

BUSINESS INSIDER

China Just Overtook The US As The World's Largest Economy



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Sorry,
America.
China just
overtook the
US to
become the
world's
largest
economy,
according to
the



REUTERS/Shannon Stapleton

International Monetary Fund.

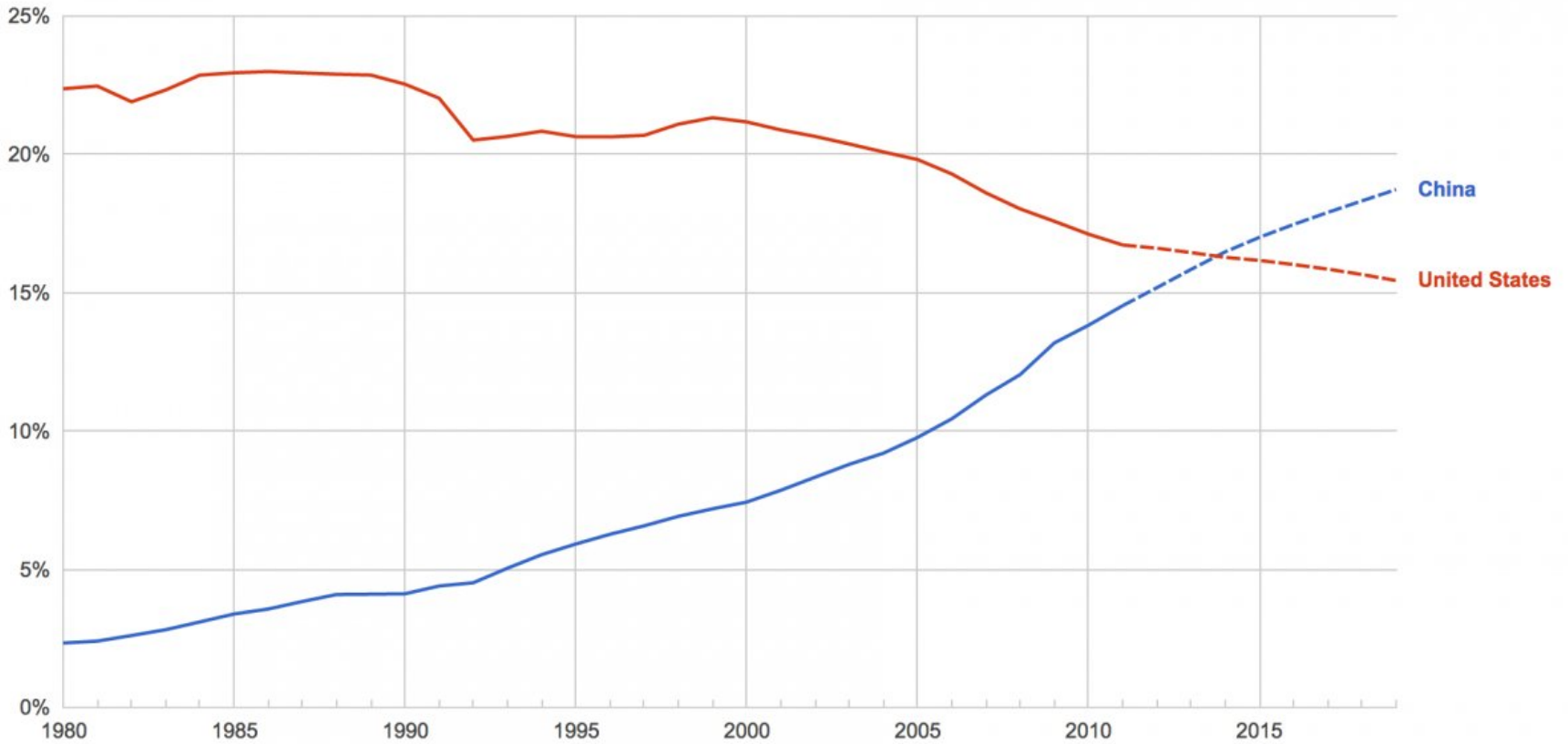
Chris Giles at the Financial Times [flagged up the change](#). He also alerted us in April that it was [all about to happen](#).

Basically, the method used by the IMF adjusts for purchasing power parity, [explained here](#).

The simple logic is that prices aren't the same in each country: A shirt will cost you less in Shanghai than in San Francisco, so it's not entirely reasonable to compare countries without taking this into account. Though a typical person in China earns a lot less than the typical person in the US, simply converting a Chinese salary into dollars underestimates how much purchasing power that individual, and therefore that country, might have. [The Economist's Big Mac Index](#) is a great example of these disparities.

