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## China Output Tops Japan

*Beijing on Pace to Become World's 2nd-Largest Economy; U.S. Still Far Ahead*

By ANDREW BATSON, DAISUKE WAKABAYASHI and MARK WHITEHOUSE

China is expected to surpass Japan this year as the world's second-largest economy, an unprecedented position for a still-developing country and one that has brought strains as well as triumphs.



Paul Vigna and David Weidner discuss new data that show China will likely surpass Japan this year as the world's second-largest economy as GDP figures from Japan showed Japan's output fell short of China's.

Second-quarter GDP figures from Japan reported Monday morning show that its economic output, at \$1.288 trillion, fell short of the \$1.339 trillion China reported for the three months ended in June.

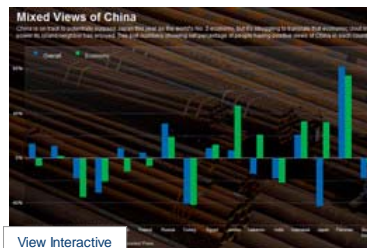
That suggests that China is likely to pass Japan once and for all this year. China's output has topped Japan's before, in the last quarter of the year, when the Chinese economy tends to run hotter for seasonal reasons. Outpacing Japan in an early quarter is seen as a good indication that China has the momentum to zip past Japan for the full year.

Once final numbers for all of 2010 are compiled, many economists expect China to overtake Japan as the world's second-largest national economy in U.S. dollar terms. The gap between China's \$5 trillion economy and the U.S.'s nearly \$15 trillion output remains very large, and even at current growth rates—which may not be sustained—it would take China a decade or more to match the No. 1 U.S.

### Japan Real Time

[China Overtakes Japan. Do Japanese Care?](#)

### Mixed Views of China



See how other nations view China in light of its economic clout.

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The move would be "a milestone for the global economy," says Bruce Kasman, chief economist at J.P. Morgan Chase & Co. in New York. "The impressive thing in China is how well they've gone through what has been a really difficult time for most countries and kept growing at a strong pace."

The symbolic achievement underscores what has been increasingly clear for the past several years: that China by virtue of its sheer size is a dynamic force in shaping the direction of the global economy, and the effects of its decisions—from purchases of commodities to changes in currency and interest-rate policy—are often felt far from its shores.

A little over a decade ago, China was the world's seventh-largest economy at prevailing exchange rates. It passed Germany to wind up at No. 3 in 2007. For 2010, Germany is expected to rank fourth, France fifth and the U.K. sixth. The next emerging economy is Brazil, in eighth place after Italy.

China's exact global ranking is a function of how economies are measured. For example, in terms of purchasing-power parity, which takes into account the goods and services a country's currency actually buys at home, China has long since surpassed Japan for second place behind the U.S. By contrast, China's output per person, at about \$4,000, is about a tenth that of Japan's.

China's shift in position has come as the Japanese economy has muddled through two decades of sluggishness, in stark contrast to China's sizzling growth.

Japan has seemed resigned over the past few years to the inevitability of its loss of economic pre-eminence in Asia. In an April survey of 2,392 people conducted by Asahi Shimbun, one of Japan's largest newspapers, 50% of the respondents said they considered Japan's economy being passed by China's and falling to the No. 3 spot a "major problem"—but 46% didn't think it was.

The divergence in fortunes is evident to Tokyo taxi driver Koichi Yamata, who says he is picking up more Chinese tourists these days as cost-conscious Japanese take fewer cabs. However, he says, it is a sad reminder of how far Japan has fallen.

"It might not be right to say, but I honestly find it a little frustrating to see the Chinese enjoying the type of economic boom that we once had," says Mr. Yamata.

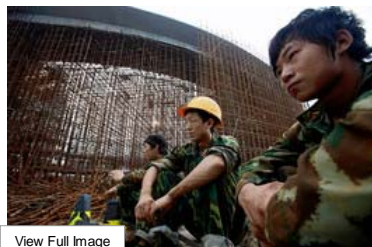
In some ways, China is retracing the path Japan blazed during its boom of the 1980s, when Japan was the new economic heavyweight and its companies were putting money into building factories around Asia. China, to bolster its own position, has focused on reassuring neighbors about its plans for a "peaceful rise," spread aid and investment with fewer conditions than Western countries, and worked seriously in cultural outreach for the first time.

There is increasing awareness in foreign-policy circles that China's increasing economic weight can be threatening as well as attractive, and needs to be handled carefully.

"China has to consider its actions and its tone of voice, so that the world recognizes that we are a nice country and a nice people," says Liu Jianguo, a professor at the Institute of International Studies at Tsinghua University in Beijing.

