

The World in 2050

Will the shift in global economic power continue?

Summary report

February 2015



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1. Summary: The world in 2050

1.1. Highlights

In our latest World in 2050 report we present economic growth projections for 32 of the largest economies in the world, accounting for around 84% of global GDP.

We project the world economy to grow at an average of just over 3% per annum in the period 2014 – 50, doubling in size by 2037 and nearly tripling by 2050.

But we expect 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.

The global economic power shift¹ away from the established advanced economies in North America, Western Europe and Japan will continue over the next 35 years. China has already overtaken the US in 2014 to become the largest economy in purchasing power parity (PPP²) terms. In market exchange rate (MER) terms, we project China to overtake the US in 2028 despite its projected growth slowdown.

India has the potential to become the second largest economy in the world by 2050 in PPP terms (third in MER terms), although this requires a sustained programme of structural reforms³.

We project new emerging economies like Mexico and Indonesia to be larger than the UK and France by 2030 (in PPP terms) while Turkey could become larger than Italy. Nigeria and Vietnam could be the fast growing large economies over the period to 2050.

Colombia, Poland and Malaysia all possess great potential for sustainable long-term growth in the coming decades according to our country experts.

At the same time, recent experience has re-emphasised 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 key drivers of economic catch-up growth.

We think that overdependence on natural resources could also impede long term growth in some countries (e.g. Russia, Nigeria and Saudi Arabia) unless they can diversify their economies.

1.2. Key findings: GDP projections to 2050

This report updates our long-term global economic growth projections⁴, which were last published in January 2013. These are based on a model that takes account of projected trends in demographics, capital investment, education levels and technological progress. We have updated both the base year data (from 2011 to 2014) and

¹ This is one of the five long-term megatrends that have been the focus of much recent PwC research, and is closely related to other key global trends related to demographic and social change, rapid urbanisation, technological breakthroughs, and resource scarcity and climate change. For more details of this megatrends research, please see our website here: <http://www.pwc.co.uk/issues/megatrends/index.jhtml>

² PPP estimates adjust for price level differences across countries (see Appendix A for more details). They therefore provide a better measure of the volume of goods and services produced than GDP at current market exchange rates.

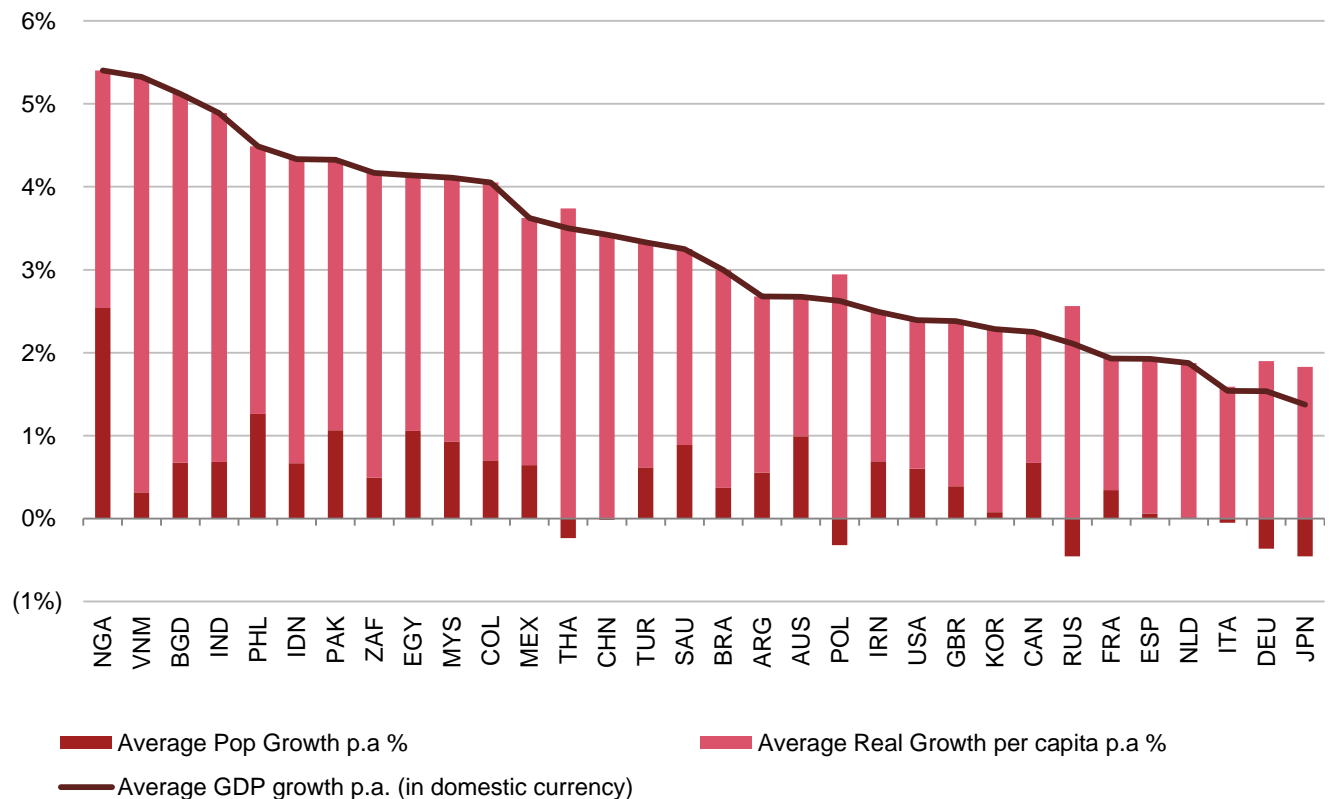
³ As discussed further in the recent PwC report on the future of India ‘The Winning Leap’: http://www.pwc.in/en_in/in/assets/pdfs/future-of-india/future-of-india-the-winning-leap.pdf. Potentially, Indian GDP could reach \$10 trillion by 2035 if the right policies are pursued.