So the IMF measures both GDP in market-exchange terms and in terms of purchasing power. On the purchasing-power basis, China is overtaking the US right about now and becoming the world's biggest economy.

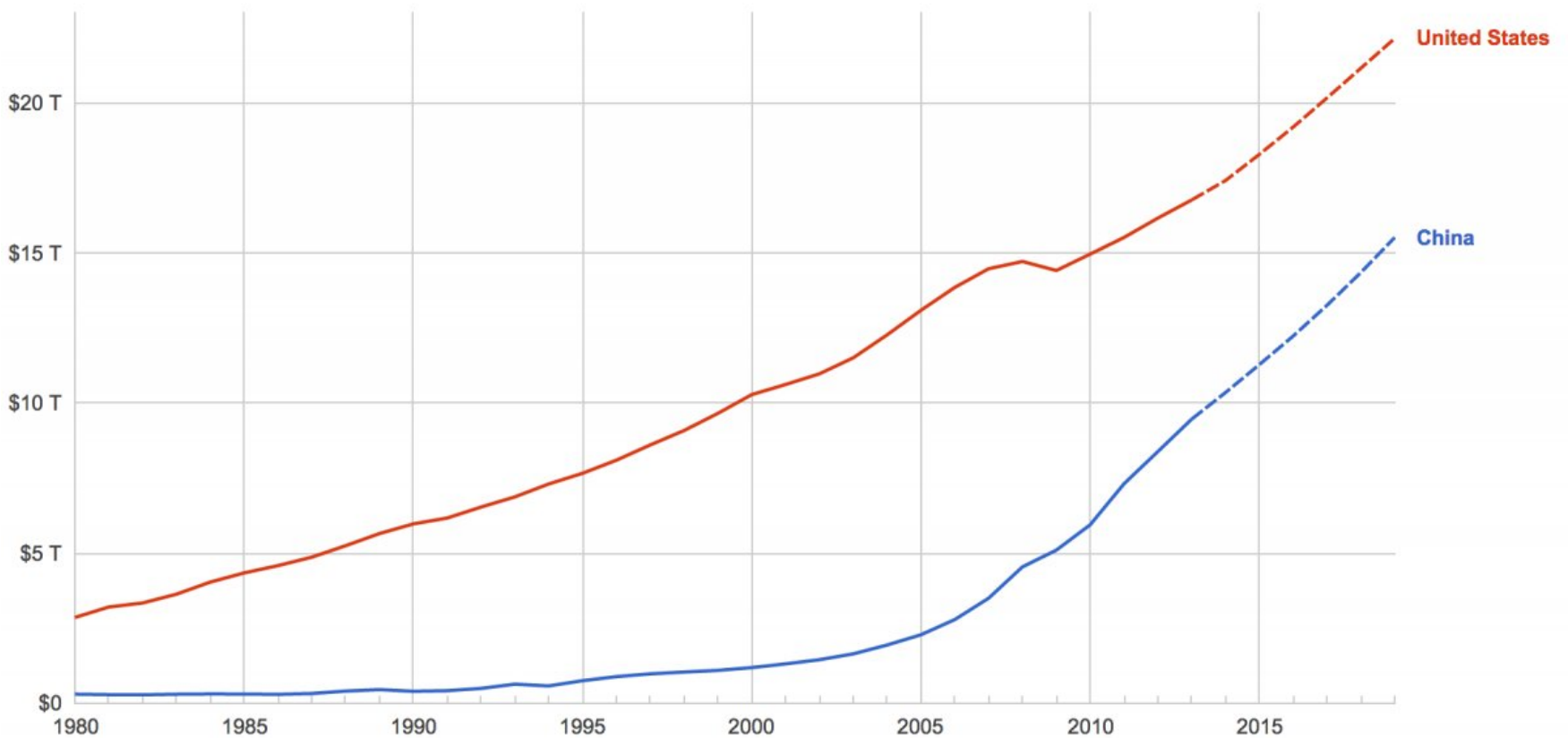
We've just gone past that crossover on the chart below, according to the IMF. By the end of 2014, China will make up 16.48% of the world's purchasing-power adjusted GDP (or \$17.632 trillion), and the US will make up just 16.28% (or \$17.416 trillion):



IMF, Google Public Data Explorer

Adjusted for purchasing power, China's economy is now the world's largest.

It's not all sour news for the US. It'll be some time yet until the lines cross over in raw terms, not adjusted for purchasing power. By that measure, China still sits more than \$6.5 trillion lower than the US and isn't likely to overtake for quite some time:



IMF, Google Public Data Explorer

But in terms of the raw market value of China's currency, it still has a long way to go.

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