

## Economics

# US Extends Lead Over China in Race for World's Biggest Economy

- US ends 2023 with a bang while China struggles with a bust
- Ex-IMF official calls it 'a striking turn of fortunes'

By [Rich Miller](#) and [Enda Curran](#)

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The US has pulled further ahead of China in the race for world's biggest economy, thanks in part to a vibrant American consumer.

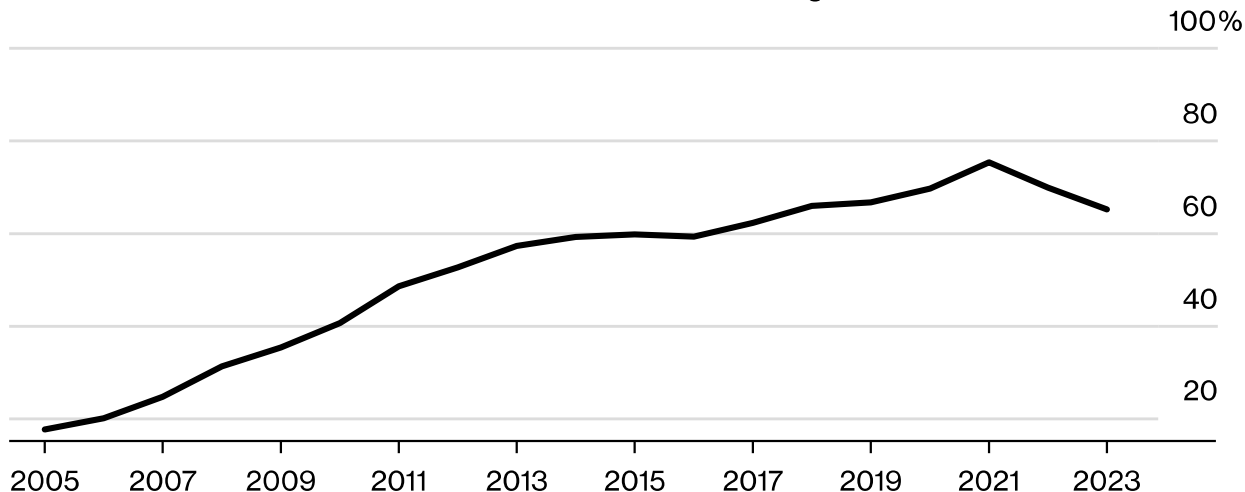
US gross domestic product rose 6.3% in nominal terms – that is, unadjusted for inflation – last year, outpacing China's 4.6% gain. While some of the outperformance reflected America's elevated price increases, the 2023 outturn underscores a broader point: The US economy is emerging from the pandemic period in a better place than China's.

"It is a striking turn of fortunes," said Eswar Prasad, who once led the International Monetary Fund's China team and is now at Cornell University. "The strong performance of the US economy, in tandem with all the short-term and long-term headwinds the Chinese economy is facing, renders it a less obvious proposition that China's GDP will someday overtake that of the US."

## China's Economy Falls Further Behind US

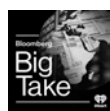
US has enjoyed a strong recovery from the pandemic

China GDP as share of US at USD market exchange rates



Source: Bloomberg; World Bank

The economic outperformance is reflected in the respective countries' stock markets. US shares have hit all-time highs this week, while Chinese equities are mired in a \$6 trillion-plus bear-market rout.



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It wasn't expected to be this way. At the start of last year, the US was widely tipped to fall into a recession as the Federal Reserve jacked up interest rates to combat an inflation scourge not seen in decades.

China, on the other hand, was expected to experience a rip-roaring recovery as it reopened its economy fully to commerce after strict lockdowns to combat the spread of Covid-19.

That's not what happened. GDP data released on Thursday showed the US economy ended the year with a bang, growing 3.3% in real, inflation-adjusted terms in the fourth quarter after expanding 4.9% in the third. Inflation is on its way back down to the Fed's 2% target and fears of a recession are fading.

### **Property Bust**

China, by contrast, is struggling under the weight of a years-long real estate bust and its worst streak of deflation in some 25 years. Exports – once a critical pillar of growth – declined in 2023, joblessness among young people has soared and local governments are saddled with too much debt.

While government figures show the economy met the authorities' annual growth target, by expanding 5.2% in 2023, there are suspicions that isn't a true picture of what's going on.

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[Did China's Economy Really Grow 5.2% in 2023? Not All Agree](#)

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To be sure, nominal GDP isn't the only way to measure the size of a country's economy.

Economists also use something called purchasing power parity, which tries to take account of differences in prices between countries for the same good or service. On that basis, as calculated  by Bloomberg Economics, China overtook the US around 2016: A dollar in China simply buys a lot more than it does in the US.

But many observers don't think that's the best way to measure economic heft on the world stage. For that, nominal GDP is seen as a better guide.

### **Power Issue**

"The pandemic covered up a lot of China's weaknesses that are deep and structural and will last through the decade – depending on their ability to reform," said Josh Lipsky, a former IMF adviser who is now director of the Atlantic Council's GeoEconomics Center.

Peterson Institute for International Economics President Adam Posen argues that Chinese President Xi Jinping has greatly compounded the country's underlying economic weaknesses by his arbitrary and authoritarian exercise of power throughout the economy and society, particularly during the pandemic.

That's spooked households and small businesses into hoarding cash, because they just don't know what's coming next. It's a malady that Posen has called "economic long Covid" – a chronic condition marked by a lack of vitality and extended sluggishness.

The US, meanwhile, has surprised economists with the resiliency of its economy coming out of the pandemic. Some like Posen even suspect the country may be on the cusp of a pickup in productivity growth that will allow the economy to grow faster without generating inflation.

However, the final act in the Fed's campaign to return US inflation to its 2% target has yet to be written. There's still a risk it could keep policy too tight for too long, and precipitate a downturn.

The jobs market is showing signs of weakening at the edges. As a result, MacroPolicy Perspectives LLC founder and former Fed economist Julia Coronado told an American Enterprise Institute webinar on Wednesday the risks of a recession are higher now than at the start of 2023, though her base case remains that one will be avoided.

The US has longer-term concerns as well, including a historically high budget deficit.

Still, the story from last year is clear.

“All the talk of China becoming the world’s largest economy by GDP has been put on the backburner and delayed, if not indefinitely postponed,” Lipsky said.

– *With assistance from Jill Disis and Tom Hancock*

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