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The Long Reign of the United States is Over; the 21st Century belongs to China

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Abstract
United States has been the global leader since overtaking Britain in 1871. Recently economists are anticipating China could be the global leader by 2019 as US is on the edge of losing its status of largest economy in the world. This paper focuses on the current situation of these two emperors to identify whether China could overtake US economy—an outstanding controversial issue.
Keywords: global economic power, US economy, China economy

1. Introduction

China National Bureau of Statistics and U.S. Bureau of Economic Analysis have forecasted the Real GDP in China and the United States and they came to a prediction that China's economy could overtake the U.S. between 2016 and 2017 (updated on July 19, 2011)1. China GDP is higher compare to U.S. GDP from year 2000 to the end of 2012 and US GDP was even negative in 20092 (Annexure: chart 1 and 2). Journey of rapid economic growth started in China in the late 1970s after the declaration of open door policy by Deng Xiao Ping3. For a knowledge-driven economy, China began to develop high-tech industries4 from the mid-1990s as Chinese firms increasingly devoted efforts toward nurturing innovative activities and acted aggressively on patent applications (Jefferson et al. 2003). This is the indication of China's own local technological progress which was growing rapidly, proved that it is no longer limited to imitation process. The entrance of FDI (Zhang 2002; Shiu and Heshmati 2006), transformation of non-productive labor to productive labor (Zhang and Zhang, 2001), export promotion policy (Yao 2006), and some major changes in manufacturing (Wang and Szirmai 2006) are the main factors for the progress of China's technological growth.

Hu and Khan (1997) and Ezaki and Sun (1999) provided assessments of TFP (Total Factor productivity) growth and agreed upon a rising trend in the TFP growth rate in China.5 It was also found in the article after the empirical research that TFP growth was higher in coastal region compare to non-coastal (Yang, C. H, 2009). Imported technological sources, FDI and internal R & D facilities brought productivity in China, explained by 'Yang6' after doing empirical tests. He found FDI and imported technology improves the local technological development which basically increases the TFP growth in China, however, China's internal R & D growth is vital for its sustainable economic growth (Yang, C. H. 2009). China's private enterprises have responsibilities too to get the sustainable economic growth (Fung, E and Peng, Y, 2012).

Over the last 30 years, China outburst as an economic superpower from an underdeveloped country. China created historical record as it grows to 10% on an average. China's GDP rose 18.6 times7, and the country become the third world economic power, succeeding U.S. and Japan8. Japan used to be the second largest

[1] Chinese GDP data is from the China National Bureau of Statistics. U.S. GDP data is from the U.S. Bureau of Economic Analysis. Data is provided by the Economist Intelligence Unit. Data is presented annually from 1980 to 2030. http://www.chinaglobaltrade.com/fact/real-gdp-us-and-china-1980-2030
[2] Chinese GDP data is from the China National Bureau of Statistics. U.S. GDP data is from the U.S. Bureau of Economic Analysis. Data is provided by the Economist Intelligence Units
[3] Deng Xiao Ping—(22 August 1904 – 19 February 1997) was a politician and reformist leader of the Communist Party of China who led China towards a market economy.
[4] China's first new and high technology science park was established in 1995.
[5] Adopting the growth account approach and using various data of time period and estimating approaches, the existing studies show that the TFP growth rate ranges from 1.3% to 4.5%. See Islam, Dai, and Sakamoto (2006) for a comprehensive review.
[6] Yang, C. H (2009) Technological sources and regional productivity growth in China. China Economic Journal, Vol 2, 1, 73-92
[7] *China Statistical Abstract 2010*. available at http://www.chinabook shop. net/ china-statistical-abstract-2010-p-7976.html, p.24-25
[8] *World Development Indicators 2011*. available at

economy after U.S. but the situation has been changed now. According to the data published in 16th August, 2010 Chinese economy became the second largest economy in the world (Tache, I. and Oros, A., 20129). If china moves in the same rate as it is growing then it is not far that China might overtake U.S. economy within 2020 (Maddison, A.10).

