

It's Official: China Dethrones America as Largest Economy

By [Washington's Blog](#)

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Region: [Asia](#), [USA](#)

Theme: [Global Economy](#)

Under One Test

We [reported](#) in April 2012 that leading Chinese economic analyst (and American ex-pat) professor Michael Pettis argued in 2011 that China's GDP might *already* higher than America's in terms of purchasing power parity.

And we [noted](#) that Arvind Subramanian – former assistant director in the Research Department of the International Monetary Fund, and now senior fellow jointly at the Peterson Institute for International Economics – says that China passed up the USA in 2010.

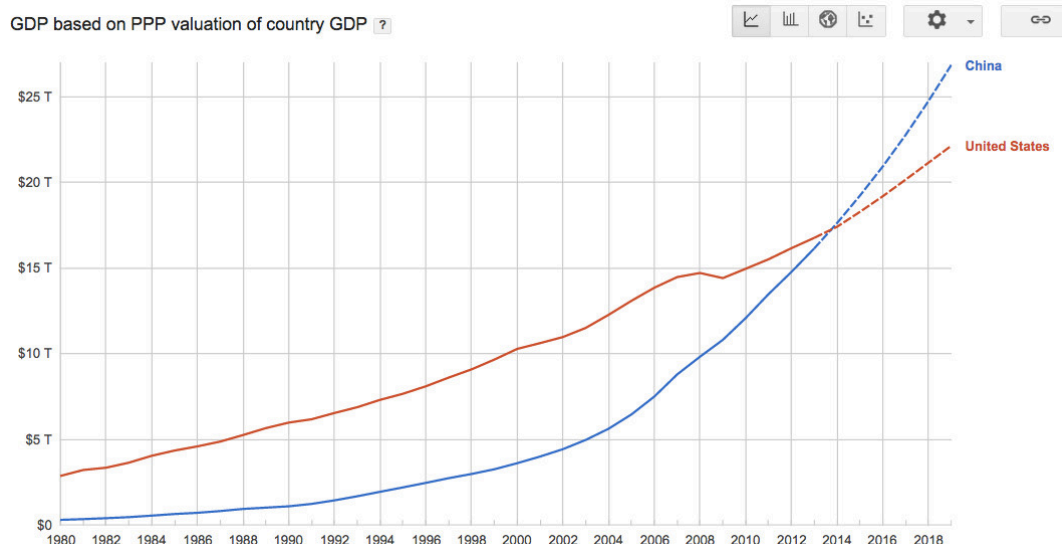
Financial Times [reported](#) in April:

The US is on the brink of losing its status as the world's largest economy, and is likely to slip behind China this year, sooner than widely anticipated, according to the world's leading statistical agencies.

Now, it's official ...

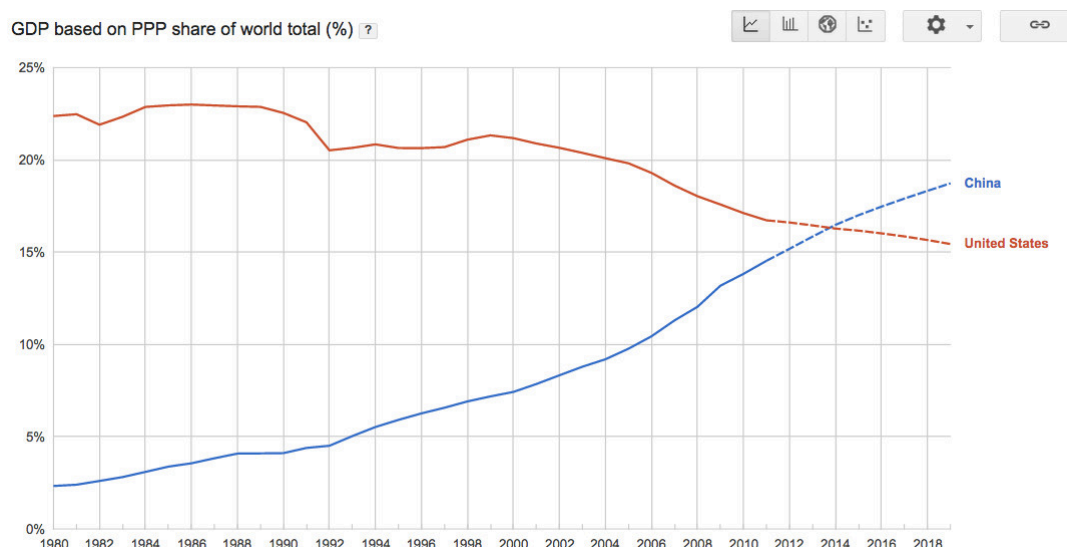
As Huffington Post [notes](#):

