Runner-Up: China May Have to Settle for Second Place Behind America

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By **John Feng** AND **Micah McCartney**

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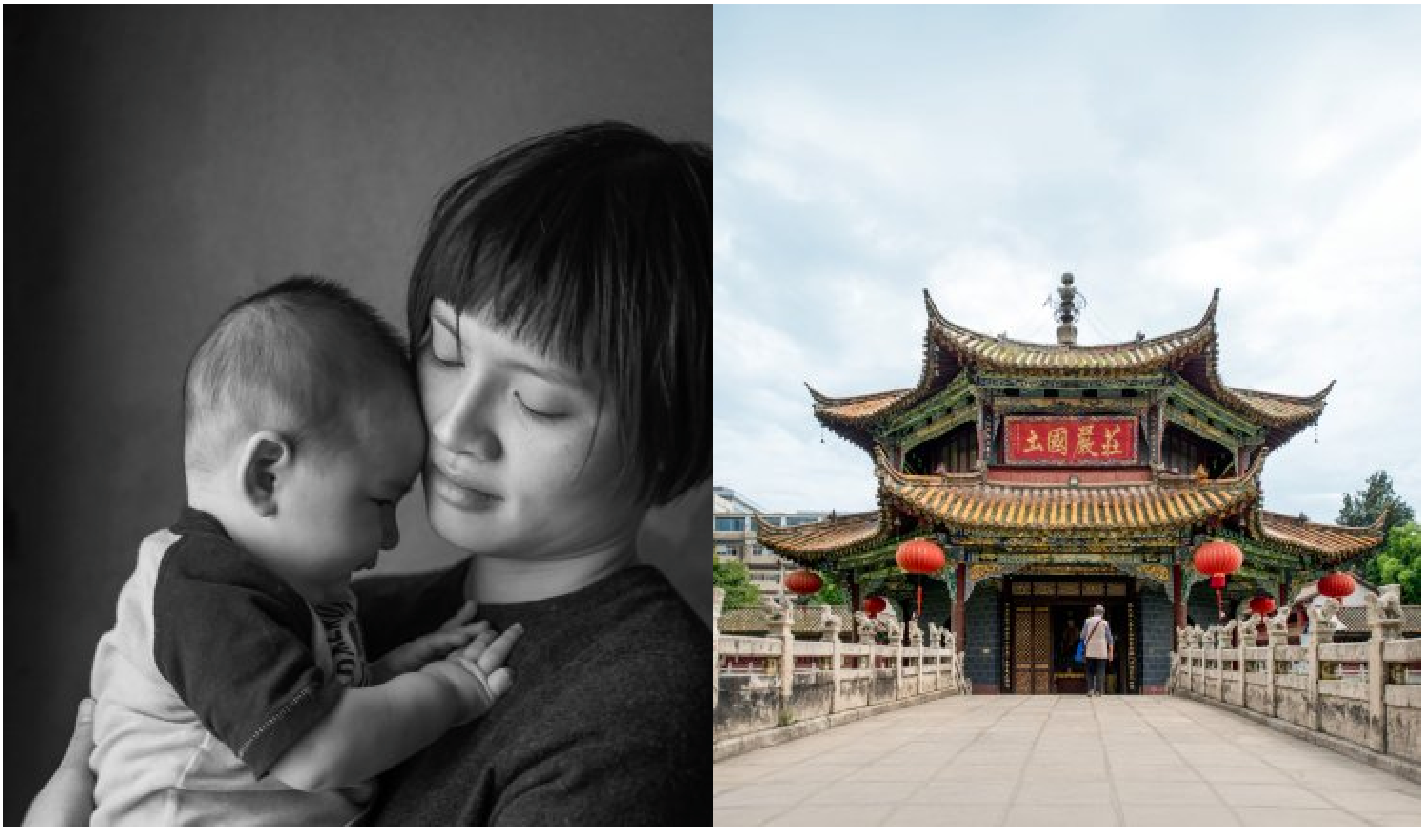
Single and married women across China are receiving cold calls from local authorities encouraging them to step up and have more children. They are but one demographic targeted for mobilization by Beijing policymakers who are aiming to raise markers of comprehensive national power in the early stages of what is to be a protracted trade war with the United States.

