

# An Old, Sick Cat *and* A Skinny Dog

BY FUXIAN YI

*Why the anticipated  
ferocious economic  
battle between China  
and the United States  
will never happen.*

For decades, the prevailing narrative has been that China will inevitably overtake the United States economically. Goldman Sachs in 2011 and *The Economist* Intelligence Unit in 2015 predicted that this would happen in 2026, and in 2023 revised that forecast to 2035 and 2039, respectively. Chinese government economists have been bolder, predicting that China's economy will be twice the size of the U.S. economy by 2030 and three times its size by 2049. Inspired by these predictions, the Chinese authorities made a strategic miscalculation that the East is rising while the West is declining, which President Xi Jinping reaffirmed in an article published on January 1 this year.

But on January 13, outgoing U.S. President Joe Biden said in his final foreign policy speech that China would never overtake the United States economically. Biden's new narrative is consistent with the conclusion I told the *New York Times* in 2016, which I reached demographically in the 2007 and 2013 editions of my book *Big Country with an Empty Nest*. In the November 2020 Brookings Institution book, *The Future of U.S. Policy Toward China: Recommendations for the Biden Administration*, my commentary was the sole reference listed in the introduction by Jeffrey Bader, President Barack Obama's principal Asia advisor.

Children are the driver of the economy, labor is its backbone, and aging is its drag. An aging population can hinder production, reduce consumption, stifle innovation, undermine public morale, and erode economic vitality. The answer to the question of whether demographics matter for economic growth is the same, with the difference only in which language is used. Germany is

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answering in German, France in French, while Japan has already completed its answer in Japanese.

### TRAJECTORIES IN JAPAN AND KOREA

Thanks to a rapidly growing workforce and a young population, Japan's per capita GDP rose from 17 percent of the U.S. level in 1960 to 154 percent in 1995, and its GDP size soared from 9 percent of America's to 73 percent.

From the late 1970s to the early 1990s, it was the dominant narrative that Japan would inevitably overtake the United States economically. *Japan as Number One* by Harvard professor Ezra F. Vogel and *The Japan That Can Say No* by Shintaro Ishihara, a prominent Japanese ultra-nationalist politician, fueled populist fervor in Japan and strategic anxiety in the United States, which was exacerbated by Japanese acquisition of American companies and iconic buildings such as Columbia Pictures and the Rockefeller Center. Americans were more concerned by the economic threat from Japan than by the military threat from the Soviet Union by a three-to-one margin, and even believed that conflict or even a war with Japan would be inevitable. These concerns evaporated in the early 1990s when Japan's "threatening" economy stagnated due to aging.

In 1992, Japan's ratio of labor force aged 20–64 to elderly over 64 had begun to fall below that of the United States, and its median and average ages were five and three years above America's, respectively. Its proportion of elderly over 64 began to exceed America's the year before. Its prime-age labor force aged 15–59 has been declining since 1995, whereas America's will continue to grow throughout this century. As a result, Japan's GDP growth rate has been lower than America's since 1992, and by 2024, its GDP size

States, respectively; and in 2021, the share of those over 64 exceeded that of the United States. In 2026, its labor-to-elderly ratio will begin to fall below America's. Consequently, its GDP growth rate has been lower than America's since 2021,

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with its per capita GDP, which soared from 5 percent of the U.S. level in 1960 to 56 percent in 2018, falling to 42 percent in 2024, and on track to fall below 25 percent.

### WORSE THAN JAPAN

China's development pattern is similar to that of Japan and South Korea. Its fertility rate has been lower than America's since 1991 and Japan's since 2000 and will struggle to stabilize at 0.8. As a result, its prime-age labor force began to shrink in 2012, signaling the end of its three-decade run of double-digit GDP growth, which fell from 9.6 percent in 2011 to 5 percent in 2024. Thirty years after peaking, Japan's prime-age labor force has shrunk by 19 percent, while China's will have declined by 31 percent. China's total population began to decline in 2018, only eight years later than Japan's. By 2100, Japan's population will be six-tenths of its peak, while China's will be only a quarter, meaning that China will lose the vast majority of its consumers, producers, and tax base.

In 1980, the median age was 22 in China, 30 in the United States and 20 in India. In 2027, it will be 45 in China, five years above America's (China's average age will be three years above America's), and 31 in India. In 2050, it will be 59 in China, 43 in the United States, and only 39 in India, a whole generation younger than China. China's proportion of elderly and labor-to-elderly ratio will start to be worse than America's in 2031 and 2034, respectively. China's GDP growth rate will likely start to be lower than America's in 2029–2035, and its per capita GDP will hardly reach a quarter of the U.S. level. If the United States is overtaken as the world's largest economy, it will be by India, not China.

