



Economics

Free exchange

Second in line

Aug 16th 2010, 13:36 by R.A. | WASHINGTON

CHINA has, at long last, [surpassed](http://noir.bloomberg.com/apps/news?pid=20601087&sid=aNNuZxAAr9KE) (<http://noir.bloomberg.com/apps/news?pid=20601087&sid=aNNuZxAAr9KE>) Japan in terms of nominal GDP, making the Chinese economy the world's second largest. Second quarter output in China came in at \$1.337 trillion, to Japan's \$1.288 trillion (Japan's output was larger in the first quarter; for comparison, America's second quarter nominal output was \$3.522 trillion). The shift is sure to be widely discussed and widely misinterpreted. There are a few key things to mention.

First, while Chinese growth has been truly impressive in recent decades, the rapid overtaking of the Japanese economy also reflects years of disappointing growth there. This story is as much about Japan's travails (and the risk to other rich economies facing a descent into Japanese-style stagnation) as it is China's boom.

Second, China remains a very poor country in per capita terms. It uses over four times as many citizens as America to produce less than half America's output. That's a bit misleading—urban productivity in China doesn't lag America by quite as much but is offset by the limited growth contribution of China's hundreds of millions of rural poor. Still, the total output figures encourage observers to vastly overstate the developmental level of the Chinese economy.

And third, significant challenges remain ahead. As Eswar Prasad says:

There are virtually no historical parallels for a country that is so large and dominant in absolute terms and yet that lags far behind many other countries in terms of per capita income and other indicators of development. There is still a yawning gap in per capita income levels between China and the advanced economies and, even at present growth trajectories, it will take a generation for China to achieve the level of development of advanced economies.

Growth in China has led hundreds of millions of people out of dire poverty and is cause for celebration. But the process of transition is going to continue to be a difficult one for China and the world.