In March 2007, Premier Wen Jiabao[11] made an astonishing statement, saying: *„ China's economic growth is unsteady, unbalanced, uncoordinated and unsustainable" (*Tache, I. and Oros, A. 2012). American gross domestic product (GDP) in 2009 was nearly $15 trillion, while China's was $5 trillion, despite a population more than four times as large. The average American had $48,000 income in 2009, the average Chinese had less than $4,000 (Scissors, D 2011). So China needs more standardisation to reach U. S. sophistication. Extreme cheap labor costs, low prices of products, inhuman working conditions of labor force are some factors that China utilises to get the benefit of having national and multinational companies but these competitive advantages leads to unfair competition compare to U. S. economy as they maintain standard labor environment (Tache, I. and Oros, A. 2012). The lack of environment regulation made China one of the most polluted countries which have no high tech system to save country from pollution and this rapid growth of factories contributed to China's economic growth (Navarro, 2011). However lower interest rate and unstructured mushroom growth of factories may push China to become an unbalanced economy (Tache, I. and Oros, A. 2012). However, China's unemployment rate is 4.1% in 2012 and they are keeping it below 4.5% from last 12 years whereas U. S. unemployment rate 7.7% in 2013 which was higher before. Moreover, some analysts also argued by saying that China will be a developed economy in coming 5-6 years but it is hard to overtake U. S. (Scissors. D, 2011). Moreover, the year 2011 was not all smooth sailing for China.

2. Background

The 19th century belonged to England, the 20th century belonged to the U.S., and the 21st century belongs to China. Invest accordingly.--Warren Buffett12. This is how the American business magnate expressed his opinion after seeing the rapid progress of China from last three decades and focusing on the forecasted data of analysts. United State of America (US) has been the leading economy in the world since 1871 and in terms of market exchange rate, the USA contributed around 30 per cent of the world GDP in 1960 while 22 per cent in 2011 (The Economist Online). High economic performance of the US fuelled sufficient natural resources, well developed infrastructure facilities and high productivity. Meanwhile, US dollar become world reserve currency and it also facilitate to lead the world economy. The US is the largest importer of goods and second largest exporter in the world. However, growth momentum of the US economy was affected by the financial turmoil in 2009 and according to the US department of commerce, trade deficit was US$ 539, 514 million in 2012. According to the US Treasury, US public debt increasing continuously and China is the largest foreign public debt holder worth of more than US$ 1.2 trillion. On the other hand, China is the world's second largest economy by nominal GDP and purchasing power parity after the US (IMF, 2012). China has contributed around 1.8 per cent of the World GDP in 1991 and within twenty years period, contribution to the World GDP has increased significantly to 10 per cent in 2011. According to the IMF, China is the world's fastest-growing major economy, with growth rates averaging 10% over the past 30 years. China is also the largest exporter and second largest importer of goods in the world. China's World market share was below 1 per cent in 1980 and increased to 9.1 per cent in 2010 with the increase usage of advanced technology, competitiveness and expansion of foreign direct investment inflows (FDI) (Dorrucci, Pula and Santabárbara, 2013). Considering the acceleration of the Chinese economy and weakening of US economy in terms of growth, unemployment, trade deficit and public debt, there are positive and negative arguments on Chinese leadership of World economy in the 21st centuries.

As per the Economist Online, China has already overtake more than half of 21 different indicators including manufacturing output, steel consumption, energy consumption, exports, car sales and fixed investment. However, US still lead in some areas such as imports, retail sales, stock market, oil consumption and defence expenditure. The analyst of the Economist Online forecasted that by 2014, China will lead in imports and retail sales while by 2025 China's defence expenditure also may exceed the level of US defence expenditure. The Economist online has forecasted that China's average GDP growth rate will be 7.75 percent in the next decade as well as US GDP will grow at 2.2 per cent during the same period. Meanwhile average inflation of both countries forecasted around 4.0 per cent and 1.5 per cent respectively and Yuan is expected to appreciate by 3 per cent on average

http://issuu.com/world bank.publications/docs/9780821387092, pp. 10-12, accessed at 30.03.2012