China's gross domestic product is worth \$17.6 trillion, adjusted for China's relatively low cost of living, compared with \$17.4 trillion for the U.S., the International Monetary Fund estimated as part of its latest [World Economic Outlook](#). Here's how that looks in chart form:



Note the chart extends to 2018. The IMF expects this trend to continue indefinitely.

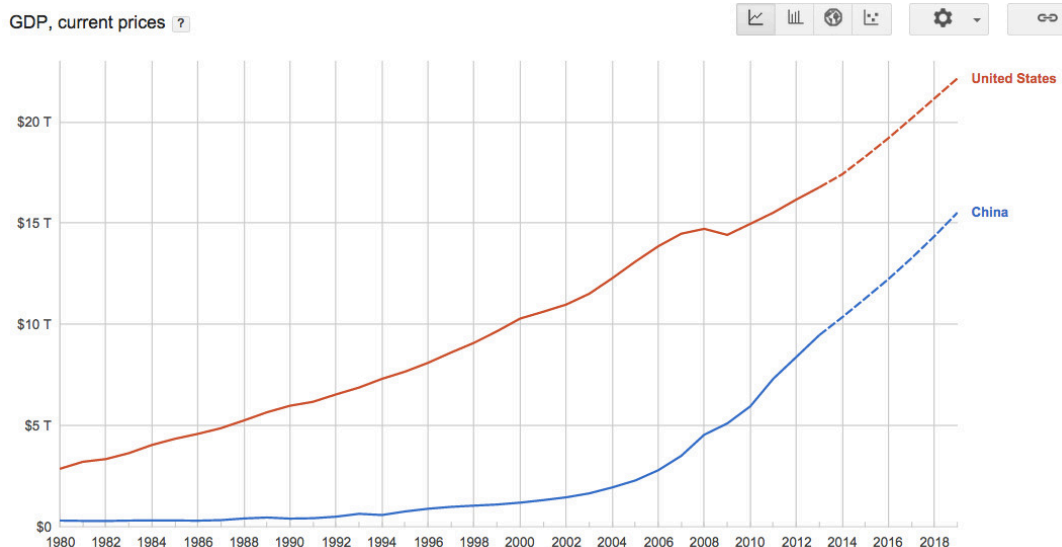
Here's another way of looking at it — China's share of the global economy is now slightly bigger than America's, at 16.5 percent to 16.3 percent:



It's important to note that these figures are adjusted for the relative costs of living in both countries, known to fancy economists as "purchasing power parity." It's something economists do to try to make comparisons between countries more fair. It is crazy cheap to live in China and crazy expensive to live in the U.S., so a trillion U.S. dollars are worth a lot more in China than in the U.S.

And that has something to do with the fact that [China is manipulating its currency](#) to be worth much less than the dollar. It does this to help make Chinese stuff cheaper than U.S. stuff on the global market. [American politicians regularly pretend](#) to be super angry about this, but don't much mind getting all the cheap Chinese stuff. And China's booming factory sector has, in turn, helped make China's economy rapidly get bigger and bigger.

In terms of sheer size, however — meaning, not adjusted for costs of living — the U.S. economy still dwarfs China's, at \$17.4 trillion to \$10.4 trillion:



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