China today is four times more populous than the United States. However, United Nations data forecasts China's population will decrease by around 55 percent by the turn of the next century, in contrast to the U.S., which will grow by 18 percent. No other society has ever faced a steeper population decline absent war, disease or famine.

The central government's angst over the flagging birth rate is driving localities to experiment with a flurry of pro-natal policies, and nationwide calls for more babies are the surest sign yet that fears about a shrinking workforce and an aging population—both serious impediments to long-term economic expansion—have reached the top of the Chinese leadership.

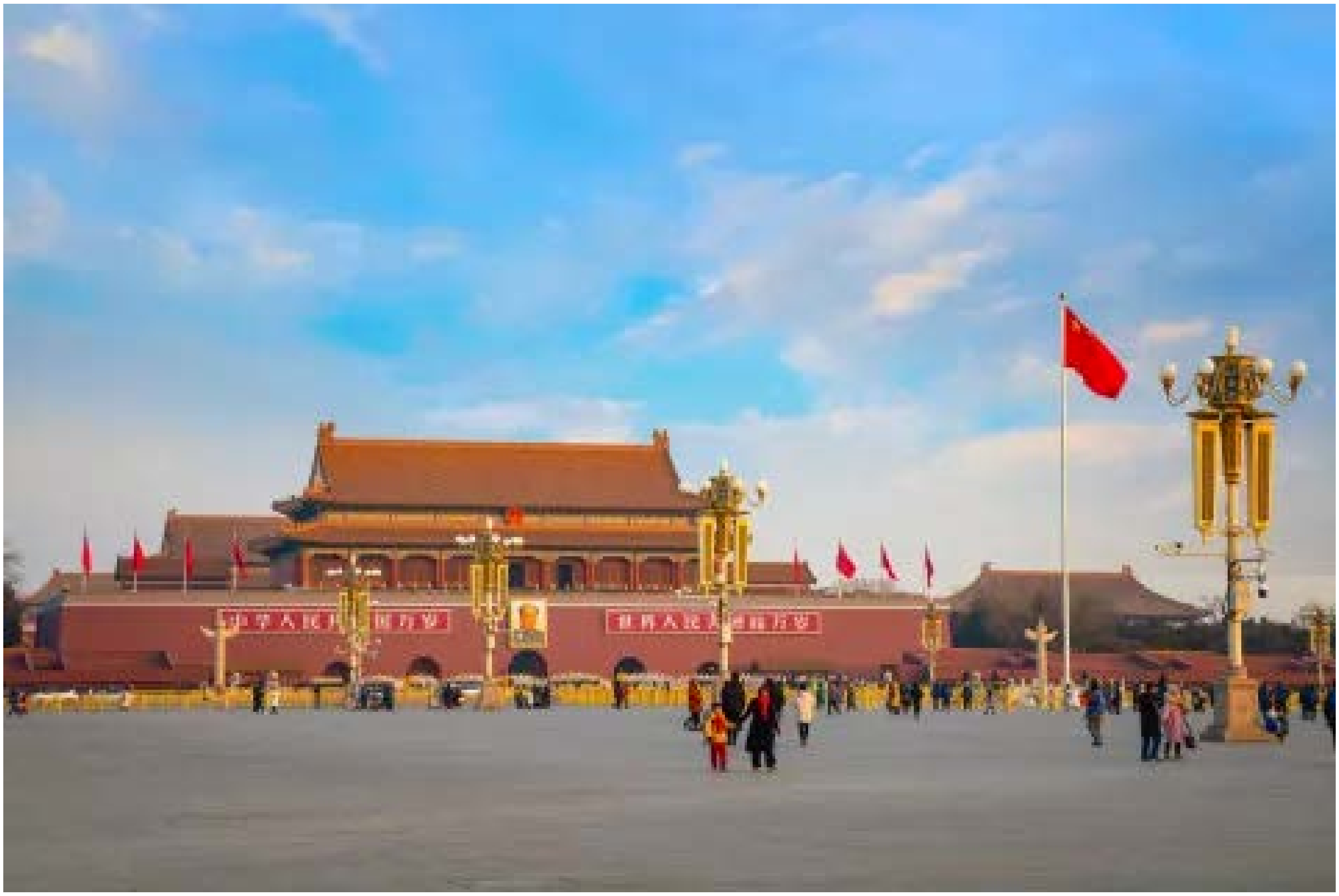


The 2020s were meant to be a milestone decade for President Xi Jinping, in which China's unstoppable march would inevitably see it rise above the U.S. in terms of economic strength. But the force of China's economic headwinds and the scale of its demographic problems have caught many economists by surprise. The Centre for Economics and Business Research, which in 2020 predicted that China would overtake the U.S. by 2028, revised the crossover point two years later, to 2036. This month, the British consultancy said it will not happen in the next 15 years.