[9] *China's Economy: Hello America.* available at http://www.economist. com/node/1683494

[10] Maddison, A.: *Chinese EconomicPerformance in the Long Run*. Development Centre Studies, available at http://browse.oecdbookshop.org/ oecd/pdfs/product/4107091e.pdf, p. 20

[11] Wen Jiabao (born 15 September 1942) was the sixth Premier of the State Council of the People's Republic of China, serving as China's head of government for a decade.

[12] Warren Buffett-(born August 30, 1930) is an American business magnate, investor, and philanthropist. He is widely considered the most successful investor of the 20th century.

during the next decade. According to these predictions, analyst of the Economist Online says that, China's economy will overtake US economy in 2018 and if China's GDP growth slowdown than predicted (if other factors remain unchanged), there may be some more years (in 2021) need for China to overtake US economy and to become the World economic leader.

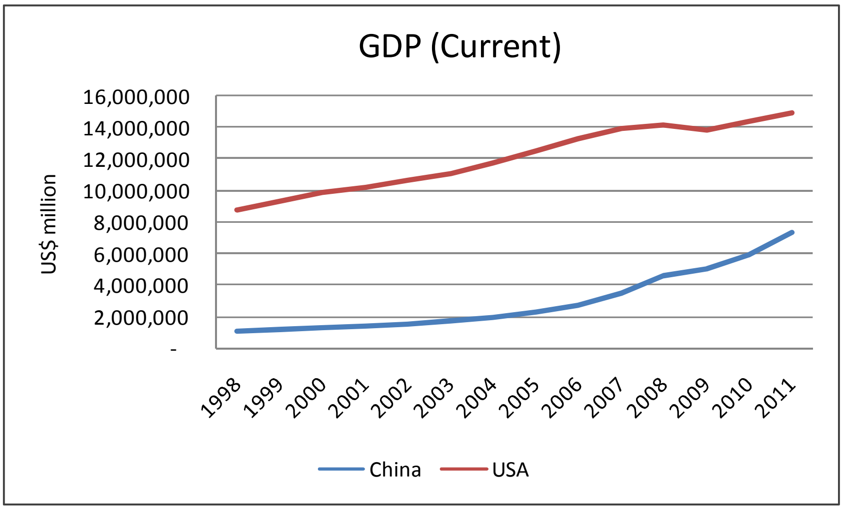

Figure 1. China Vs. US: Comparison of GDP (Source: World Bank)

National income (Y) depends on Consumption (C), Investment (I), Government Expenditure (G) and Net Export (NX) (Y= C + I + G + NX). Considering the US national income, consumption, investment, government expenditure and net exports are higher than China. Per capita annual consumption of US was US$ 26,599 compared to US$ 1,028 (Urban households only) in China in 2005 (Stein, 2009).

According to the figure 1, GDP of both US and China increasing continuously but China's GDP has grown faster than US since 2006. US economy faced a financial crisis since late 2008 following the housing price bobble in 2007 and US economy was heavily affected by the crisis in 2009. The impact of the US financial crisis spread all over the world with different magnitudes and negatively influenced the economic development and growth of the countries. The growth momentum of Chinese economy was also affected by the global financial turmoil with the significant decline of exports to the rest of the world (US imports around 20 per cent of their total imports from China). The US economy has slowdown during 2008 and 2009 by recording negative growths. To address this crisis situation, US government provide a fiscal stimulus package worth of around USD 830 billion for ten years period since 2009 with the objective of save and create jobs, provide temporary relief programs for those most impacted by the recession and invest in infrastructure, education, health, and 'green' energy. In the meantime, the Federal Reserve has injected liquidity into the credit markets to facilitate for lending. Further, to address the economic slowdown, the Federal Reserve has lowered the targeted federal fund rate. Accordingly, during the recession period both fiscal and monetary policies of the US have taken expansionary measures to keep the economy on track. Other countries also take several fiscal and monetary policy measures to overcome the impact of global financial crisis during 2009 including China.

