

China, India close gap with U.S. as world's top economy

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China isn't the only Asian country challenging America's status as the world's largest economy.

By 2030, the U.S. will fall to third place behind China and India in a ranking of the leading global economies, while Indonesia rises to fourth place, according to a report this week by London-based Standard Chartered Bank. The study measures gross domestic product after adjusting for lower consumer prices and a lower standard of living in emerging markets such as China.

By that measure, known as purchasing power parity, China passed the U.S. as the world's biggest economy in 2014, according to the International Monetary Fund. The IMF says China could top the U.S. even under the more conventional comparison that looks at nominal GDP by 2030.

The reshuffling of the world's economic superpowers is already reverberating in the U.S. It's at least partly behind President Trump's trade war with China. And China's growing economic impact is increasingly affecting the earnings of American companies like Apple, as well as the broader stock market and economy.

"China's rising economic and geopolitical influence poses important challenges to U.S. global dominance," says Eswar Prasad, a professor of trade policy at Cornell University and former head of the IMF's China division.



Chinese workers in the Foxconn factory in Shenzhen, China on May 27, 2010. Foxconn is considering building a display-manufacturing plant in the U.S., the value of which could exceed \$7 billion. (Photo: AFP/Getty Images)

By 2030, seven of the world's top 10 economies will be emerging markets — China, India, Indonesia, Turkey, Brazil, Egypt and Russia. That's up from four that were emerging markets in 2010 and a projected six in 2020, the Standard Chartered report says.

Since 2010, the share of global GDP made up by the U.S., the euro area and Japan has fallen from 51 percent to 46 percent while the share comprised by Asia has risen from 20 percent to 28 percent.

By 2030, those developed countries' portion of GDP will fall to 40 percent while Asia's will increase to 35 percent.

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Simply put, each country's share of global GDP will begin to align with its population, the study says. For years, the U.S. effectively punched above its weight — using better worker productivity, or output, to churn out more products and services than larger countries.

But the emerging markets are now investing more in factory machines and other labor-saving technology, allowing them to catch up. That's largely because of a fast-growing middle-class and a massive migration of residents to cities in the developing countries, the report says. By 2030, 5.4 billion people will be middle-class, up from 3 billion in 2015, with Asia's share of that group widening from 46 percent to 65 percent, according to Standard Chartered and the Brookings Institution. The size of the middle class in the U.S. and Europe is expected to be roughly stable.

Meanwhile, two-thirds of the world population will live in cities by 2030, up from 52 percent in 2010, the study says, citing the United Nations.

China's growing economic power is part of the reason Trump has slapped tariffs on \$250 billion in Chinese imports in a bid to narrow the nation's trade gap with China, the report says.

And Apple this month lowered its earnings forecast because of falling sales in China amid the country's recent economic slowdown, an announcement that sent the broader market plunging.

Yet Trump's retreat from global alliances — highlighted by his withdrawal from the Paris climate agreement and the Trans-Pacific Partnership -- has emboldened China to take a bigger role on the world political and economic stage. It has become a major investor in infrastructure in Africa, Central Asia, Latin America and the Middle East.

"The recent U.S. retreat from multilateralism, and from international engagement more broadly, has given China more room to expand its influence," Prasad says.

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