China's faltering economic growth model and its inability to successfully address deflation are to blame, said George Magnus, an associate at the University of Oxford's China Centre and the former chief economist at UBS. "That doesn't mean China won't continue for a while to exert a significant influence on global manufacturing and trade, or exploit its power in Asia and beyond," he said. "But to the extent that China's economic heft has been the basis of its ability to exert power, that heft has probably peaked, and might well slip."

China's population skyrocketed in the postwar decades until its "one-child policy" was introduced in 1980. For 35 years, until 2015, the country's rising middle class and its urban elite were subject to family planning limitations. In 1970, the average Chinese woman was expected to bear up to six children throughout her lifetime. In 2024, that number fell to around one, according to U.N. estimates.

The decline is even more pronounced in top-tier cities like Shanghai, where the fertility rate is a mere 0.6, far below the 2.1 that subject matter experts say is necessary to sustain a population. Chinese society is getting rich, but it's also growing old. Many of its largest cities now bear the hallmarks of development: rising social security burdens, increased living costs and shifting attitudes toward family.



Tiananmen Square, where Mao Zedong proclaimed the founding of the People's Republic of China in October 1949. The one-child policy began in 1980, four years after his death. **COWARD_LION/ISTOCK EDITORIAL/GETTY**

"Once, there was no right to reproductive freedom, and now they are indirectly interfering with your reproductive choices. Decades of economic development have not changed the control over 'people' or the disregard for respect and freedom," one citizen wrote online about the new pressure put upon women.

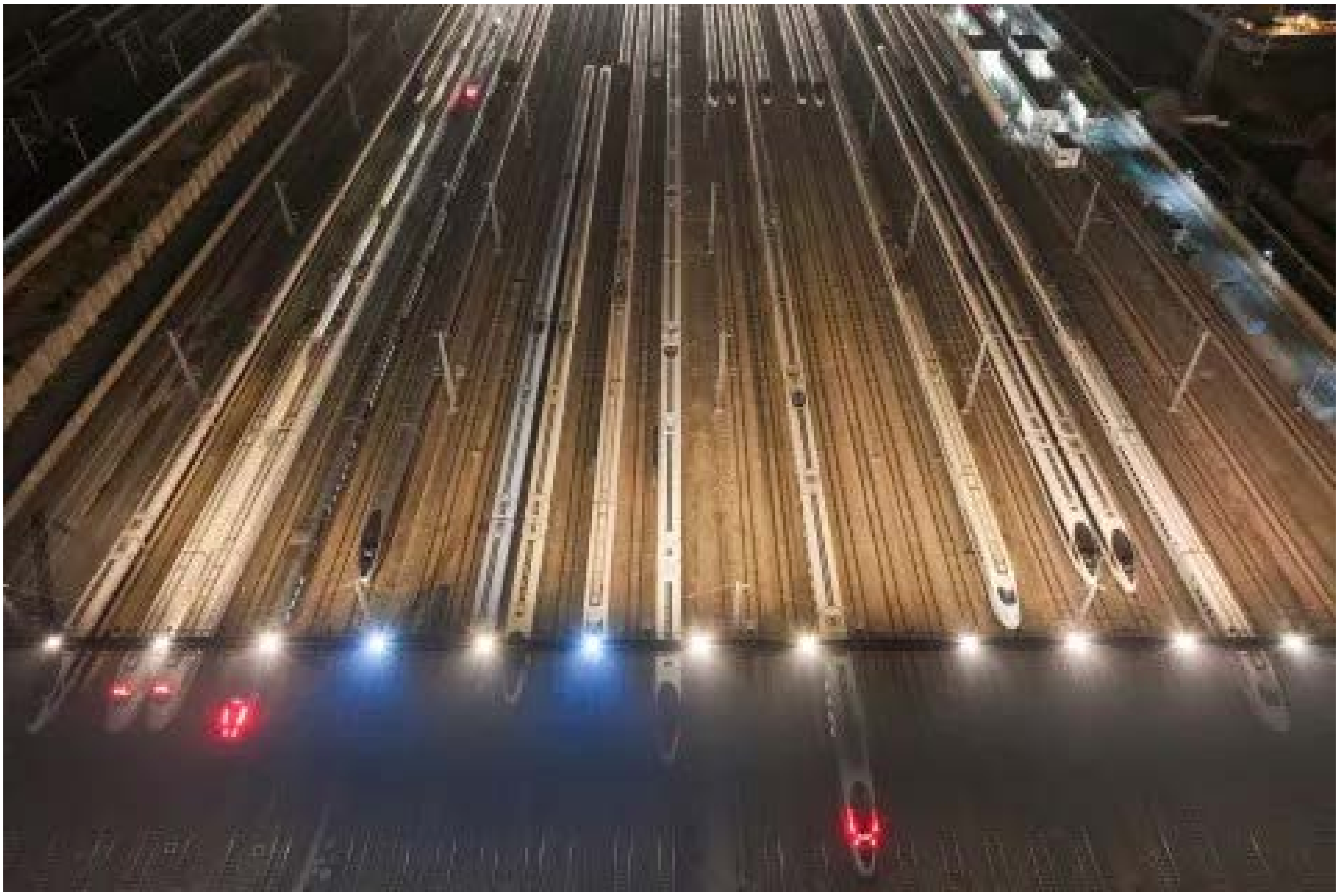
What officials don't say, however, are the implications of slow growth. China doesn't need to overcome its demographic challenges to remain an economic powerhouse, but it may have to if it wants to unseat the hegemon of the global financial system—the U.S.