3. Is 21st century belongs to US or China?

Considering total private capital flows, gross domestic saving and exports of high technology based products, China has exceed US in all three variables. However, with the one child policy, China's population growth is remaining same in the recent past while US population growth shows a declining trend.

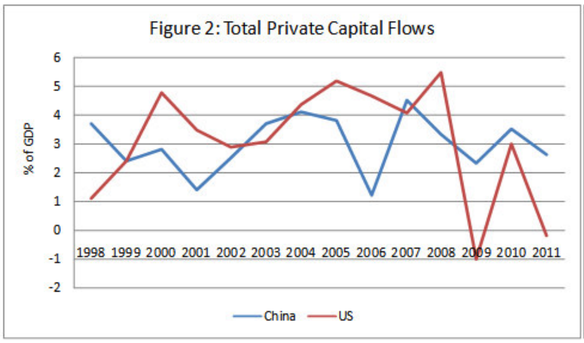

Figure 2. Total Private Capital Flows
Source: World Bank

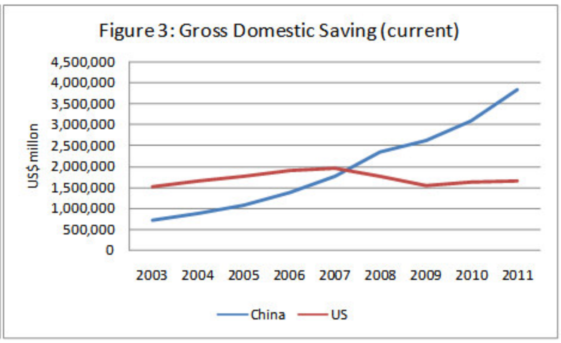

Figure 3. Gross Domestic Saving (current)
Source: World Bank

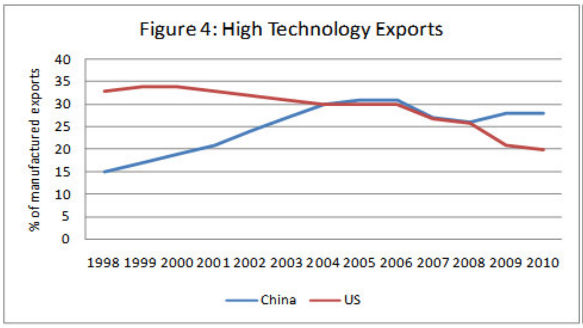

Figure 4. High Technology Exports
Source: World Bank

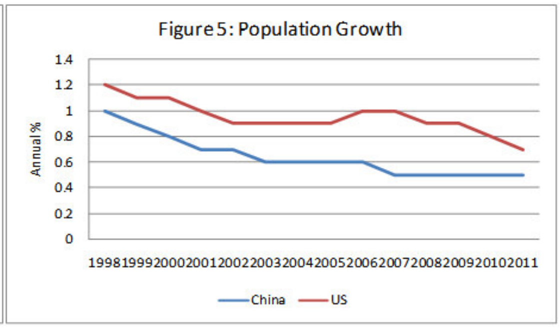

Figure 5. Population Growth
Source: World

Considering the Solow model, In the steady state per capita capital stock of an economy depends on the savings rate, depreciation, population growth and productivity growth. Differences in these parameters across countries can explain differences in growth experiences. According to the China and US data, gross domestic savings and private capital flow are comparably high in the recent period and therefore with the different of saving, there is an advantage to China to grow faster than US.

According to the Solo model, in steady state, per capita GDP is constant; therefore total GDP (Y) must grow at the same rate as population. In order to have sustained growth in steady state output, we need to introduce technological progress. Usage of technology, China has over take US in the recent past (figure 4) and it will facilitate for GDP growth. However, this productivity growth is exogenous in the Solow model.

