

News Release

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Shift in World Economic Power means a decade of seismic change

The new decade will be characterised as the point at which the largest emerging economies catch up with and prepare to overtake the established leading economies according to a new paper by PricewaterhouseCoopers LLP (PwC) entitled, "Convergence, Catch up and Overtaking: How the balance of world economic power is shifting."

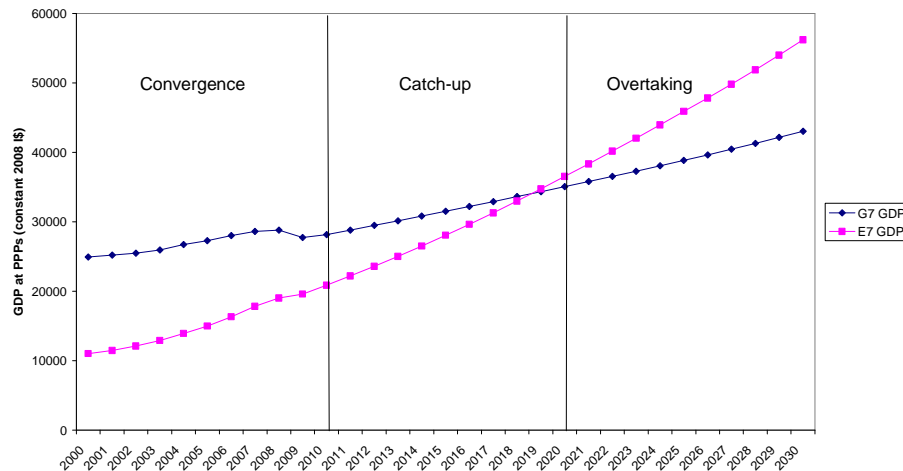
The paper is based on projected GDP at purchasing power parities (PPP) for the G7 economies relative to the emerging E7 economies (China, India, Brazil, Russia, Mexico, Indonesia and Turkey). PwC suggests that, by 2019, the output of these two economic groupings will be neck and neck, but this parity will not last for long as the E7 will retain much stronger growth potential. From 2020 onwards, the E7 will break away from the G7 with combined E7 GDP being projected by PwC to be around 30% higher by 2030 than total G7 GDP.

John Hawksworth, head of macroeconomics, PricewaterhouseCoopers LLP, added:

"These projections suggest that China could be the largest economy in the world as early as 2020 and is likely to be some way ahead of the US by 2030. India could grow even faster than China after 2020, however, and will also move rapidly up the global GDP rankings.

Indeed, by 2030, our projections suggest that the global top ten could see China leading the GDP rankings followed by the US, India, Japan, Brazil, Russia, Germany, Mexico, France and the UK."

Figure 1: E7 could overtake G7 by 2020



This chart illustrates that, back in 2000, total GDP was more than twice as large as total E7 GDP. Since then there has been rapid convergence, the rate of which has only been accelerated by the global financial crisis. In 2007, total G7 GDP was still around 60% higher than total E7 GDP. By 2010, the gap is estimated to shrink to only around 35% with full catch-up occurring by 2020.

Another way to look at this is in terms of the shares of world GDP accounted for by the 'Big 4' economies, as shown in Table 1 below.

Table 1 – Global GDP share of Big 4 economies (at purchasing power parities)

% of world GDP	2000	2010	2020	2030
US	23	20	17	16
EU	25	21	18	15
China	7	13	18	19
India	3	5	7	9
Total: Big 4	58	59	60	59

