News release

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Shift of global economic power to emerging economies set to continue, despite marked slowdown in China after 2020

Latest PwC report projects that:

- *China will clearly be the largest economy by 2030, but its growth rate is likely to revert to the global average in the long run*
- *India could challenge US for second place by 2050*
- *Indonesia, Mexico and Nigeria could push UK and France out of top 10*
- *Philippines, Vietnam and Malaysia also set to be notable risers*
- *Colombia and Poland will grow more strongly to 2050 than Brazil and Russia.*

10th February, 2015 – The global economic power shift away from the established advanced economies in North America, Western Europe and Japan will continue over the next 35 years – despite a projected slowdown in Chinese growth after around 2020.

This is one of the key findings from the latest report from PwC economists on ***The World in 2050: Will the shift in global economic power continue***? This presents long-term projections of potential GDP growth up to 2050 for 32 of the largest economies in the world, covering 84% of total global GDP.

The report indicates that the world economy is projected to grow at an average of just over 3% per annum from 2014-50 – doubling in size by 2037 and nearly tripling by 2050. But there's likely to be a slowdown in global growth after 2020, as the rate of expansion in China and some other major emerging economies moderates to a more sustainable long-term rate, and as working age population growth slows in many large economies.

John Hawksworth, PwC Chief Economist and co-author of the report, comments:

"There are different ways of comparing the size of economies, but we project that China will be the largest economy by 2030 on any measure. However, we also expect its growth rate to slow markedly after around 2020 as its population ages, its high investment rate runs into diminishing marginal returns and it needs to rely more on innovation than copying to boost productivity. Eventual reversion to the global average has been common for past high growth economies such as Japan and South Korea and we expect China to follow suit.

"India has the potential to sustain its higher growth rate for longer and become a $10 trillion economy by around 2020 in purchasing power (PPP) terms, or around 2035 at market exchange rates. But this relies on India making sustained progress on infrastructure investment, institutional reforms and boosting education levels across the whole population."

Table 1 below sets out how PwC projects global GDP rankings will evolve (see Note 1 at the end of this release for more details).

The report also contains projections based on GDP at market exchange rates, without this relative price adjustment. On that basis, China is projected to overtake the US in around 2028, while India would clearly be the third largest economy in the world in 2050, but still some way behind the US.

Table 1: Projected global GDP rankings in PPP terms (at constant 2014 dollars)

	2014		2030		2050	
PPP rank	***Country***	***GDP at PPPs (2014 $bn)***	***Country***	***Projected GDP at PPPs (2014 $bn)***	***Country***	***Projected GDP at PPPs (2014 $bn)***
1	China	17,632	China	36,112	China	61,079
2	United States	17,416	United States	25,451	India	42,205
3	India	7,277	India	17,138	United States	41,384
4	Japan	4,788	Japan	6,006	Indonesia	12,210
5	Germany	3,621	Indonesia	5,486	Brazil	9,164
6	Russia	3,559	Brazil	4,996	Mexico	8,014
7	Brazil	3,073	Russia	4,854	Japan	7,914
8	France	2,587	Germany	4,590	Russia	7,575
9	Indonesia	2,554	Mexico	3,985	Nigeria	7,345
10	United Kingdom	2,435	United Kingdom	3,586	Germany	6,338
11	Mexico	2,143	France	3,418	United Kingdom	5,744
12	Italy	2,066	Saudi Arabia	3,212	Saudi Arabia	5,488
13	South Korea	1,790	South Korea	2,818	France	5,207
14	Saudi Arabia	1,652	Turkey	2,714	Turkey	5,102
15	Canada	1,579	Italy	2,591	Pakistan	4,253
16	Spain	1,534	Nigeria	2,566	Egypt	4,239
17	Turkey	1,512	Canada	2,219	South Korea	4,142
18	Iran	1,284	Spain	2,175	Italy	3,617
19	Australia	1,100	Iran	1,914	Canada	3,583
20	Nigeria	1,058	Egypt	1,854	Philippines	3,516
21	Thailand	990	Thailand	1,847	Thailand	3,510
22	Egypt	945	Pakistan	1,832	Vietnam	3,430
23	Poland	941	Australia	1,707	Bangladesh	3,367
24	Argentina	927	Malaysia	1,554	Malaysia	3,327
25	Pakistan	884	Poland	1,515	Iran	3,224
26	Netherlands	798	Philippines	1,508	Spain	3,099
27	Malaysia	747	Argentina	1,362	South Africa	3,026
28	Philippines	695	Vietnam	1,313	Australia	2,903
29	South Africa	683	Bangladesh	1,291	Colombia	2,785
30	Colombia	642	Colombia	1,255	Argentina	2,455
31	Bangladesh	536	South Africa	1,249	Poland	2,422
32	Vietnam	509	Netherlands	1,066	Netherlands	1,581

Source: IMF World Economic Outlook database (Oct 2014) for 2014 estimates, PwC projections for 2030 and 2050

Table 2 below sets out the average annual real GDP growth rates underlying these projected GDP rankings, splitting out the influence of population growth and average income growth per person:

Table 2: Projected average real GDP growth rates (% per annum, 2015-50)