4. Conclusion

China took the 12th 5 year plan in 2011 to refine economic development by pushing forward the development of emerging strategic industries, expanding independent innovation, and pursuing sustainable economic development as well as social harmony and stability. (Fung, E and Peng, Y, 2012). China has become a leader in international trade by having the second largest GDP globally. Lastly, China could reach the peak point of the economy if its economic growth becomes steady, balanced, coordinated and sustainable. Besides, the available information and the prediction of other studies reveals that the 21th century may be belongs to China. However some other factors such as scarcity of recourses such as water and minerals may affect the growth momentum of China.

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World Bank data
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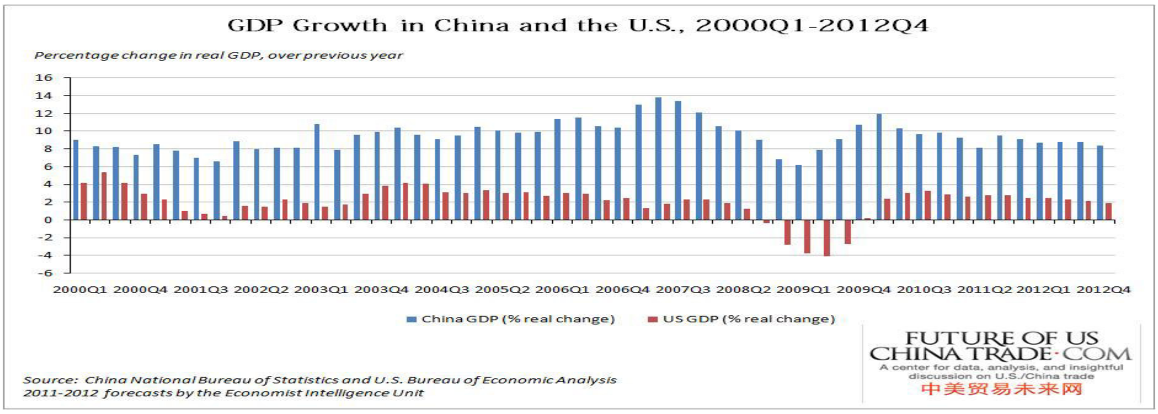
Annex
Chart: 1



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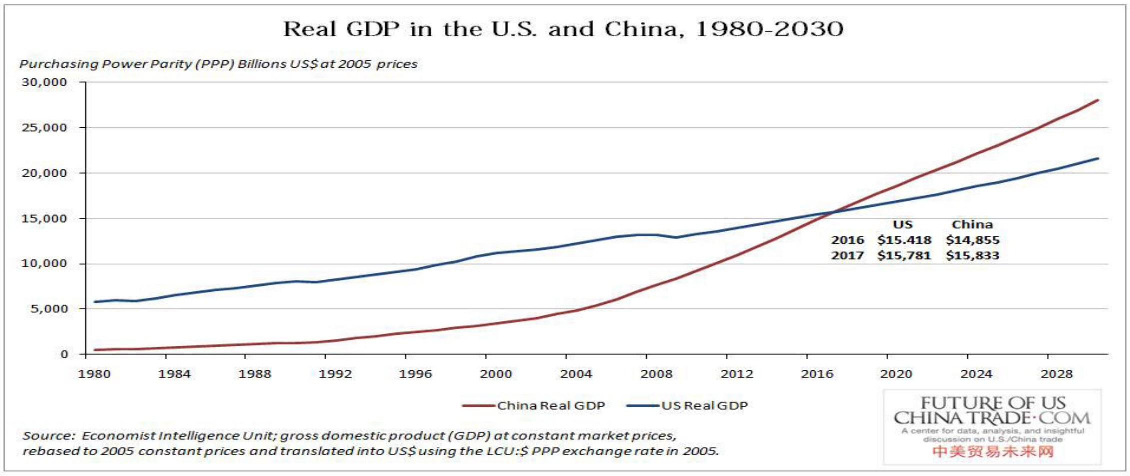