Measuring China vs. America's Economies

Chinese ambitions of creating a multipolar world order will demand decentralization and dedollarization, and both may require the type of blistering progress that saw China leapfrog Germany and Japan to become the world's No. 2 economy in the previous decade. But manpower, the traditional engine of industry in China, is in decline.

By 2040, China's population will fall from 1.4 billion to 1.3 billion, its labor force aged 14 and 64 will drop from 70 percent to 64 percent, and 27 percent of its citizens will be over 65, up from 15 percent in 2025, U.N. numbers suggest. Over the same period, the U.S. population will rise from 347 million to 370 million, of which 62 percent will be of working age—down from 64.5 percent—and 22 percent senior citizens—up from 18 percent today.

While the U.S. birth rate of 1.6 also falls short of the replacement rate, there remains one key difference: immigration. America's 47.8 million foreign-born residents represented 14.3 percent of the population in 2023, according to the Pew Research Center. In 2020, China's once-a-decade national census recorded just 1.4 million immigrants, about 0.1 percent of the population.



This photo taken on January 2, 2025 shows high-speed trains on stabling tracks in Nanjing, east China's Jiangsu province. China aims to expand the length of its operating high-speed rail tracks to around 60,000 km... More **STR/AFP/GETTY**

The Chinese economy's once sky-high growth is attributed to reforms adopted in the years following the death of Mao Zedong, the Communist Party's powerful late leader. Even before COVID-19, there were signs that its fortunes were shifting due to overinvestment in infrastructure and its over-leveraged housing market—as much as 70 percent of Chinese household wealth is tied up in property.

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Some 24 months after China abruptly ended its stringent "zero-COVID" policy, which severely curtailed economic activity, crises persist. Instead of roaring back, the economy rebounded with more of a whimper, bucking expectations. Despite a depressed real estate sector, low consumer confidence and high levels of local government debt, China just managed to meet its growth target of 5 percent in 2024 with a bumper fourth quarter, although it is still a departure from the assured double-digit expansion of the past.

"I think the window in which there were credible chances that China's GDP might surpass the United States, whatever that might have meant, has pretty much closed. Relative to both global and U.S. GDP, China has regressed in 2023 and 2024 for the first time since the 'rise of China' began," Magnus, the Oxford researcher, told *Newsweek*.

By at least one popular metric, the Chinese economy is already on top. China's purchasing power parity—the relative value of its currency for domestic goods and services—has been higher than that of the U.S. since at least 2017, IMF data suggests. When used to measure defense spending, PPP explains China's lasting industrial might, and how it is achieving what Western officials call the largest military buildup in peacetime history.