Country	Average population growth	Average real GDP growth per person	Average real GDP growth
Nigeria	2.5%	2.9%	5.4%
Vietnam	0.3%	5.0%	5.3%
Bangladesh	0.7%	4.4%	5.1%
India	0.7%	4.2%	4.9%
Philippines	1.3%	3.2%	4.5%
Indonesia	0.7%	3.7%	4.3%
Pakistan	1.1%	3.3%	4.3%
South Africa	0.5%	3.7%	4.2%
Egypt	1.1%	3.1%	4.1%
Malaysia	0.9%	3.2%	4.1%
Colombia	0.7%	3.4%	4.1%
Mexico	0.6%	3.0%	3.6%
Thailand	-0.2%	3.7%	3.5%
China	0.0%	3.4%	3.4%
Turkey	0.6%	2.7%	3.3%
Saudi Arabia	0.9%	2.4%	3.2%
Brazil	0.4%	2.6%	3.0%
Argentina	0.6%	2.1%	2.7%
Australia	1.0%	1.7%	2.7%
Poland	-0.3%	2.9%	2.6%
Iran	0.7%	1.8%	2.5%
United States	0.6%	1.8%	2.4%
United Kingdom	0.4%	2.0%	2.4%
South Korea	0.1%	2.2%	2.3%
Canada	0.7%	1.6%	2.2%
Russia	-0.5%	2.6%	2.1%
France	0.3%	1.6%	1.9%
Spain	0.1%	1.9%	1.9%
Netherlands	0.0%	1.9%	1.9%
Italy	-0.1%	1.6%	1.5%
Germany	-0.4%	1.9%	1.5%
Japan	-0.5%	1.8%	1.4%

Source: PwC analysis based on UN population projections

Aside from China and India, other highlights from PwC's projections in Tables 1 and 2 are:

- Emerging economies like Indonesia, Brazil and Mexico have the potential to be larger than the UK and France by 2030, with Indonesia possibly rising as high as 4th place in the world rankings by 2050 if it can sustain growth-friendly policies.

- Nigeria, Vietnam and the Philippines are notable risers in the global GDP rankings in the long term, reflecting relatively high projected average growth rates of around 4.5-5.5% per annum over the period to 2050.

- Malaysia is also projected to grow at around 4% per annum on average in the period to 2050, which is higher than China's projected average growth rate of around 3.5% per annum over this period, and an impressive performance for what is already a middle income country.

- Colombia is also an economy that PwC projects to grow at a relatively healthy long term rate of around 4% per annum over the period to 2050, noticeably faster than its larger Southern American neighbours like Brazil and Argentina.

- Japanese growth is projected to be the slowest of all 32 countries covered in total terms, driven in part by a steadily declining population; as a result Japan is projected to fall from 4th to 7th place in the global GDP rankings over the period to 2050.

- European economies tend to slide down the rankings, with growth rates in the major Eurozone economies projected to average only around 1.5-2% per annum to 2050.

- Poland is projected to have the highest average growth rate of the large EU economies, and also to outperform Russia in terms of long-run growth.

PwC also estimates what its projections would mean for shares of global GDP at PPPs (assuming the smaller countries not covered in the model grow on average as a group at the same rate as the 32 large economies covered by the study) As Figure 1 below shows:

- China's share of world GDP is projected to flatten off at around 20% from the mid-2020s onwards as its growth rate reverts to the global mean.

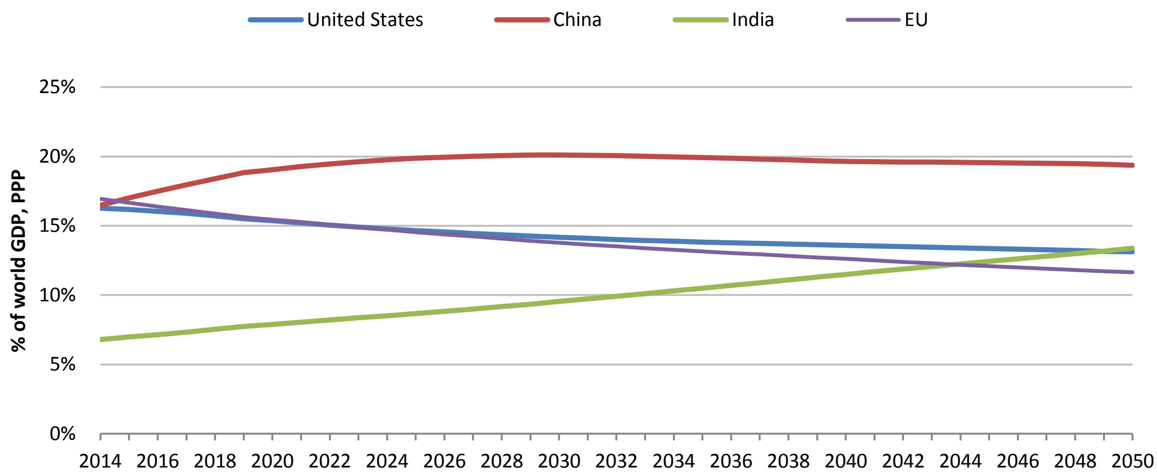
- The US's share declines gradually from around 17% now to around 14% by 2050, while India's potentially doubles from around 7% now to be more or less neck and neck with the US by the middle of the century in PPP terms.

