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# Is China set to seize America's economic crown?

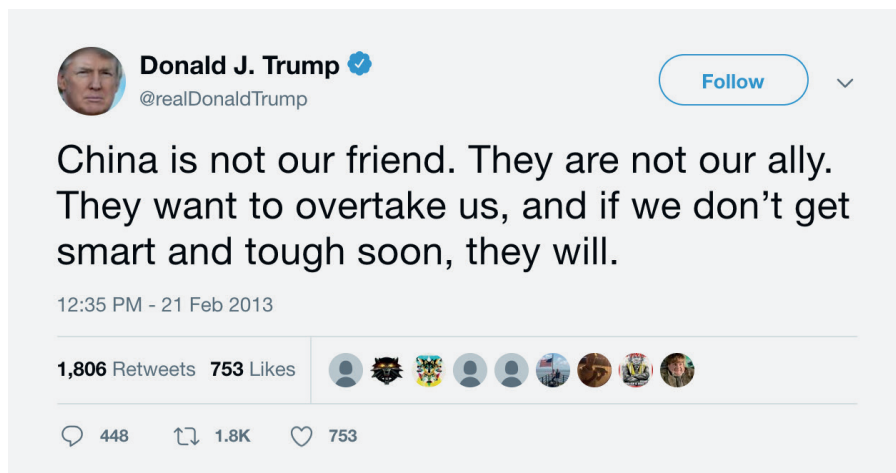


**Michael Power**  
Strategist

## Or will President Trump stop China in its tracks?

President Trump believes China will seize the crown of having the world's largest GDP from the US by underhanded means. Is he right?

As the President has tweeted:

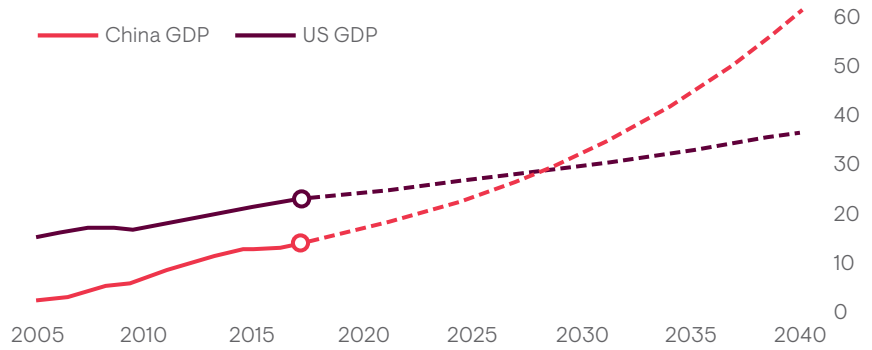


At current rates of economic growth, this toppling of the US from the global economic throne could occur before 2030, an event hardly compatible with Trump's 'America First!' policy.

With such a usurpation in prospect, President Trump has launched a trade war against China. His main target is the 'Made in China 2025' masterplan. MIC2025 aims to put Chinese companies at the cutting edge of ten of tomorrow's key industries over the next decade, often at the expense of America Inc.

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Figure 1: China's GDP could overtake the US by 2030



Source: IMF to 2017. Estimate from 2018 based on 6.5% average growth for China, 2.0% average for the US.

For 19 out of the 21 past centuries, China was the world's largest economy.

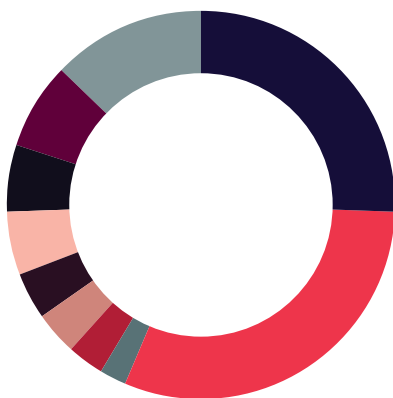
## China rebound?

Though China has not always played fair over the past three decades, today China's economic advance is much more driven by its own genius than the ideas of others. China is now a leader in many areas of cutting edge research, rarely a copycat and often a technological pioneer.

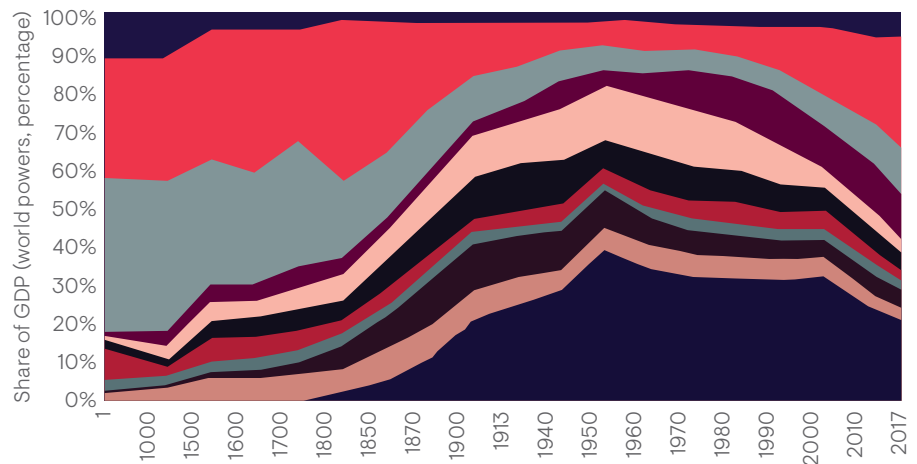
The well of genius that has, in the past, watered and, in the 21st century will continue to water, China's economy, is deep. Its flow was just interrupted after the Treaty of Nanjing in 1842, ushering in China's 'Century of Humiliation'.

Otherwise, for 19 out of the 21 past centuries, China was the world's largest economy. All that is happening today is that the status quo ante is being restored after a near 200-year hiatus.

Figure 2: Shares of major economies of global GDP



- United States, US\$19.4T (15.3%)
- China, US\$23.2T (18.3%)
- Spain, US\$1.8T (1.4%)
- Italy, US\$2.3T (1.8%)
- France, US\$2.8T (2.3%)
- United Kingdom, US\$2.9T (2.3%)
- Russia, US\$3.9T (3.1%)
- Germany, US\$4.1T (3.3%)
- Japan, US\$5.4T (4.3%)
- India, US\$9.5T (7.5%)



Source: International Monetary Fund (IMF) database, April 2017.

## The Trumpian blame game...

Invariably, there is a deeper political dimension to President Trump's claims. He believes that not only has China stolen intellectual property from the US in a bid for technological supremacy, but that it has stolen jobs from the US too, mostly from the manufacturing heartlands of America. President Trump won the White House because he flipped three Rust Belt states into his column: Wisconsin, Michigan and Ohio. He did this by suggesting to his electoral base there that their misfortunes had arisen as a direct consequence of the economic rise of China.

The data shows real income growth for blue-collar workers in the US industrial heartland has been largely stagnant since 1975.

## ...doesn't match the facts

This job-stealing claim may play well in the politics of the American heartland, but it does not match the facts. A study by Ball State University's Michael Hicks has found that 88% of manufacturing job losses in the US can be traced not to plants outsourced to China, but to robots insourced into US factories.

However, it is likely that the threat of outsourcing abroad – or perhaps even more, the insourcing of robots – has kept a cap on US manufacturing wages for the last three decades or so. The data shows real income growth for blue-collar workers in the US industrial heartland has been largely stagnant since 1975. Indeed, median household income between 2000 and 2015 fell 10% for Ohio, 15% for Wisconsin and 17% for Michigan.

**In Part 2, we will examine the unravelling of global supply chains.**

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