⁴ Our projections indicate potential growth if broadly growth-friendly policies are pursued by governments in these countries and if there are no major global catastrophes (e.g. global nuclear war, asteroid collision, long-lasting global pandemic). They are subject to many uncertainties as discussed in the scenario analysis in Section 3.4 of the report.

future assumptions on the key drivers of growth, as well as expanding the coverage of the model from 24 to 32 countries (now accounting for around 84% of total world GDP at PPP exchange rates).

Figure 1 below shows the estimated average real GDP growth rates for the 32 economies covered in this study over the period to 2050. Newly emerging economies such as Nigeria and Vietnam could grow at 5% or more per annum on average over this period, whilst the growth of established emerging economies such as China may moderate to around 3-4%. Advanced economies are projected to grow at around 1.5-2.5% per annum in the long run, with variations reflecting different working age population growth to a significant degree.

Figure 1: Breakdown of components of average annual real GDP growth (2014 – 2050)



Source: PwC analysis

The changing league table of world GDP in PPP terms is shown in **Table 1**. China is already the world’s biggest economy in PPP terms, and we project that India could have the potential to just overtake the US as the world’s second largest economy by 2050 in PPP terms (although the projected difference is small relative to the margin of uncertainty around any such projections).

We project that the gap between the three biggest economies (i.e. China, India and the US) and the rest of the world will widen over the next few decades. In 2014, the third biggest economy in PPP terms (India) is around 50% larger than the fourth biggest economy (Japan). In 2050, the third biggest economy in PPP terms (the US) is projected to be approximately 240% larger than the fourth biggest economy (Indonesia).

The rise of Indonesia and Nigeria through the world rankings throughout the period to 2050 is very striking: Indonesia rises from 9th in 2014 to 4th in 2050, and Nigeria rises from 20th in 2014 to 9th in 2050.

However, average income per capita (i.e. GDP per capita) will still be significantly higher in the advanced economies than the emerging economies in 2050. The current gap in income per capita between developing and developed countries is just too large to bridge fully over this period.

Table 1: GDP at PPP rankings

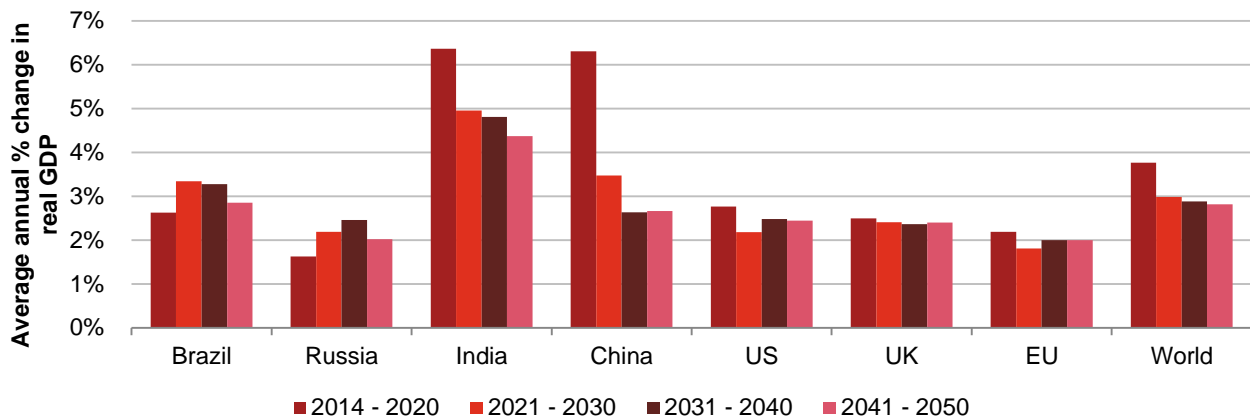
PPP rank	2014		2030		2050	
	Country	GDP at PPP (2014 US\$bn)	Country	Projected GDP at PPP (2014 US\$bn)	Country	Projected GDP at PPP (2014 US\$bn)
1	China	17,632	China	36,112	China	61,079
2	United States	17,416	United States	25,451	India	42,205
3	India	7,277	India	17,138	United States	41,384
4	Japan	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 WEO database (October 2014) for 2014 estimates, PwC projections for 2030 and 2050

