

China's GDP will not surpass that of the U.S.

— Taiwan set to overtake Japan in 2022 in terms of GDP per capita

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Japan Center for Economic Research Asian Research Team¹

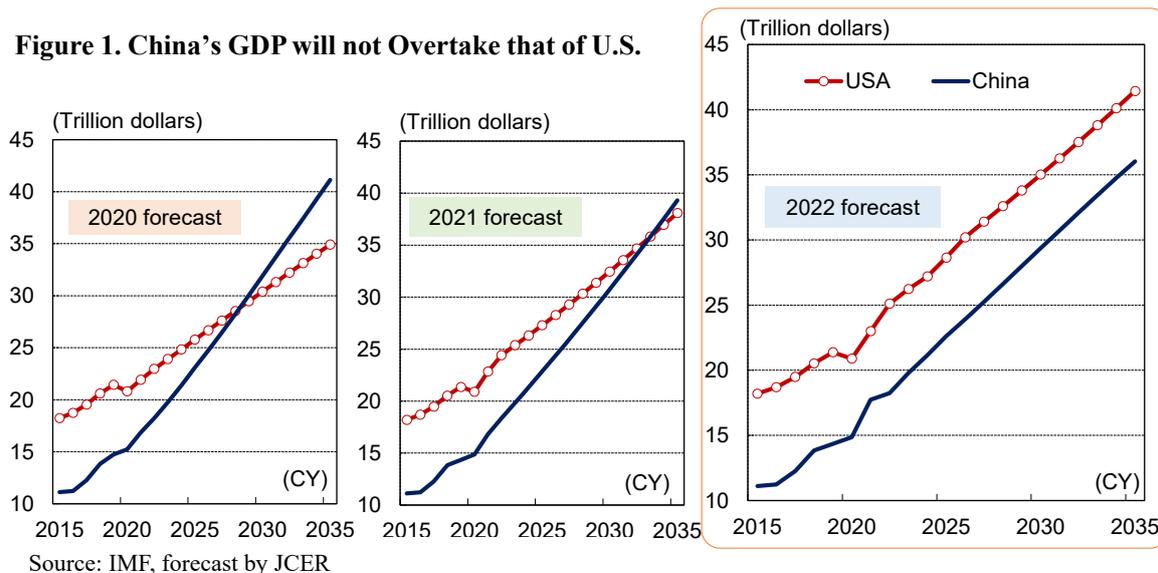
- China's GDP will not surpass that of the U.S. due to the Xi Jinping regime in its third term, the zero-COVID policy, and the U.S.-China decoupling. It was expected to surpass it in 2033 according to the previous survey and in 2028 at the earliest according to the survey two years before
- Taiwan will overtake Japan in terms of GDP per capita in 2022; South Korea to follow suit in 2023
- Japan's nominal GDP will be surpassed by India in 2025, falling to fourth place in the world for the first time in 59 years
- The JCER Digital Potential Index, which affects productivity, rises in the U.S. and ASEAN, while it falls in Japan and China

1. U.S.-China reversal in GDP will not happen

The Japan Center for Economic Research (JCER) released its 8th Medium-term Asian Economic Forecast, which projects GDP growth for 18 countries and regions in the Asia-Pacific region, from 2022 through 2035.

China's nominal GDP was expected to surpass that of the U.S. in 2029 according to the 7th Medium-term AE Forecast (2021) and in 2033 according to the 6th Medium-term AE Forecast (2020). But China reversal in GDP will not happen according to this year's forecast. (Figure 1)

