Can the US hold on to economic pre-eminence?

The US could topple from its perch as the world’s largest economy as early as 2030, according to some studies. How realistic is this prediction and what might that mean for global growth and prosperity? We asked experts from BNY Mellon Investment Management for their views.

Q: Do you think the US could be overtaken by China and/or India in terms of economic scale in the next 11 years?

“I think the imminent demise of the US is greatly exaggerated. In the US there are not the same demographic challenges that are apparent in Japan, or even most parts of Western Europe. The potential for continued output in the US is still very strong, particularly when you consider the fact that trade is less important to us than most of our trading partners, accounting for approximately 11% of our GDP. The US is going to maintain pre-eminence on the global stage for some time, in my view, despite the fact that other economies are growing,” Dave Leduc, active fixed income CIO at Mellon, a BNY Mellon Investment Management company

“I’m not so confident that the world economy is going to be taken over by China and India. I remember when Japan was going to be the largest economy in the world because it was growing at 8% a year. But Japan has a demographic problem that’s really well known. In my opinion, China has a worse demographic problem and now it ostensibly has President Xi for life.” Curt Custard, CIO at Newton, a BNY Mellon Investment Management company

“China is the second largest spender on R&D and obviously growing very quickly as far as per capita GDP goes, but there is still much further to go to catch up to the U.S.’s standard of living. An emerging economy is naturally going to have the capacity to grow faster than developed economies, and eventually as they “emerge” the growth curve kind of flattens out. If the global economy works the way it should, resources shift to the most efficient markets. If the US maintains its spot in terms of efficiency of production in certain areas, if it wins parts of the trade war, and if it maintains its spot as the AI leader of the world then it should maintain its position as the richest country in the world, even if technically another economy is larger.” Liz Young, director of market strategy, BNY Mellon Investment Management

Q: Do you see currency manipulation as a natural tool for those vying for economic pre-eminence?

“Right now I think every country needs a weaker currency to paper over some of the challenges they have economically. This has led to conversations surrounding if we’ll get explicit currency intervention, particularly against the US dollar. I think the challenge with that type of intervention is that you need a willing participant on the other side. In order for the dollar to weaken, you have to have other nations willing to allow that to happen. Right now, I don’t see that happening.”

“There has also been talk about the depreciation of the Chinese currency. There is natural governance on the extent of how far that can go. There’s also bound to be concern about capital flight and if they go too far,” Dave Leduc, active fixed income CIO at Mellon, a BNY Mellon Investment Management company
“China has managed a devaluation of their currency and we would expect them to continue managing that. I don't think they're particularly upset that the currency has devalued a little bit because it's helped offset some of the trade tension but it's probably not their main goal and it's probably not the main tool that they're going to use to keep their economic growth stable. As far as the dollar goes, if you are an investor anywhere in the globe and you want safe haven currencies you have four options: the dollar, the British pound, the euro or the Japanese yen. Of the three outside the dollar, how many of them seem attractive right now in terms of the economic backdrop? So no matter what the US does, or even what the US Federal Reserve does, the demand from all over the world for the dollar as that 'safe haven' currency is not going anywhere until the rest of the world becomes less ill. That's why, at least until the end of this year, we see the dollar staying either stable or maybe even slightly strengthening.” Liz Young, director of market strategy, BNY Mellon Investment Management

Q: Where does Europe fit into all this?

“The eurozone should in theory be much more economically vibrant and powerful than it is, however, it's a relatively moribund economic zone. In my view, that's because they prize continuity and stability over economic growth. It's hard to anticipate where the coin is going to fall in places like India or China. However, as people get wealthier in China they typically want more information—not less information. As the Chinese government increases controls over the internet and the media, people may want to flee,” Curt Custard, CIO at Newton, a BNY Mellon Investment Management company

“We see opportunity in Europe despite many bonds occupying negative-yielding territory. The math on European yields for a US investor is actually pretty interesting. Without getting into complicated math of using forward contracts to hedge and the applied interest rate, what happens is you pick up the short-term interest rate differential between the different markets. For instance, when you hedge the German Bund which is yielding approximately 60 basis points back to US dollars, you can actually get a higher yield than you would buying the 10-year US treasury. In this sense, US investors are in a unique position where there are actually a reasonable amount of opportunities globally on that basis.” Dave Leduc, active fixed income CIO at Mellon, a BNY Mellon Investment Management company
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