The modernization of the People's Liberation Army naval fleet is being counted in years rather than decades, while China's Rocket Force could operate 1,000 nuclear warheads by the end of the decade, a recent U.S. Defense Department assessment said. In contrast to absolute comparisons that typically put Beijing's military expenditure at roughly a quarter of the Pentagon's $800 billion bottom line, a recent PPP-based estimate published by the Center for Economic Policy Research in London showed China spends closer to two-thirds of what America does.

"GDP in PPP terms is a useful indicator to gauge China's spending power on defense. Nevertheless, military spending cannot be translated directly into military strength," said political scientist Philip Hsu, director of the Center for China Studies at National Taiwan University. Hsu told *Newsweek*: "First, the U.S. still commands technological superiority in many weapon systems. Second, the PLA is seriously plagued by corruption. We do not know what portion of China's staggering defense budget each year is dissipated because of corruption."

China Braces for Trump's Second Presidency

In the 1980s, America's chief trade rival was also one of its closest allies. Japan's exports into U.S. consumer markets sparked fears that local manufacturing could be rendered obsolete. The eventual bursting of Japan's economic bubble meant that the economic scare was short-lived. The IMF projects it will slip further to fifth place next year, behind India.

China's growth may be slowing, but its leaders are navigating unpredictable market forces thanks to a blend of capitalism and central planning. Its tightly regulated state media strongly rejects the idea that China might go the way of its Asian neighbor, which plunged into a deflationary spiral and a prolonged period of stagnation known as the "lost decades." Chinese GDP figures are still higher than most developed economies, the *Global Times* newspaper reminded its readers recently.

In December, Communist Party planners called for a more proactive fiscal policy at the annual Central Economic Work Conference. Beijing's conservative approach thus far—a stimulus package that was at once ambitious and underwhelming, and which also arrived too late—is contributing to the relative slump that will prevent its economy from expanding beyond 5 percent this year, according to credit rating agency S&P.

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Beijing's position at the forefront of the next technological revolution could be vital in offsetting its sliding demographic indicators, particularly if it successfully leverages automation and artificial intelligence. It is already a leading player in renewable energy and telecommunications, and its advanced manufacturing base is helping its green technologies capture untapped markets in the Global South.

"China has already achieved parity—or surpassed global leaders—in next-gen fields such as commercial nuclear power, quantum communications and some industrial AI applications. It especially excels in scaling up strategic technologies, from initial breakthroughs to mass-market deployment, as evident in green energy and critical minerals," said Lizzi C. Lee, a researcher on the Chinese economy at the Asia Society Policy Institute's Center for China Analysis.

"However, technological leadership extends beyond isolated achievements; it depends on the overall health of an innovation ecosystem. The U.S. retains significant advantages in this regard thanks to its decentralized innovation model," Lee told *Newsweek*. "While China's approach excels in achieving rapid results in strategic sectors, the flexibility and adaptability of the U.S. system provide a broader foundation for sustained innovation."

China's Peoples' Liberation Army Navy (PLAN) sailors march at the Ngong Shuen Chau Barracks during Hong Kong's Special Administrative Region Establishment Day holiday on July 1, 2015. Hong Kong Special Administrative Region Establishment Day is... More **ISAAC LAWRENCE/AFP/GETTY**

The Chinese government is girding the economy for the next phase of U.S. President Donald Trump's trade war, which will see even higher tariffs and roadblocks in emerging industries such as semiconductors. This time around, the U.S. economy is stronger and ready for the fallout, former IMF official Eswar Prasad, an economics professor at Cornell University, told *Newsweek*.

