

# WebMemo



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## China's Superpower Economy

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Despite breathless media reports about the World Bank revising downward its estimate for the size of China's economy,<sup>1</sup> what the figures really show is that China has indeed overtaken the United States in manufacturing output. As an industrial giant, China needs to be taken seriously as an international economic force and a strategic and military power.

**The World Bank's Figures.** China's new status is not surprising. China has been the world's leading producer of steel, copper, aluminum, cement, and coal for several years. As a consumer, China surpassed Japan as the globe's second largest importer of petroleum in 2005. In 2006, China surpassed Japan as the world's No. 2 auto market, with total sales of 7.2 million vehicles and production of 7.3 million. In 2007, China also became the world's top producer of merchant ships.<sup>2</sup> In short, one needs no number-juggling from the World Bank to know that China is an economic superpower.

But the revised World Bank numbers have the effect of minimizing the impact of China's impressive growth. Most commentators claimed the new World Bank numbers showed China "shrinking."<sup>3</sup> In fact, the Bank merely lowered the factor for China's purchasing power parity (PPP), a multiplier used by economists to make realistic comparisons of global economies.

In 2006, America's manufacturing sector produced about \$2.7 trillion in goods. China's manufacturing sector produced about 8.74 trillion yuan in goods, or about \$1.124 trillion at the prevailing

exchange rate of 7.77 yuan to the U.S. dollar. But the real value of China's output is more than twice the exchange-rate value, according to price studies done by the World Bank for the year 2005.

In an exhaustive study published on December 17, 2007, the World Bank's International Comparison Program (ICP)<sup>4</sup> determined that, in China, one only needs about 3.4 yuan to buy what would be a dollar's worth of goods on the U.S. market—far less than half of the official exchange rate. So, the World Bank lowered China's PPP—last set in the 1980s—from about 3.94 times the nominal exchange rate to about 2.38 times the nominal exchange rate.

Not surprisingly, *The Economist* magazine arrived at a similar figure for PPP simply by checking the prices of "Big Macs" at McDonald's restaurants around the world (*The Economist* sharpened the figure to 3.42 in its February 1, 2007 issue).<sup>5</sup> Sure enough, a Big Mac that cost \$3.22 in Richmond, Virginia, sold for 11.00 yuan (or about \$1.41) in Guangzhou.

The World Bank study simply confirmed that this pricing deflator is valid across the entire Chinese economy. Applying the PPP factor of 2.38, China's \$1.124 trillion worth of manufacturing out-

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put would be worth \$2.717 trillion on the U.S. market—slightly higher than America’s \$2.7 trillion in manufacturing output.

**Implications for the United States.** Now that China’s manufacturing sector has nosed past the United States, America’s political leaders must begin to contemplate what China’s economy will look like in another five years. It will likely be half-again bigger than America’s industrial sector, giving China the capacity to assemble the building blocks of a military superpower.

China’s boom is not necessarily bad news for the United States. But it means that Washington can no

longer condescend to China as a “developing” nation in need of U.S. tax dollars for programs relating to energy, environment, and the like. China has ample money and resources to pay for these programs by itself. It also has the potential to build a superpower military. The Central Intelligence Agency suggests that China spends 3.8 percent of its GDP on arms. Therein lies the real downside of China’s economic boom.

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1. For example, see “China’s economic muscle ‘shrinks’,” BBC News, December 17, 2007, at <http://news.bbc.co.uk/go/pr/fr/-/2/hi/business/7148695.stm>.
2. In terms of deadweight tonnage; see Jamil Anderlini and Song Jung-a, “China vies for top shipbuilding slot,” *The Financial Times*, September 12, 2007, at [www.ft.com/cms/s/0/ef018430-6157-11dc-bf25-0000779fd2ac.dwp\\_uuid=9c33700c-4c86-11da-89df-0000779e2340.html](http://www.ft.com/cms/s/0/ef018430-6157-11dc-bf25-0000779fd2ac.dwp_uuid=9c33700c-4c86-11da-89df-0000779e2340.html). See also “China Tops Korea Again for New Ship Orders,” *Chosun Ilbo*, English-language Internet edition, March 20, 2007, at <http://english.chosun.com/w21data/html/news/200703/200703200009.html>.
3. Eduardo Porter, “Editorial Notebook—‘China Shrinks’,” *The New York Times*, December 9, 2007, [www.nytimes.com/2007/12/09/opinion/09sun4.html](http://www.nytimes.com/2007/12/09/opinion/09sun4.html). See Also Keith Bradsher “A Revisionist Tale—Why a Poor China Seems Richer,” *The New York Times*, December 21, 2007, at [www.nytimes.com/2007/12/21/business/21yuan.html](http://www.nytimes.com/2007/12/21/business/21yuan.html).
4. See “The 2005 International Comparison Program—Preliminary Results,” The World Bank, December 17, 2007, at <http://siteresources.worldbank.org/ICPINT/Resources/summary-tables.pdf>. The China figures are at [http://siteresources.worldbank.org/ICPINT/Resources/ICPregionalsummaries\\_EAPdoc](http://siteresources.worldbank.org/ICPINT/Resources/ICPregionalsummaries_EAPdoc).
5. “The Big Mac index,” *The Economist*, February 1, 2007, at [www.economist.com/markets/indicatorsdisplaystory.cfm?story\\_id=8649005](http://www.economist.com/markets/indicatorsdisplaystory.cfm?story_id=8649005).