

# Bloomberg

---

## China Overtakes Japan as World's Second-Biggest Economy

By Bloomberg News - Aug 16, 2010

China surpassed Japan as the world's second-largest economy last quarter, capping the nation's three-decade rise from Communist isolation to emerging superpower.

Japan's nominal [gross domestic product](#) for the second quarter totaled \$1.288 trillion, less than China's \$1.337 trillion, the Japanese Cabinet Office said today. Japan remained bigger in the first half of 2010, the government agency said. Japan's annual GDP is \$5.07 trillion, while China's is more than \$4.9 trillion.

China led the world out of last year's global recession with an [economy](#) that's more than 90-times bigger than when leader [Deng Xiaoping](#) ditched hard-line Communist policies in favor of free-market reforms in 1978. The country of 1.3 billion people will overtake the U.S., where annual GDP is about \$14 trillion, as the world's largest economy by 2027, according to Goldman Sachs Group Inc. chief economist [Jim O'Neill](#).

China's surpassing of Japan "is a marker of its increasingly dominant role in the global economy," said [Eswar Prasad](#), a senior fellow at the Brookings Institution and former head of the China division at the International Monetary Fund. "The resilience of China's growth during the crisis enabled a number of other countries, particularly commodity-exporting economies, to ride on its coattails."

The benchmark Shanghai stock index rose 2.1 percent at the 3 p.m. close today, climbing the most this month.

### Tricky Comparison

China overtook the U.S. last year as the biggest automobile market and Germany as the largest exporter. The nation is the world's No. 1 buyer of iron ore and copper and the second-biggest importer of crude oil, and has underpinned demand for exports by its Asian neighbors.

While China's output was also larger in the fourth quarter of 2009, Japan's GDP rebounded to exceed China's in the first quarter, according to data compiled by Bloomberg News. According to IMF data using purchasing-power-parity calculations to adjust for exchange-rate differences, China overtook Japan in 2001.

Quarterly comparisons between China and Japan are "a little tricky because they do not take account of different seasonal patterns between the two countries," said [David Cohen](#), head of Asian forecasting at Action Economics in Singapore.

China's economy is cooling as the government trims credit growth from last year's record \$1.4 trillion and discourages multiple-home purchases to cool surging property prices. July industrial output rose the least in 11 months, retail sales growth eased and new loans climbed less than estimated. China Petroleum & Chemical Corp. said last month that its crude-oil processing increased at a slower pace in the second quarter as fuel demand faltered.

### Property Collapse

The country's property market is beginning a "collapse" that will hit the nation's banking system, [Kenneth Rogoff](#), a Harvard University professor and former chief economist of the IMF, said July 6.

Still, China is on course to overtake the U.S. as the world's largest economy around 2020, PricewaterhouseCoopers said in a January report.

With China's growth surging 10.3 percent in the second quarter from a year earlier and Japan expanding 2 percent, the "gap is going to widen" in future, said [Shen Jianguang](#), a Hong Kong-based economist at Mizuho Securities Asia Ltd. "It is not likely that Japan will retake the No. 2 spot given the likely growth rates."

Four of the world's top 10 companies by market capitalization are from China, including PetroChina Co., Industrial & Commercial Bank of China Ltd., [China Mobile Ltd.](#) and China Construction Bank Corp.

### Agricultural Bank

Agricultural Bank of China Ltd. boosted the size of its initial public offering to \$22.1 billion this month after selling more stock in Shanghai, making it the world's largest first-time share sale. The IPO made the nation home to four of the world's 10 biggest banks by market value, half a decade after the country's first major state-owned lender went public.

China may be the biggest IPO market in 2010 as companies are likely to raise 500 billion yuan (\$74 billion) in Shanghai and Shenzhen, PricewaterhouseCoopers forecast last month.

Since introducing free-market policies, China has lifted 300 million citizens out of poverty, according to the United Nations. The country remains a developing nation, with its per capita gross national income ranked 127th in the world at \$2,940 at the end of 2008, behind Angola and Azerbaijan, according to the World Bank.

### Cultural Revolution

In the first three decades of Communist Party rule before Deng took power, China's economy was hobbled by the chaos of the Great Leap Forward, a failed attempt to transform the agrarian nation into an industrial powerhouse, and the Cultural Revolution, a decade of political upheaval led by [Mao Zedong's](#) Red Guards.

"China has a large population, a weak economic foundation, relatively few resources and a large poverty population, which remains our basic situation," [Ma Jiantang](#), head of China's statistics bureau, said in January. "Therefore, while we take note of our expanding size of economy and enhancing economic strength, we should also have a sober understanding that China remains a developing nation."

China's future influence on the global economy will increase, said Shen at Mizuho. The country's "double-digit" expansion will contribute a third of global growth this year, the Organization for Economic Cooperation and Development said in March.

"Japan had a huge impact on the global commodities market and foreign direct investment flows in the 1980s" as China is doing now, Shen said. "The major difference is that China's population is 10-times bigger than Japan's, its economy is still growing at above 9 percent per year, and Chinese investors are just beginning to invest abroad. You can imagine that China's impact will be so much bigger."

--[Kevin Hamlin](#), [Li Yanping](#). With assistance from [Marco Babic](#) and [Sunil Jagtiani](#) in Singapore, [Russell Ward](#) and [Keiko Ujikane](#) in Tokyo and [Zhang Shidong](#) in Shanghai. Editors: [Stephanie Phang](#), [Cherian Thomas](#)

To contact the Bloomberg News staff on this story: [Kevin Hamlin](#) in Beijing on [khamlin@bloomberg.net](mailto:khamlin@bloomberg.net)