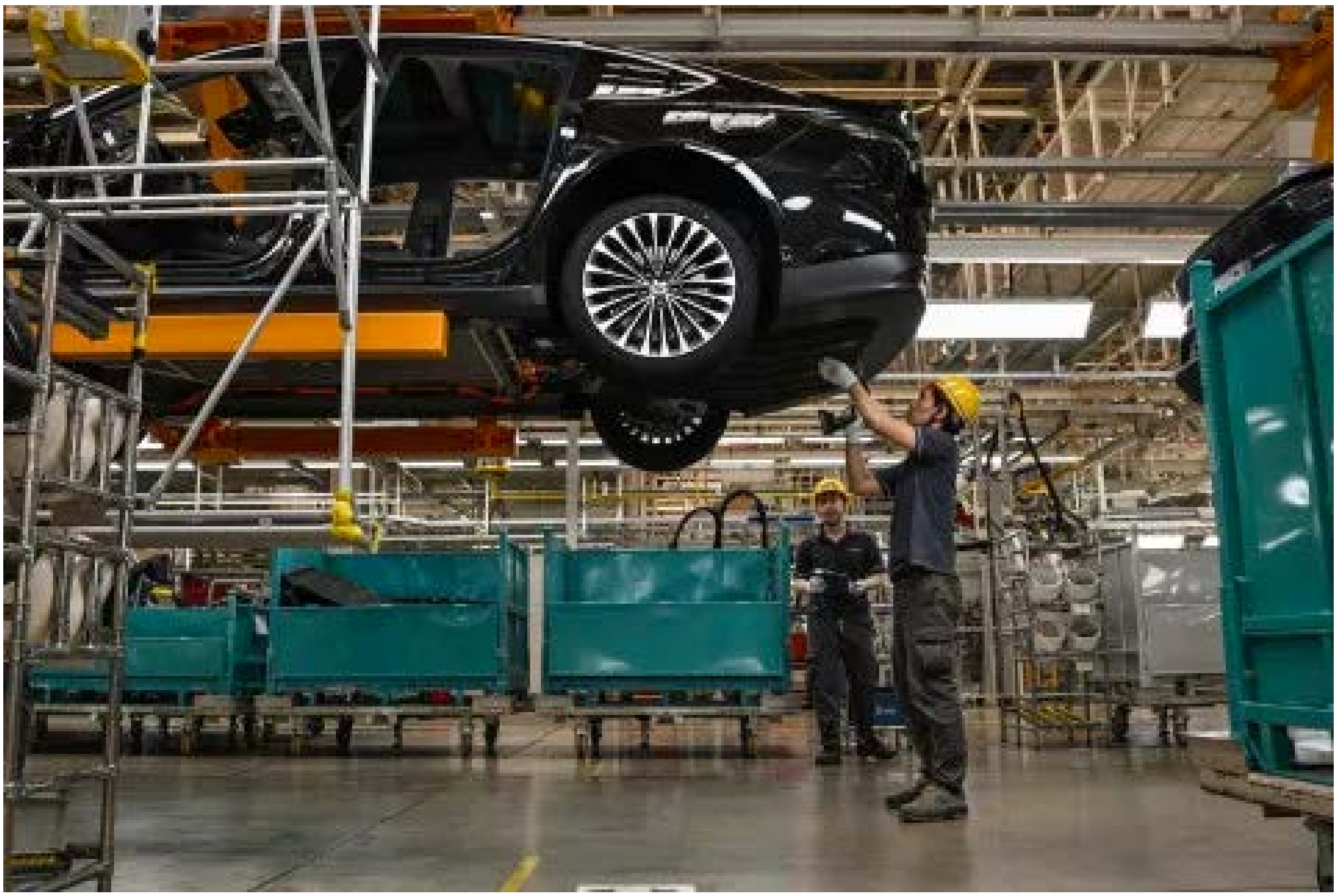
"In the first Trump presidency, China's economy was powering along, with an annual growth rate averaging nearly 7 percent. This year and next, China will be hard put to achieve its shrunken growth target of 5 percent," Prasad said. "With household demand weak, China has become much more reliant on exports. This puts the U.S. on a much stronger footing than China if trade tensions between the two countries were to escalate, which in turn strengthens Trump's bargaining power with China."

U.S. industrial policy under former President Joe Biden was a major source of frustration for Beijing. Policymakers in Washington, alarmed that Western innovations might fuel Chinese military advances, moved to ensure America retains pole position in AI and processor design, in part by funding laws like the CHIPS and Science Act, and by shutting out the competition.

In January, the White House restricted the export of cutting-edge semiconductors to all but 18 partner nations, citing the potential for adversaries to acquire them and develop "weapons of mass destruction" and "powerful offensive cyber operations" against the U.S. and its allies. The controls add to existing constraints placed on China's chipmakers throughout the supply chain, meant to delay rather than deny its research and development in the field by a generation or more.

China's Commerce Ministry described the Biden administration's decision as a "flagrant violation" of international trade norms and "another example of the generalization of the concept of national security and the abuse of export control." *Newsweek* approached the Biden administration for comment.