Source: World Bank for 2000 data, PwC main scenario projections for 2010-30

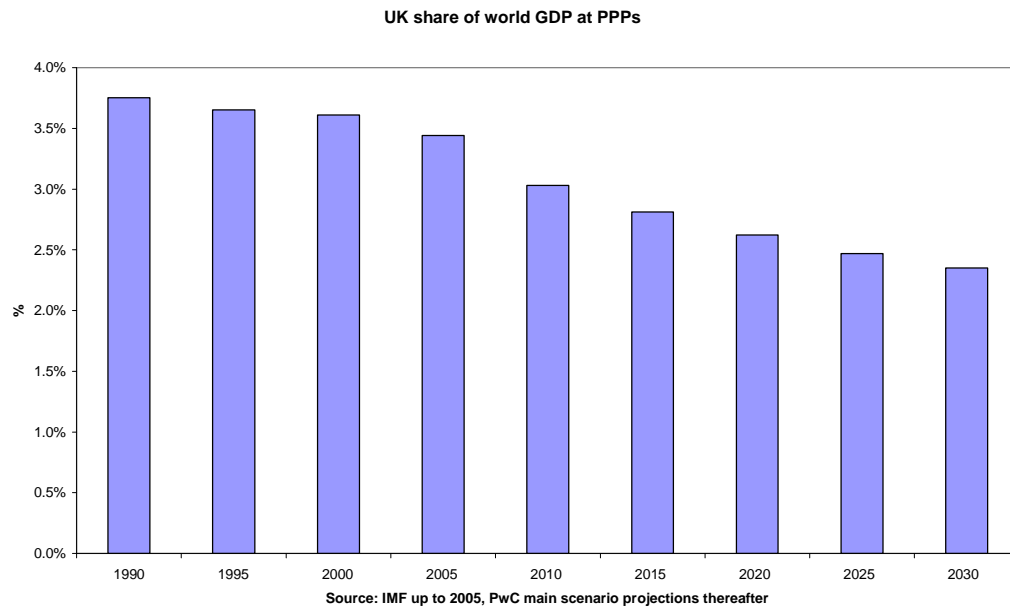
We can see from this analysis that the Big 4 in aggregate account for around 60% of world GDP (at PPPs) throughout the period, but their relative shares shift dramatically as China and India rise at the expense of the US and the EU.

China makes the most progress up to 2020, but its rapidly ageing population (due in part to its one child policy) means that it slows down considerably after around 2020.

India could move into third place in the individual country GDP rankings ahead of slow-growing Japan as early as 2012 and seems likely to grow significantly faster than China in the decade after 2020. This is due both to India have a significantly younger and faster growing population than China and due to it having more 'catch-up' potential due to starting from a lower level of economic development than China at present. However, India will only fully realise this potential if it continues over the next two decades to pursue the growth-friendly economic policies of the last two decades.

The UK, in common with other large European economies, is projected to see its share of world GDP fall gradually over the next 20 years, just as has happened over the past two decades (as the chart

below shows).



This is the inevitable result of the UK being over-taken by emerging economies with much larger and faster-growing populations. But this process is not necessarily a bad thing to the extent that UK business can seize the opportunities provided by these fast-growing emerging markets.

Ian Powell, Chairman and Senior Partner, PricewaterhouseCoopers LLP, commented:

"The E7's influence is already huge and this analysis shows it's not a matter of if the E7 will overtake the G7, but when. The bigger questions are what the implications for business and society will be. The future challenge for the UK is whether we can remain a key global player and continue to be a destination for capital and foreign investment as well as taking a strong share of overseas investment opportunities. Our British companies need to ensure that they differentiate their services and expose themselves to these new consumer markets.

"Any future Government must take a long term view that supports research and development, improves cultural links with the E7 particularly China and India and invests in developing employment skills that build on the strengths of the UK. The UK must work alongside the E7 economies to avoid being dwarfed in the new world order.

"The shift in global economic power is not just reflected in GDP. The G7 has already expanded to the G20 as the key forum for global economic decision-making, while it was the China and the US that took the lead in the Copenhagen climate change talks. China's successful Olympics Games of 2008 will be followed by Brazil's double of the World Cup and the Olympics in 2014 and 2016. Russia's role as a European energy superpower is evident while India has the demographic potential to overtake China as the fastest growing major economy within the next 10 years."

Ends

Notes to editors

1. This analysis updates the global GDP projections contained in earlier reports in PwC's 'World in 2050' series, which were previously published in March 2006 and March 2008. GDP is measured here at purchasing power parities (PPPs) in order to minimise the impact of volatility and future uncertainty around market exchange rates and to correct for price level differences between the advanced and emerging economies.

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