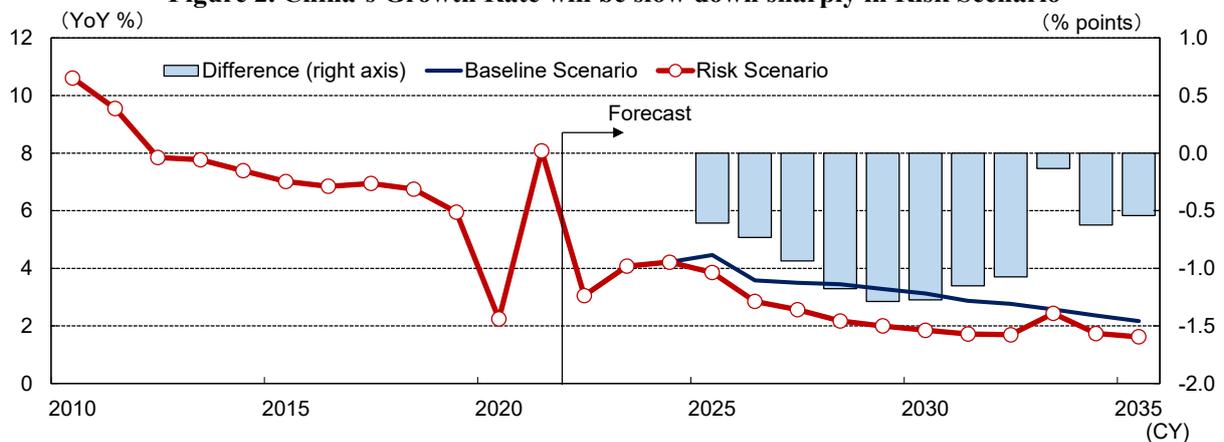
Figure 1. China's GDP will not Overtake that of U.S.



¹ Director Atsushi Tomiyama (Principal Economist), Akira Tanaka (Senior Economist), Tamaki Sakura (Economist), Yoshiki Shimoda (Economist), Masashi Uehara (Principal Economist), Go Yamada (Principal Economist), Yasumasa Shimizu (Principal Economist). This forecast is based on the data as of November 2022.

The Xi Jinping regime in its unprecedented third term, the zero-COVID policy, and the U.S.-China decoupling that prevents access to advanced technologies become a heavy burden on the Chinese economy. Under the baseline scenario, China’s real GDP growth rate is forecast to decline to 2% range in the 2030s. It will be difficult for China to surpass the U.S. even after 2036 due to the decrease in the labor force population. The risk scenario assumes that the de facto Xi Jinping regime will continue until its fourth term (until 2032). We assumed that labor, capital, and Total Factor Productivity (TFP) will be all adversely affected by tightening IT restrictions for Chinese firms, growing concerns about a Taiwan contingency, and the continuation of moderate zero-COVID policy. The real GDP growth rate will decline to 1% range in the 2030s as the “tech war” between Western countries such as U.S. and China will intensify (Figure 2). China will lose \$18 trillion, equivalent to its nominal GDP in 2021, over the 2025-2035 years period compared to the baseline scenario.