Chinese industry giants have spent months stockpiling chips in anticipation of troubled waters to come, while critics say American tech companies may miss out on the massive Chinese market altogether.



A worker screws in some bolts on a car along the assembly line at a factory of Chinese automaker NIO in Hefei, in China's eastern Anhui province on May 10, 2023. **HECTOR RETAMAL/AFP/GETTY**

The U.S. and other governments are targeting Chinese-made electric vehicles, too, pushing back against what has been called a strategically subsidized industry that is flooding international markets with cheaper products. In 2024, the European Union risked the ire of its largest trading partner by imposing duties of up to 45 percent on made-in-China EVs entering the 27-member bloc, up from just 3 percent five years ago. A month later, Beijing sued Brussels at the World Trade Organization.

In the near term, business with Chinese companies will continue to fuel concerns about intellectual property rights and supply chain resilience, driving U.S. onshoring or "friend-shoring" in allied economies, but America may never truly untangle itself from China, one of its top three trading partners for over a decade.

"Competition is not the whole of China-U.S. relations. We oppose defining the entire China-U.S. relations by competition," Liu Pengyu, a spokesperson for the Chinese embassy in Washington, D.C., told *Newsweek*. "In fact, the economic complementarity between China and the United States is far greater than the competitiveness."

China's Economy Compared with the Rest of the World

A significant drop in foreign direct investment into China in recent years is compounding an already bearish outlook. The trend is a drag on growth, business expansion and job creation in a slackening labor market. The Chinese Commerce Ministry said the economy absorbed about $100 billion in FDI in the first 11 months of 2024, a year-on-year contraction of 28 percent.

Amid slowing growth, ongoing trade frictions and Chinese market restrictions, investors are pivoting from big projects to small- and medium-sized investments, Allan Gabor, chair of the American Chamber of Commerce in Shanghai, told Bloomberg late last year. However, the sheer size of the Chinese market means that China's prospects for attracting more investment remain strong.

FDI has seen a widespread decline worldwide, according to the U.N., which reported a 10 percent fall in 2023, with a 7 percent drop in the developing world. The U.S. received $177.5 billion in foreign investment in 2022, maintaining its status as the "top destination" globally, the U.S. Commerce Department said in October, while noting that the rate of inward FDI "has been generally declining."

Closer to home, China faces stiff competition. Hot on its heels is India, whose 1.4 billion people overtook China in 2023 to become the world's most populous nation, according to U.N. demographers. As in most developing nations that are accumulating more wealth, India's fertility rate is in decline, but still nearly double that of China.

That India will challenge for global market share is a given, whatever China's and the U.S.'s growth prospects. Economists expect the Indian economy to triple by the end of the decade, buoyed by bullish foreign investment in manufacturing and other sectors. While India's economy will not surpass China in size for some time, the coming years are critical: India's growth could outpace China's as early as 2028 and no later than in the mid-2030s, according to analysis by Bloomberg Economics.

"India's rise will certainly amplify its influence in the Indo-Pacific and Global South, offering a strong counterbalance. However, this is not yet a zero-sum game; China continues to dominate advanced manufacturing, while India is increasingly excelling in IT services and emerging markets," said Farwa Aamer, director of ASPI's South Asia research.

New BRICS member Indonesia is another contender. With a median age of 30 that is a full decade younger than China's population, Southeast Asia's largest economy wants to expand 8 percent annually in order to hit high-income status by 2045.

"India is going to be an economic giant. If not the giant," said Peter Sattler, a senior lecturer in economics at Duke Kunshan University in Suzhou, near Shanghai. "The trend that I expect is balance. More of the world will become rich. Malaysia is experiencing strong growth. Vietnam is growing. Indonesia is growing. Bangladesh, despite its recent crisis, is growing."

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Eswar Prasad, Cornell University

He told *Newsweek*: "Parts of Africa will experience growth and development. Latin America has a lot of human capital and should continue to converge to wealthy country income levels over time."

Beijing may not mind settling for second place; it would not diminish China's potential for significant political and economic influence globally, according to ASPI analyst Lee. "Interestingly, staying No. 2 could geopolitically benefit China. It avoids the 'hegemon tax' of being No. 1—the expectation to shoulder global responsibilities such as conflict resolution and economic stabilization."