RANE SNAPSHOTS

# Despite Slowed Chinese Growth, Global Economic Power Continues to Shift Toward Asia

Dec 26, 2023

(thitivong/Getty Images)

**Recent concerns about China's growth outlook notwithstanding, China and other emerging Asian economies' rising share of global output will continue to come almost entirely at the expense of Group of 7 (G-7) countries, meaning that global economic power, or at least income shares, will shift toward East Asia and, less so, South Asia in the coming decades.** Despite a flurry of recent media coverage on China's economic challenges, projections from the International Monetary Fund (IMF) and other forecasters illustrate a long-term trend of shifting economic output from the West to the East. In the 1980s, the world's leading industrial nations in the G-7 (the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom) accounted for 50% of global GDP on a purchasing power parity basis. But as of 2022, G-7 countries' share of global output had fallen to 30%. By contrast, emerging and developing economies today comprise almost 60% of global GDP, with those in Asia, including China, accounting for the bulk of this figure (the remaining 10% of global output is accounted for by advanced, non-

G-7 economies.) Split out from other emerging and developing economies, emerging Asia's share of global income is 33% and China alone accounts for nearly 19% of global GDP.

- Large growth differentials account for the change in global income shares. China averaged real GDP growth of 8.4% a year in the past two decades, while India averaged 6.8%. By contrast, the G-7 countries eked out a modest 1.5%. Large growth differentials reflect different levels of economic development, with poorer countries benefiting from a greater growth potential due to their greater distance from the technological frontier.
- Despite their growing shares of global income, emerging economies' per capita incomes remain far below those of the advanced economies. China and India's per capita incomes (adjusted for purchasing power) are $23,000 and $9000, respectively, compared with the United States' $80,000. Different levels of per capita incomes reflect the different levels of development, including the size and productivity of physical and human capital.

**For the remainder of the decade, emerging economies in Asia will continue to outperform those in all other regions, though the extent will depend heavily on China's economic performance.** All emerging regions will outpace the G-7 in terms of economic growth, driven by higher trend growth, largely due to higher marginal capital productivity and, in most cases, more favorable demographic trends. Emerging Asian economies will continue to register the strongest growth among all emerging regions because of generally higher levels of investment and greater productivity gains, in part fuelled by faster improvements in human capital. Emerging economies in Asia will also continue to increase their share of global GDP more than those in any other region. However, emerging Asian growth will heavily depend on China's near-term growth trajectory, as China accounts for more than half of emerging Asia's GDP. Emerging economies in the Middle East and sub-Saharan Africa are also projected to see decent growth in the coming years, but in aggregate, their performance will still pale in comparison to that of their Asian peers due to Asia's broadly higher investment rates and stronger productivity growth. Growing from a much lower base, non-Asian emerging

regions will fail to make any meaningful gains in terms of global income distribution. Although countries with lower per capita income theoretically have greater growth potential, this will only be realized if governments implement growth-supporting policies, including those geared toward capital accumulation and export growth.

- According to the IMF, emerging economies in Asia are expected to grow by nearly 5% over the next five years. Emerging economies in Europe and Latin America are set to grow by 2.5% over the same time period, while those in the Middle East and sub-Saharan Africa are set to generate around 4% growth. G-7 economies, meanwhile, are projected to grow a little less than 2%.
- The income share of the G-7 countries will continue to shrink and reach 27% by 2030, while emerging Asia will reach 37%. The income share of Latin America and the Middle East will remain below 8% and sub-Saharan Africa's share will remain below 4%.
- Upper-middle, lower-middle and low-income economies have registered an average real GDP growth rate of 4.6%, 4.2% and 1.6% respectively, over the past ten years, while the GDP of high-income countries grew by 1.6%. This pattern is not going to change significantly over the next decade, as there is little in trend growth or economic policies to suggest that any region other than Asia will see a significant shift in its economic growth momentum.

**The North Atlantic and the North Pacific will continue to dominate global economic output, but the center of gravity will slowly shift — pointing to a continued change in the global balance of economic power, at least as far as aggregate GDP is concerned, in the coming decades.** In the medium term, the structural shift in economic output from the West to the East will mostly be driven by differential rates of capital accumulation. But in the short term, it will largely, though not exclusively, depend on China's economic performance. Unless Chinese growth unexpectedly falls to a dismal 2% or less, this shift will continue, even if at a slower pace than in a scenario where Chinese growth averages 4-5% over the medium term. Despite significant challenges in terms of rebalancing its economic growth model, China is highly unlikely to grow less than the

United States or the other six G-7 countries. A relatively low per capita income should enable China to generate annual growth rates exceeding those of the United States and Europe, thereby increasing its share of global GDP. Meanwhile, though India's overall economic weight is still small compared with China's, the South Asian country's economic growth now exceeds that of China's. This will also contribute to emerging Asia's growing share of the global economic pie, particularly as India's economic heft gradually increases. Over time, the combination of these trends means that the world's major production networks and capital accumulation are on track to slowly expand farther toward East Asia and South Asia, at the expense of the West, all other things equal.

- China's share of global income is 18.8%, compared with India's 7.6% and the United States' 15.4%.
- China's economic growth has slowed to 5-6% compared with more than 10% approximately 15 years ago. The Chinese economy's growth momentum will slow further, cyclically and structurally. Cyclically, economic rebalancing has weighed on domestic economic activity, as Beijing attempts to shrink low-productivity sectors like real estate and infrastructure, and move toward a more productive allocation of savings or increased consumption. Structurally, China's excess saving problems — as evidenced by its efforts to rebalance the real estate sector — are making it difficult to convert the country's large pool of savings into productive investment. Economically speaking, this is a solvable problem. China could either find productive outlets for its savings domestically (by, for example, allowing savings to be allocated in a more market-based manner and highest-return projects), or it could find ways to increase consumption and, in turn, reduce savings (by, for example, expanding social spending or transferring a larger share of national incomes to households).