Figure 2. China’s Growth Rate will be slow down sharply in Risk Scenario

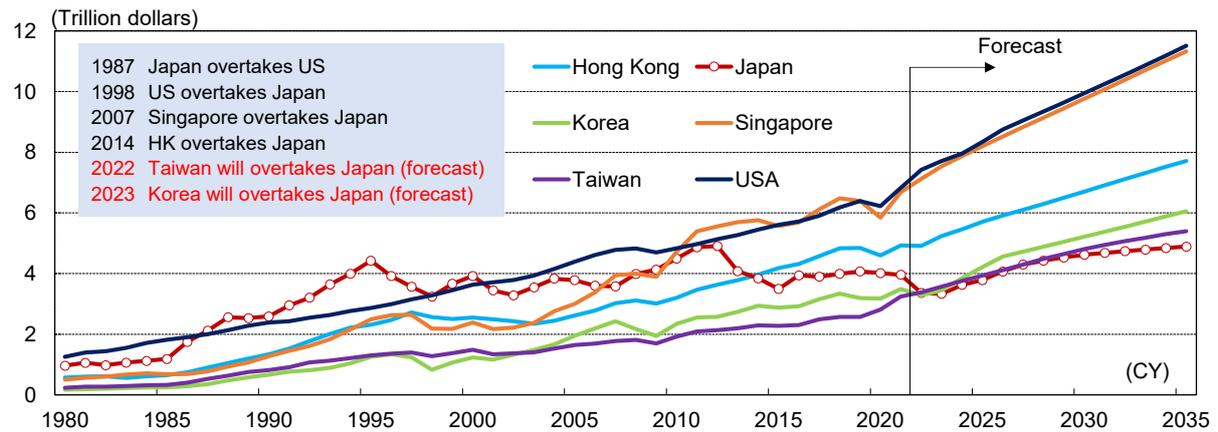


Source: IMF, forecast by JCER

2. Taiwan to overtake Japan’s GDP per capita in 2022, South Korea in 2023

Japan's nominal GDP per capita will be surpassed by Taiwan in 2022 and by South Korea in 2023 (Figure 3). According to the previous forecast, Taiwan and South Korea were expected to overtake Japan in 2028 and 2027, respectively. Japan will be overtaken by all four of the Asian NIES (newly industrializing economies) due to not only the depreciation of Yen but also the low labor productivity. While Japan's capital-labor ratio, which represents the capital stock per labor force population, has been stagnant, Taiwan and South Korea have steadily built up their ratios. Japan have got behind Taiwan and South Korea in investment in "intangible assets" such as R&D, in addition to tangible assets such as machinery.

Figure 3. The GDP per Capita Taiwan and South Korea Expected to Overtake Japan

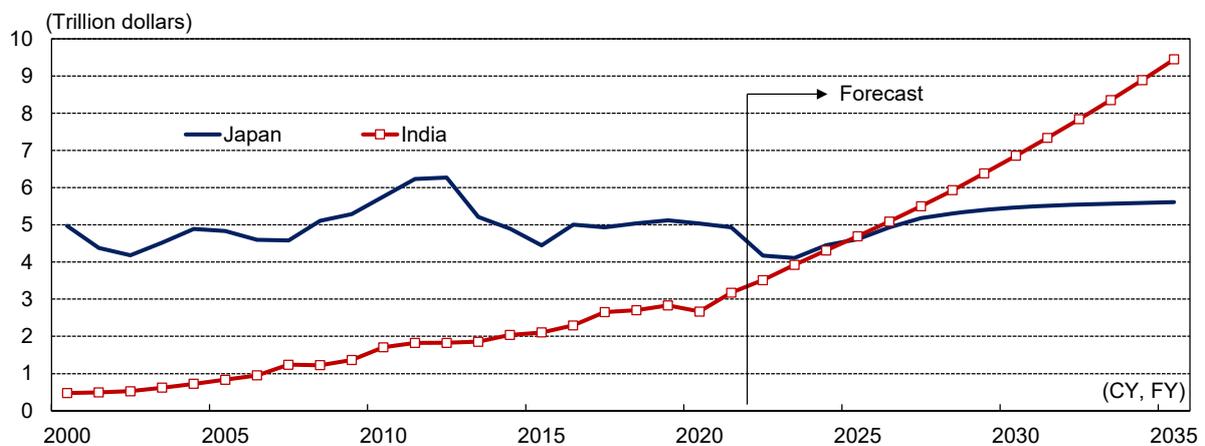


Source: IMF, ILO, forecast by JCER

3. Japan will lose its position as the world's third-largest economy to India

India's nominal GDP is forecast to surpass Japan's in 2025 (Figure 4). Japan's GDP will fall to fourth place in the world for the first time in 59 years, since 1966, and India will take the third largest economy, which Japan has defended for 15 years since 2010. According to the UN population projections, India's population will overtake China's and become the world's largest in 2023. While Japan's population is declining, India's population growth will contribute its economic growth.

Figure 4. India's GDP Excess that of Japan in 2025



Note: India for fiscal year, which starts in April.

Source: IMF, forecast by JCER

4. JCER Digital Potential Index in Japan will sluggish

We calculated the JCER Digital Potential Index of 2022 edition, which indicates how much potential to promote digital transformation (DX), key to economic growth (Figure 5). The rankings have changed since last year due to update latest statistics and reconsider some of the indicators. The U.S. ranked in first among the 18 countries and regions in 2035, the end of the forecast period. In 2035, Asian NIES ranked the second to fourth, and ASEAN countries' rankings rose. On the other hand, Japan, where

remains old-fashioned systems such as “HANKO” stamp and fax machines, and China, where is expected to tighten IT restrictions for Chinese firms by the Xi Jinping's policy "common prosperity", fell in the ranks.

