

China's jump signals shift in global power

By Jamil Anderlini in Beijing

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Shanghai traffic lights display the number two: but some experts point to the poor quality of Chinese growth

To economists, China overtaking Japan as the world's second largest economy in nominal terms is almost meaningless.

In more economically important purchasing power terms **China overtook Japan almost a decade ago**, and the exact moment when China's nominal US dollar gross domestic product surpasses Japan's has a lot to do with exchange rates and technical statistical revisions.

To illustrate the point, an economist will tell you that identical houses built in both countries using the same materials and labour today creates three times as much GDP in Japan as it does in China because everything in Japan costs a lot more.

But for all non-economists, **China's jump to the number-two spot** – something that will happen this year if it has not already – is important because it represents **a shift in global economic and political power**.

It is also important to the Chinese government and how it relates to the rest of the world, as the success symbolised by **its rise in the GDP rankings** will bring greater scrutiny and an expectation Beijing will assume more responsibility on the world stage.

"China's foreign policy has long been to maintain a low profile, but it is now the number-one exporter, the number-two economy and will be the number-one energy consumer by next year. All of these milestones mean China has fewer places to hide," according to Arthur Kroeber, managing director of Dragonomics research consultancy. "The country is not quite ready for its new role and would like to put it off for as long as it can."

China has become increasingly adept at translating its rising economic power into political and diplomatic influence, especially in regions such as Latin America and Africa where there is resentment towards western policies and interests.

As the owner of the world's largest pile of foreign exchange reserves, Beijing has also publicly challenged the role of the US dollar as the main global reserve currency and has led the drive for more equitable representation on global bodies such as the International Monetary Fund.

But officials in Beijing insist China is still a developing country and cannot be expected to lead global initiatives or take difficult steps such as reducing carbon emissions or floating its currency to address trade imbalances.

They note China's per capita GDP of about \$3,600 (€2,800, £2,300) is less than a tenth that of Japan or the US and less than one sixth that of France and the UK.

Some outspoken Chinese experts also point to the **poor quality of China's growth** compared with other countries.

"Since 2003, China's economic growth has relied on two pillars: exports and real estate, and while the former brought China some benefits in terms of modernisation, the latter has caused many serious problems," says Yi Xianrong, director of the Finance Institute at the Chinese Academy of Social Sciences, a state-backed think-tank.

"The growth in the real estate market is based on the mismanagement of land resources and property speculation, leading to skyrocketing house prices **and a real estate bubble that must eventually be deflated**."

Mr Yi also points to China's large income gap and the geographic imbalances between its relatively wealthy coastal regions and impoverished hinterland.

"When we talk about China's economic power, we should be careful not to overestimate our strength. China's rapid GDP growth will be meaningless if these imbalances remain unsolved," he says.

But these serious problems and many others facing the Chinese leadership are largely invisible to the outside world, which sees only a fast-growing economy managed by an opaque and somewhat anachronistic authoritarian regime.

"An important question is whether China will accept the responsibilities that come with being a leading economic power even though it remains a middle-income country," according to Eswar Prasad, a professor at Cornell University and former head of the IMF's China division.

"From currency and trade policies to dealing with climate change, China's economic policies now have global implications and it needs to look beyond its narrow self-interest."

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Disappointing Japanese growth . . .

Growth in real GDP
(annualised % change on
previous quarter)

10

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