

Talking point

Demography and the global economy – “continental” drift is well underway

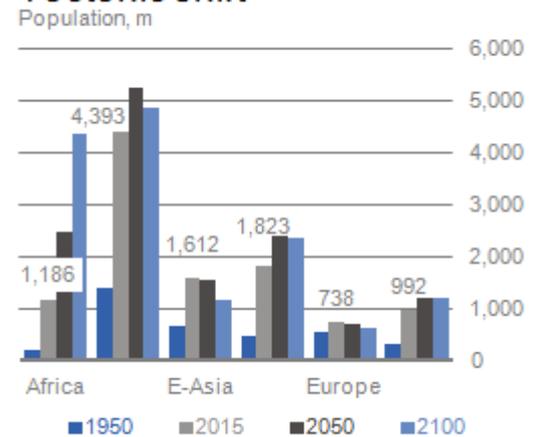
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Continental drift is slow, takes place almost imperceptibly and ends up having dramatic effects in the long run. In this, it is very similar to demographic change. Let us begin with a few facts. The world's population is set to grow from 7.3 bn today to more than 9.7 bn by 2050. By comparison, the world's population was a mere 2.5 bn in 1950. The regional (continental) demographic balance has been shifting for quite some time. In 1950, four of the ten largest countries were European (Germany, Italy, USSR, UK). Today, only Russia, ironically the country with the most adverse demographics, ranks among the top-10. In 1950, the big European four made up 10% of the world's population. This figure has dropped to 5% today and will continue to decline for the foreseeable future. The populations of Africa and Asia will continue to increase significantly – and dramatically so in Africa – over the next few decades (chart). Admittedly, the aggregate increase hides significant intra-regional differences (e.g. East versus South Asia).

By 2050, three contiguous South Asian countries (India, Pakistan and Bangladesh) will have a combined population of 2.2 bn. By comparison, the combined population of Europe and the Americas will then be less than 2 bn. Meanwhile, on current UN projections, Nigeria's population is set to reach 400 m and thus to exceed that of the US, whose population is projected to be 390 m. Other sub-Saharan African countries will experience rapid demographic growth. The DRC (Democratic Republic of Congo), for example, will have a population of 195 m by 2050, up from 78 m today. If these projections do indeed materialise, they will not fail to have a dramatic impact, economically and politically. Naturally, fifty years is a long time in trend forecasting.

After all, who would have thought in 1970 that fertility rates in many developing countries would collapse as dramatically as they subsequently did? Forty years ago, the Mexican woman gave birth to seven children on average, compared to 5.5 in India and Indonesia. Currently, fertility rates have fallen to or below replacement levels in all three countries (chart). As a matter of fact, fertility rates in all advanced and the vast majority of the larger emerging economies have fallen to below replacement levels. This means that the population size will over time stabilise and eventually begin to decline (absent net immigration). If the experience of the advanced economies is anything to go by, it will be very difficult to engineer a substantial rise in fertility rates. In fact, the so-called demographic window will soon be closing in a number of today's top-tier emerging economies, if it has not already done so (e.g. China, Russia).

Tectonic shift



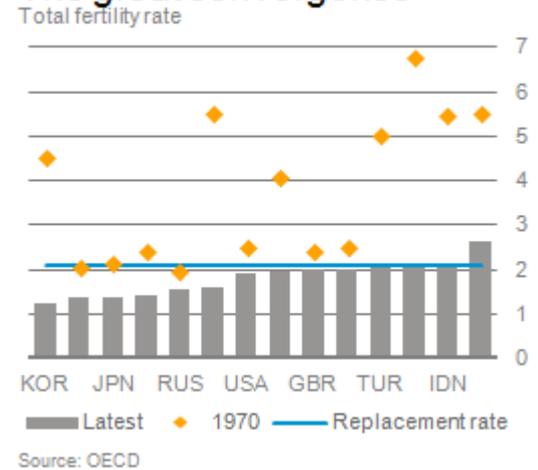


In spite of the recent economic and financial volatility in the frontier markets, it is worth having a look at demographically expanding second- and third-tier emerging economies. This is where the economic growth of the future will likely be generated, at least if they succeed in creating growth-friendly domestic institutions and political stability. Contrary to the predictions of the dependency theorists of the 1960s, developing economies are capable of advancing into the upper middle income brackets, even if breaking into the advanced economy club has proved more elusive. Only Hong Kong, Singapore, Taiwan and Korea have managed to do so.

Partial economic catch-up is nonetheless achievable against the backdrop of global technological diffusion and growth-oriented domestic policies. Naturally, rapid population growth and especially a growing youth bulge in various countries risk creating conditions that may well raise political instability risks and undercut growth-oriented reforms and policies, especially in the context of heightened popular expectations, enhanced access to information and communication and rising educational standards (esp. where these are not matched by improving job prospects). Political economy will matter hugely.

Today's top-tier emerging economies have a fair amount of catch-up growth left as long as they succeed in implementing flanking structural reforms. The advanced economies will experience increasingly limited economic growth on the back of a declining workforce and age-related pressure on savings and investment. Innovation is arguably also bound to slow down in ageing, increasingly risk-adverse societies. While ageing is likely to translate into greater political stability in the near to medium term, it may risk translating into inertia to the point of becoming economically and financially destabilising over the longer term (e.g. grey majority and social-security reform). In spite of the recent poor performance of populous frontier markets, it may be worth thinking about which of the future demographic heavyweights will turn into tomorrow's top-tier emerging economies.

The great convergence



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