Chinese Ghosts

By Harold Brown

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Summary:

To the Editor:

G. John Ikenberry propagates a misconception ("The Rise of China and the Future of the West," January/February 2008) by using GDP at purchasing power parity (PPP) to conclude that China will surpass the United States in terms of economic weight sometime around 2020. A nation's weight in the world economy is primarily exerted through imports and exports, investment and capital flows. All of these take place at currency exchange rates, not at PPP. A haircut in Wuhan may cost a dollar's worth of yuan and be worth $15 to the Chinese GDP at PPP, but its effect on the outside world's economy is nothing, at least not until China can export haircuts.

Per capita GDP at PPP is a good measure of affluence, that is, of the individual standard of living. But the appropriate measure of the potential influence of a national economy on the rest of the world is the national GDP at exchange rates. China plays a major and growing role in the global economy. But even if its remarkably high growth rate does not falter, a continued six percent gap between the United States' and China's GDP growth would still leave the Chinese economy in 2020 at about one-third the size of the U.S. economy.

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