: I'm hopeful. Much changes, but my way of doing business on manufacturing doesn't change in terms of finding a Republican sponsor and moving forward together. It's been [Maine Republicans Olympia] Snowe and [Susan] Collins on job training; it's been [Roy] Blunt [R-Mo.] on manufacturing. On other kinds of manufacturing issues, I'm working with [Alabama Republican Jeff] Sessions on currency, whether it's standalone currency or part of TPA [Trade Promotion Authority]. I don't know if [Utah Republican Orrin] Hatch [incoming chairman of the Senate Finance Committee] sees that at this point, but it needs to be one of the conditions of TPA; any agreement that is negotiated has to have currency, including the one they are negotiating now — the TPP [Trans Pacific Partnership].

On Buy America, any time it comes to a vote, we win big on that issue, the difficulty is getting it to a vote. But we will be assiduous and aggressive on working on that.

Q: You heard [U.S. Trade Representative Michael] Froman before the Senate Finance Committee respond to your question that he had not even considered cur-

(Continued on next page)

China Surpasses United States... *(From page three)*

into a different strata," says Haley.

The bigger issue is China's role as the world's largest exporter of manufactured goods "because that prowess is built on subsidies to Chinese industries," says Haley. Manufacturing has shifted to China not because it is a more efficient country to produce goods with a distinct comparative advantage; industry has grown in China because it is being subsidized. "So the comparative advantage theory — the false sense of efficiency that built their economy and does not exist — is much more dangerous than the PPP GDP measure," Haley argues. "Once these industries move to China is it almost impossible to get them back."

It is important for the United States government to aggressively pursue China on its unfair subsidies by assessing countervailing duties. "Nobody is really looking out for the long-term or even medium-term interests of the United States," says Haley. "It's a short-sighted strategy."

In her executive MBA program at the College of William and Mary, Prof. Hewitt has started taking students to China to raise awareness of the opportunities for American-made goods. "In some ways it is not important that they produce as much as we do, but what is most significant and the biggest change is that they are also consuming as much or more of many products as we do — and that is what Americans are not aware of," says Hewitt.

The Chinese consumer market is booming and domestic companies can't keep up, such as WH Holdings, which purchased Smithfield Foods in order to supply pork to the Chinese masses. General Motors is selling more cars in China than it is in the United States. China is the largest market for Kentucky Fried Chicken.

"This is a tremendous opportunity for American business because of the shift," says Hewitt. "It's not easy to penetrate the Chinese market, but you can chip away and chip away, and that is why we take our executives over there."