Moreover, China's economic growth has been overdrawn. For example, its GDP grew at an average annual

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has fallen to a mere 14 percent that of the United States, and its per capita GDP has fallen to 38 percent of the U.S. level. The number of Japanese companies on the Fortune Global 500 list dropped from 149 in 1995 to just 40 in 2024.

South Korea followed a similar trajectory. In 2016, its prime-age labor force began to decline. In 2019, its median and mean ages were five and three years above the United

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rate of 5.7 percent from 2015 to 2024; but imagine what its growth rate would have been without a larger property bubble than Japan's and overly advanced and overbuilt infrastructure. With its property bubble bursting and its infrastructure entering a period of maintenance and depreciation, China is feeling the pain of repaying its overdraft.

Another reason why China's economy is now looking more Japanese than Japan's is that weak consumption has led the country into more severe deflation. Household consumption in China accounts for only 38 percent of GDP, compared to 56 percent in Japan. This is because the one-child policy has reduced both the number of consumers and the per capita spending power. The one-child policy and selective abortion have reduced two super-consumer cohorts: children and young women, and lowered household rigid demand, thus reducing household disposable income as a share of GDP from 62 percent of GDP in 1983 to 44 percent of GDP today, well below the international average of 60–70 percent.

To be sure, China is investing heavily in artificial intelligence and robotics to offset the economic drag of aging. But these efforts can go only so far, because continuing innovation relies on young minds. Moreover, robot workers do not consume, and consumption is the major driver of any economy. If global manufacturing is about to enter an AI-driven age, the market will have the final say, and China's weaknesses of insufficient domestic demand will become increasingly prominent.

In short, China's economic momentum is being weakened by aging, shrinking labor force, past overdrafts, and weak consumption, and the economic outlook will be bleaker than Japan's.

### THE UNITED STATES ALSO FACES AN AGING CRISIS

The U.S. fertility rate has fallen from 2.12 in 2007 to 1.62 in 2023 and is likely to continue to decline along the path of Canada, the United Kingdom and Australia, which are culturally close to the United States and had fertility rates of only 1.26, 1.44 and 1.50, respectively, in 2023.

In 1970, the United States had 5.4 workers aged 20–64 supporting one senior citizen aged 65 or above, but the ratio has decreased to 4.7 in 2010 and 3.2 in 2025 and will be only 2.4 in 2050. The proportion of people older than 64 has increased from 10 percent in 1970 to 18 percent in 2025 and will increase to 23 percent in 2050. Aging slows down the economy and increases spending on health care and social security, which increases government debt and squeezes spending on defense and scientific research.

Many are pinning their hopes on increasing immigration to solve the demographic crisis, but this will not be very successful. Canada, for example, despite having a higher proportion of immigrants than the United States, has

a lower fertility rate, and therefore a more aging population and a less dynamic economy. As aging leads to economic decline, the United States will find itself unable to bear the economic and social costs of immigration.

### SKINNY DOG VERSUS OLD CAT

Qin Shi Huang, the first emperor (reigned 221–210 BCE) of a united China, believed that Confucian scholars were the biggest threat to his regime, so he killed Confucian scholars and burned their books. However, the Qin regime lasted only 15 years before it was overthrown by the rebels led by Liu Bang and Xiang Yu, who were not Confucian scholars but illiterate. Similarly, China and the United States now see each other as their greatest competitive rivals, when in fact it will be low fertility rate and aging that will cause both countries to decline.

There was a time when the United States could dominate the global order on its own, but now it appears to be out

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of its depth in responding to crises such as those in Ukraine and Gaza, even in cooperation with its allies. However, its allies face a more severe aging problem. The United Kingdom, Canada, Australia, New Zealand, the European Union, Japan, and South Korea as a whole have seen their share in the global economy fall from 54 percent in 1995 to 30 percent in 2024, and that trend will continue. The United States will become less willing and able to lead on the international stage, and the world will become increasingly dangerous.

While China's decline is inevitable, it will be gradual, and China will remain the world's second- or third-largest economy for decades to come. China cannot build a credible new world order, but its cooperation is essential to enable the United States to uphold global stability.

Given the demographic challenges facing both countries, they need to strategically contract and cooperate to maintain global order and address the demographic crisis. The anticipated furious battle between an aggressive Chinese lion and a dynamic American tiger will eventually turn out to be just a frolic between an old, sick cat and a skinny dog. ◆