Figure 5. Forecast of JCER DX Potential Ranking (18 Countries and Regions)

| | 米国 | カナダ | 豪州 | 日本 | 韓国 | 香港 | シンガポール | 台湾 | 中国 | インド | インドネシア | フィリピン | マレーシア | タイ | ベトナム | カンボジア | ラオス | ミャンマー |
|------|-----|-----|-----|-----|-----|-----|--------|-----|-----|-----|--------|-------|-------|-----|------|-------|-----|-------|
| | USA | CAN | AUS | JPN | KOR | HKG | SGP | TWN | CHN | IND | IDN | PHL | MYS | THA | VNM | KHM | LAO | MMR |
| 2000 | 2 | 8 | 7 | 3 | 5 | 4 | 1 | 6 | 14 | 11 | 12 | 13 | 9 | 10 | 15 | 16 | 17 | 18 |
| 2010 | 5 | 7 | 8 | 6 | 2 | 3 | 1 | 4 | 10 | 11 | 15 | 14 | 9 | 12 | 13 | 16 | 17 | 18 |
| 2021 | 4 | 7 | 9 | 6 | 3 | 1 | 2 | 5 | 10 | 13 | 14 | 15 | 8 | 11 | 12 | 16 | 17 | 18 |
| 2025 | 2 | 8 | 9 | 6 | 1 | 5 | 3 | 4 | 12 | 13 | 15 | 14 | 7 | 11 | 10 | 16 | 17 | 18 |
| 2030 | 1 | 8 | 9 | 6 | 2 | 5 | 3 | 4 | 12 | 13 | 14 | 15 | 7 | 11 | 10 | 16 | 17 | 18 |
| 2035 | 1 | 9 | 10 | 7 | 2 | 5 | 3 | 4 | 12 | 13 | 14 | 15 | 6 | 11 | 8 | 16 | 17 | 18 |

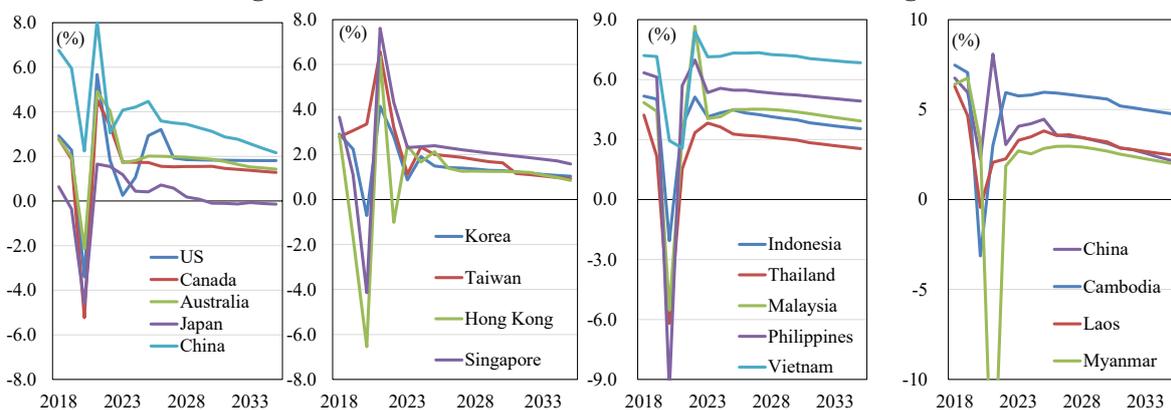
Source: JCER

5. Medium-Term Forecasts based on growth accounting model

The forecast covers 15 major Asian countries and regions, and the U.S., Australia and Canada for comparison (Figure 6). It extends over a time horizon of 14 years (2022-2035), eight years longer than the IMF's (International Monetary Fund) World Economic Outlook, which provides forecasts through 2027. Unlike the Asian Development Bank, which focuses on the current growth rate of developing countries in Asia, JCER's Asian Outlook is a long-term, comprehensive forecast of the Asian economy.

In this report, we forecast based on Digital Potential Index of each country, factoring inflation caused by the Ukraine crisis, the spreads of interest rates hike around the world, and the “U.S.-China tech war” caused by the enclosure of advanced technologies.

Figure 6. Real GDP Growth Rates of 18 Countries/ Regions



Source: IMF, forecast by JCER

(Contact: Asian Research Team 03-6256-7740)

Japan Center for Economic Research
 Nikkei Bldg. 11F, 1-3-7 Otemachi, Chiyoda-ku
 Tokyo 100-8066 JAPAN
 TEL:03-6256-7710 / FAX:03-6256-7924