

Developing World To Overtake Advanced Economies In 2013

Contributed by Euromonitor
Friday, 27 March 2009
Last Updated Friday, 27 March 2009

The GDP of emerging and developing countries, measured in PPP terms, is set to overtake that of advanced economies in 2013.

Consumer markets in the developing world present opportunities for investors and businesses, especially at a time when developed economies are facing recession.

Yet much depends on developing countries' ability to sustain social and political stability, which is vital for the business environment.

Key points

- In its October 2008 outlook, the International Monetary Fund (IMF) forecast that the GDP of emerging and developing economies, in PPP terms (purchasing power parity), would account in 2013 for 50.6% of global GDP, up from 45.3% in 2008. Thus, developing economies would overtake advanced economies, whose share of global GDP in PPP terms would fall from 54.7% to 49.4% over the same period;
- When measured in nominal GDP, the gap between the developed and developing world is wider because in some emerging economies, currencies are undervalued, and costs of goods and services relatively cheaper. PPP is a method of measuring the relative purchasing power of different countries' currencies over the same types of goods and services, thus allowing a more accurate comparison of living standards;
- The biggest emerging economies are China and India, accounting for 11.4% and 4.8% of world GDP in PPP terms in 2008 respectively. Their combined share is set to reach 20.3% in 2013. Other major emerging economies are Russia (3.2% of GDP in 2008), Brazil (2.8%), Mexico (2.0%), Turkey (1.4%) and Indonesia (1.3%);
- As the financial crisis hit the world in 2007-2008 many advanced economies are facing recession in 2009. Most developing economies are expected to continue to grow, albeit more slowly. Their ability to sustain growth during this crisis puts them in a better position to catch up with the developed world;
- Consumer markets in the developing world present strong opportunities, especially when consumers in developed economies are reining in expenditure. The rapidly rising number of middle class households and the young population in most of the developing world are benefits for retailers and distributors of consumer goods and services;
- Yet as the financial crisis unfolded in the last quarter of 2008, the risk of a global recession proved more serious. While emerging economies are expected to fare better, their success depends on their ability to sustain economic and political stability.

A changing balance

There may be a dramatic shift in the economic balance between the developed and developing world:

- 31 economies belong to "advanced economies" according to the IMF, and these include the USA, Canada, Australia, New Zealand, Western European countries (excluding Turkey), Slovenia, Israel, Japan, Hong Kong, Taiwan and South Korea. In 1988 they accounted for 63.0% of world GDP in PPP terms but their share fell to 54.7% by 2008;
- The emergence of developing economies builds on their economic success in the 1990s and 2000s, which has boosted their GDP from International \$8,230 billion (1988) to International \$31,371 billion (2008). This group includes 143 countries, yet China, India, Brazil and Russia have led growth and accounted for 49.3% of the developing world's GDP in PPP terms in 2008.

The economic success of emerging economies has been driven by diverse factors:

- China's success as the world's manufacturing powerhouse drove its rapid real GDP growth, averaging an annual 10.6% over 2003-2008. Other Asian economies also specialised in manufacturing, while India built its services sector;
- Energy exporters such as Russia, Mexico, Iran and Saudi Arabia, rank high among emerging economies. Developing countries accounted for 72.9% of oil production (in volume) in 2008. Exports of agricultural commodities and raw materials have fuelled growth in Latin American and African economies;
- Central and Eastern European emerging markets have benefited from their proximity to the EU.

The impact of the global financial crisis

The global financial crisis presents both risks and opportunities for emerging economies:

- The crisis, which spread from the USA to the rest of the world in 2008, has affected advanced economies hardest as financial sectors are central to these countries. The difficulty in obtaining credit affects businesses and consumers in advanced economies, who depend on credit, much more than in the developing world;
- However, it has become clear as the crisis has developed that both advanced and emerging economies will be affected more severely than initially thought. For example, the IMF's China growth forecast for 2009 was revised downwards in January 2009 to 6.7%, 1.8 percentage points below the November 2008 forecast. The recession in the developed world is also expected to be deeper than originally perceived, for example, the UK's 2009 growth forecast was revised from -1.3% to -2.8% in January 2009. As long as emerging economies manage to sustain their growth, they will be in a better position than advanced economies;
- Yet slowing growth entails significant political risks for developing countries. As growth slows, unemployment is expected to rise. In China, for example, it is widely believed that an annual growth rate of 8.0% is necessary to create enough jobs for graduates and rural to urban migrants. As growth dips below this rate, unrest and riots are feared. This could upset the business environment, deter investors and exacerbate economic worries.

Emerging economies vary considerably and these differences could determine their ability to withstand the crisis:

- Countries dependant on commodity exports, such as Russia and Gulf economies are more vulnerable to the volatility in commodity markets. Economies with a large domestic consumption base and a young population, such as Brazil and India, are expected to fare better than those dependant on exports.

Consumer markets

The rise of emerging economies represents enormous potential in consumer goods and services markets:

- Emerging economies have huge populations and the sheer size of these markets make them very attractive. While the population of advanced economies was 960 million in 2008 that of the developing world was 5,721 million. Even consumers with low incomes can find discretionary income to spend on products with high value to them, as evidenced by the success of mobile telephony in sub-Saharan Africa. Despite being the poorest region in the world, the number of mobile telephone subscribers rose from 36 million in 2003 to 224 million in 2008;
- Household income in developing countries is on the rise. The number of households with an annual disposable income over US\$5,000 (in nominal terms) more than doubled from 217 million in 2003 to 500 million in 2008;
- The population of the developing world is considerably younger than in advanced economies. In 2008, 46.8% of the population in the developing world was under the age of 24, in comparison with 29.7% in advanced economies. Younger consumers are a preferred target audience as they change habits easily and are more likely to make large purchases such as a car, a house, furniture and appliances;
- Consumers in developing countries present opportunities for retailers and businesses offering consumer goods and services. Yet exporters to these economies could face difficulties due to unfavourable exchange rates. The currencies of many emerging economies, for example China and India, are considered undervalued, which makes it difficult for consumers to purchase imported goods.

Prospects

- Emerging economies' dominance in the world economy, if achieved in 2013 or soon afterwards, could see a dramatic shift in the global balance of power, with implications for trade, investment and consumption. While the new prosperity in developing countries could boost global growth in general, there are risks from protectionist policies, especially during the global economic crisis of 2009;
- On a per capita basis, advanced economies' GDP will remain considerably higher than that of developing countries. In 2013 per capita GDP in PPP terms is forecast at International \$39,251 for the eurozone, compared with I\$21,032 in Central and Eastern Europe, I\$14,148 in the Middle East, and I\$6,399 in developing Asia;
- The emergence of developing economies depends on their ability to withstand the global economic downturn. Social unrest as a result of growing unemployment could deter investors and harm economic prospects. Governments in China, Brazil and elsewhere in the developing world have announced public investments in order to create jobs and boost domestic demand. Such interventions could prove vital for recovery from the crisis;
- As developing economies overtake advanced economies, consumer markets in the emerging countries will rise in importance. From tourism to household appliances, consumer goods and services companies are expected to shift their attention to new consumers.

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March 2009