China's collective national wealth is starting to translate into more global political clout, but the country has been torn between seeking recognition of its success and a desire to avoid demands from the rest of the world. China's government often argues—correctly—that most of its people are still poor and that it lags far behind developed countries in technology and institutions. While China has become more vocal in international forums, it shows few signs of wanting to assume a global leadership role like that of the U.S.

"Along with size and might come responsibilities, and those responsibilities they have not been eager to shoulder," said Eswar Prasad, a Cornell University economist who headed the International Monetary Fund's China division from 2002 to 2004.



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Associated Press

Chinese workers take a break at a site of the construction of a highway in Beijing. China is set to overtake Japan as the world's second largest economy.

China's economic strength doesn't always win it friends, and has sometimes made it a target of criticism from other world leaders. Many Western officials see China's policy of export-led growth as the main cause of global trade imbalances, and its assertive has raised the hackles neighboring countries.

U.S. officials have been pressuring Chinese officials to allow the yuan to appreciate against the dollar, a move they hope will help correct the U.S.'s growing trade deficit with China. So far, though, China has allowed only small changes in the exchange rate.

"There are very real limits to China's ability to translate its economic strength into soft power," says Andrew Shearer, senior research fellow at the Lowy Institute of International Studies in Sydney. "China always seems to overreach or underdeliver," he says, pointing to a series of recent diplomatic tiffs with once-eager partners such as Vietnam, South Korea and Australia.

For South Korea, the March sinking of its patrol boat Cheonan in waters near North Korea has emerged as a turning point in relations with China. The aftermath of that event, in which 46 South Korean sailors died, has underscored for South Koreans that while China may be their biggest trading partner, it is also the main ally of adversary North Korea.

A May investigation into the sinking, led by South Korea and involving investigators from the U.S., U.K., Sweden and Australia, blamed it on a torpedo attack by North Korea. But China delayed for a month giving South Korea condolences on the sailors' deaths and hasn't acted on South Korea's invitation to review the evidence of the investigation. China has also vocally criticized military exercises carried out by the U.S. and South Korea since the incident.

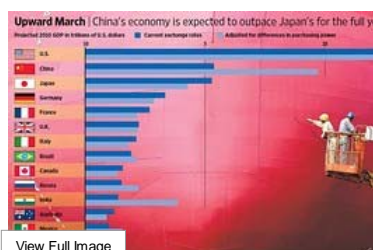
"China's behavior is quite the opposite of Korea's expectations," says Han Suk-hee, a professor of Chinese studies at Yonsei University in Seoul.

"It's a disappointment," he says, because some South Koreans had hoped strong economic ties would translate into better diplomatic and military relations. Earlier this year, a poll by the Pew Global Attitudes Project found that 56% of South Koreans have an unfavorable view of China while 39% have a favorable one.

For Southeast Asian countries, China is a central economic partner: Last year, it became the largest trading partner of the 10-member Association of Southeast Asian Nations, overtaking longtime leader Japan. But China's recent handling of long-simmering tensions over competing claims to islands and waters in the South China Sea rang alarm bells.

### Upward March

China's economy is expected to outpace Japan's for the full year



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At a forum last month that included Asean nations as well as China and the U.S., Secretary of State Hillary Clinton urged all the countries with claims over the sea to participate in a joint process to resolve them. Diplomats said at least 12 countries supported the U.S. proposal to establish a dispute-settlement mechanism, which went against China's expressed preference for separate bilateral talks.

China reacted sharply to the coordinated push, and Foreign Minister Yang Jiechi spoke out against the U.S. proposal. China's its foreign ministry, in a statement after the meeting that summarized Mr. Yang's comments, saying Mrs. Clinton's "seemingly impartial remarks were in effect an attack on China" and "exposed the scheme of some to internationalize the South China Sea issue."

That pushbacklent credence to fears among smaller Southeast Asian nations that the increasingly strong Chinese navy could start to dominate important international waterways while Chinese diplomats played different countries off against one another.

"The response was a little off-script, and it unmasked what Southeast Asians all feared about China," says Ernest Bower, director of the Southeast Asia program at the Center for Strategic & International Studies in

Washington. "This has cost [China] years of good work in terms of kinder and gentler relations."

China's missteps have left an opening in Asia for older powers including the U.S. and Japan.

In the face of China's growing regional presence, Japan has adopted a more sensitive approach to its Asian neighbors.

The past five prime ministers have avoided visits to Yasukuni shrine, a site honoring Japan's war dead. Past visits by Japanese politicians had dredged up resentment across Asia over Japan's past militarism.

—Justin Lahart contributed to this article.

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