The model projections highlight a likely moderation in growth rates after 2020

Figure 2 shows projected average annual real GDP growth rates for the BRICs, the US, the UK, the EU and the world over the period to 2020 and in the following three decades. Our model suggests that growth in emerging economies, particularly China but also to a lesser degree India, could moderate after 2020 as they mature. In general, as is consistent with the findings of recent academic research by Larry Summers and Lant Pritchett⁵, our projections shows a tendency for growth rates to ‘regress to the mean’ in the long run. Brazil and Russia show a slightly different pattern since short-term problems give them scope to improve in the 2020s, but they too see their growth rates revert back towards the advanced economy norm of around 2% in the longer run.

Figure 2: Projected growth profiles for major economies – Regression to the mean



Source: PwC analysis

Of course, any such long-term growth projections are subject to many uncertainties. In the full report, we consider an alternative downside scenario where global growth could average around 0.7% per annum lower, leading to global GDP by 2050 being around 22% lower than in our main projections. This reflects less favourable assumptions on technological progress, investment levels and catch-up rates for emerging economies. But of course there could also be upside possibilities that would push global growth above our baseline projections.

⁵ L. Pritchett and L.H. Summers, ‘Asiaphoria Meets Regression to the Mean’, NBER, October 2014: <http://www.nber.org/papers/w20573>

1.3. Implications for business strategy

Our analysis has a number of high level messages for businesses considering how to develop their global strategies, although all of these would need careful tailoring to individual circumstances. Our Growth Markets Centre has also developed a detailed toolkit to help companies address these and related strategic issues⁶.

First, it will be difficult to sustain the growth rates of the 2000 to 2012 period in the E7 and other major emerging markets, given the combination of economic bottlenecks and institutional deficiencies. This is backed up by the detailed analysis in this report. Managers need to understand the political, legal and regulatory risks and have procedures in place to avoid or at least mitigate them as they arise. They also need to understand the dynamics of emerging consumer markets that are becoming increasingly mature, sophisticated and digitally savvy.

Second, emerging markets vary greatly in their institutional strengths and weaknesses and need to be assessed in a nuanced way. 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 here 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 critical⁷. 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.

Third, for larger Western companies making strategic investments in emerging markets, 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 critical to a company's longer term success in a region.

Finally, don't forget existing core markets in North America and Europe. These will remain very significant players in the global economy for decades to come. Our analysis shows that their average income levels will remain much higher than in even the best-performing emerging markets for the foreseeable future. Advanced economies will also, generally speaking, still be easier and lower risk places to do business given their political and institutional strengths, even though we project their growth rates to be relatively slow.

In short, while emerging markets have considerable growth potential, they can also be an institutional minefield – both managers and investors need to tread carefully. Global strategies need to strike the right balance between mature, lower risk advanced economies and faster-growing but generally higher risk emerging markets. The correct balance will vary from company to company, but our Growth Markets Strategy toolkit can help guide the way.

⁶ As discussed further on our Growth Markets Centre website at: <http://www.pwc.com/gx/en/growth-markets-centre/index.jhtml>

⁷ As discussed in more detail in a recent PwC Growth Markets Centre report 'Presence to Prosperity' : <http://www.pwc.com/gx/en/growth-markets-centre/presence-to-profitability.jhtml>

Authors, contacts and services

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Megatrends

Further details of our megatrends research programme, which has been led by our E&P team in the UK, can be found at:

<http://www.pwc.co.uk/issues/megatrends/index.jhtml>

This report focuses on the shift in global economic power, but is related to all five megatrends:





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