- The EU's overall share of world GDP is projected to decline from around 17.5% now to only around 12% by 2050, assuming that total EU GDP grows at the same rate as the aggregate for the largest seven EU economies covered by the study.

John Hawksworth comments:

> "Europe needs to up its game if it not to be left behind by this historic shift of global economic power, which is moving us back to the kind of Asian-led world economy last seen before the Industrial Revolution. The US may hold up better, provided it can remain at the global technological frontier."

Figure 1: Shifting global economic power: projected shares of world GDP in PPP terms



Source: PwC projections starting from IMF estimates for 2014

These projections assume, however, that emerging markets will follow broadly growth-friendly policies. In practice, not all may do so and therefore not all of these economies will fulfil the potential indicated by the PwC growth projections, although some could also exceed the projections if they can accelerate their investment rates and institutional reforms.

How should businesses approach emerging markets?

The PwC analysis has a number of high-level messages for businesses looking to develop their emerging market strategies, including:

- It may be difficult to sustain the growth rates of the 2000 to 2012 period in the major emerging markets, given the combination of economic bottlenecks and institutional deficiencies. Some slowdown should be factored into business plans and investment appraisals.

- Emerging markets vary greatly in their institutional strengths and weaknesses, which need to be carefully assessed. There could also be major differences in institutional strengths between industry sectors within countries. Deep local knowledge that is updated in real time is critical to manage businesses successfully in an emerging market environment. Having the right local partners to navigate you through local political, legal and regulatory systems is also critical. Identifying and promoting local talent who understand local business and social cultures better than any outsider will also be an increasing source of comparative advantage.

- For large companies making strategic investments in frontier markets like sub-Saharan Africa, part of their contribution could be to try to improve the local institutional framework. This could involve offering appropriate technical assistance and advice to local governments in areas like corporate governance, fiscal policy and intellectual property rights protection. It could also involve investing in social and economic infrastructure (e.g. schools, roads, railways, power and water networks) where these are vital to a company's longer term success in a region.

- Finally, don't forget mature markets in North America and Europe. These will remain very significant players in the global economy for decades to come even if their growth rates average only around 2%. **PwC's analysis shows, for example, that average income levels per person (at PPPs) in 2050 will still only be around 40% of average US levels in China and around a quarter of US levels in India.** Advanced economies will also, generally speaking, still be easier and lower risk places to do business given their political and institutional strengths.

John Hawksworth concludes:

"Recent experience has underlined that relatively rapid growth is not guaranteed for emerging economies, as indicated by recent problems in Russia and Brazil, for example. It requires sustained and effective investment in infrastructure and improving political, economic, legal and social institutions.

"It also requires remaining open to the free flow of technology, ideas and talented people that are the key drivers of economic catch-up growth. Overdependence on natural resources could also impede long-term growth in countries such as Russia, Nigeria and Saudi Arabia unless they can diversify their economies over time.

"In short, while our analysis confirms that emerging markets have huge potential, they can also be an institutional minefield – both managers and investors need to tread carefully."

Notes:

1. **PPPs vs MERs**: there is no single correct way to measure the relative size of economies at different stages of development. Depending on the purpose of the exercise, GDP at either market exchange rates (MERs) or purchasing power parity rates (PPPs) may be the most appropriate measure. In general, GDP at PPPs is a better indicator of average living standards or volumes of outputs or inputs because this correct for relative price differences, while GDP at MERs is a better measure of the relative total size of markets for businesses at a given point in time. However, historical evidence shows that MERs will generally, in the long run, tend to move up towards PPPs for emerging economies as their average income levels gradually narrow the gap with the current advanced economies. An econometric equation within the PwC long-term growth model that reflects this historical relationship forms the basis for the projections of GDP at MERs in the report. This also makes the common simplifying assumption that PPP exchange rates remain constant in real terms over time. Projections of MERs are subject to particularly high margins of uncertainty, however, which is why both the report and this media release focus primarily on projections of GDP at PPPs.

2. A copy of the full report ***The World in 2050 Will the shift in global economic power continue?*** will be published on 10th February 2015 at http://www.pwc.com/world2050

3. This report is part of PwC's wider research programme on the megatrends shaping global economic and business development. More details can be found here: http://www.pwc.co.uk/issues/megatrends/index.jhtml

4. Further analysis of India's growth potential and the reforms necessary to fulfil this is contained in another recent report on ***Future of India: The Winning Leap.*** This can be downloaded from: http://www.pwc.in/future-of-india/index.jhtml

5. More details on business strategies for emerging markets can be found in reports by the **PwC Growth Markets Centre**, which are available from: http://www.pwc.com/gx/en/growth-markets-centre/index.jhtml

6. PwC helps organisations and individuals create the value they're looking for. We're a network of firms in 157 countries with more than 195,000 people who are committed to delivering quality in assurance, tax and advisory services. Find out more and tell us what matters to you by visiting us at www.pwc.com.