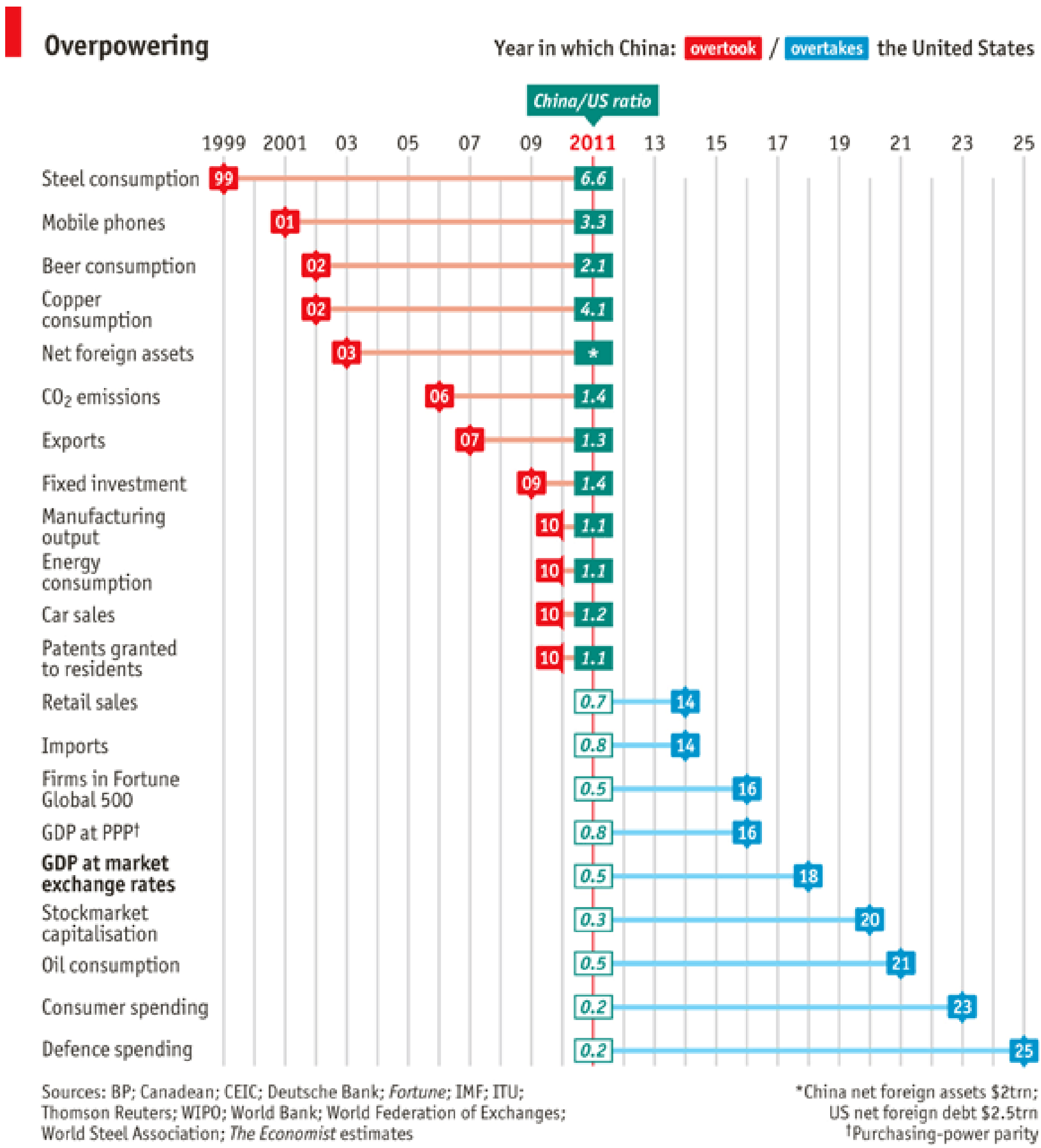

Source: The Economist Online