

The Challenges And Prospects Of A Seven Billion Global Population

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On 31st October 2011, the UN announced that the global population had broken the seven billion people barrier, ushering a new age of challenges and opportunities.

Changing demographics, scarcity of resources and environmental issues are some of the challenges of an expanding human race, while rapid urbanisation and expanding consumer markets present opportunities.

Key Points

~ In late October 2011, the world's population reached the seven billion mark, according to UN estimates. The previous milestones had come in 1987 (five billion) and 1999 (six billion), according to mid-year data;

~ Global population growth, at a total rate of 6.0% over 2005-2010, has been driven primarily by Middle East and Africa. India has also seen rapid expansion, with its population increasing by 81.8 million people over the same period. Eastern Europe was the only region to see a contraction in population of 0.8% over 2005-2010, as its low birth rates, high emigration and low male life expectancy prevent a sufficient population replacement rate;

~ Global fertility rates (children born per female) are dropping, having fallen from 3.2 in 2005 to 3.0 in 2010. This is expected to continue as more emerging countries reach a greater level of economic development, allowing women better access to education and careers. The lowest fertility rate in 2010 was found in Eastern Europe (1.5) and the highest in the Middle East and Africa (4.6);

~ The world median age rose from 28.0 in 2005 to 29.2 in 2010 driven by better healthcare, nutrition and rising living standards. However, greater numbers of the elderly stretch state finances and contract the labour pool;

~ An expanding global population is producing food and water shortages, environmental challenges and resource scarcity, especially in regards to fossil fuels. Globalisation and growing emerging economies are forcing businesses to focus on serving lower income tiers. Emerging and developing economies expanded their share of the global population from 84.7% in 2005 to 85.2% in 2010.

Consumer impacts

~ Consumer market expansion is being driven by the burgeoning populations of developing nations, where rising affluence is transforming diets, driving demand for higher protein foods such as meat and dairy, and diminishing the share of consumer expenditure on basic necessities in favour of non-essential products;

~ China and India are the most populous markets in the world and have become major drivers of global economic growth, accounting for 36.8% of the world population in 2010 according to mid-year data. In 2010, 91.8 million households made up the Chinese middle class (households with between 75% and 125% of median income), an expansion of 2.3 million households over 2005. This has increased demand for white goods and big-ticket items;

~ Global population expansion has been accompanied by rapid urbanisation, with individuals leaving rural areas to gain better access to employment opportunities, education and healthcare. They represent a new class of empowered consumers, keen for upward mobility and new technologies. Asia Pacific's urban population swelled by 183.2 million over 2005-2010;

~ However, not all new consumers are prosperous. According to the UN Food and Agriculture Organisation, around 900 million people suffered chronic hunger in 2010, while 800 million will not have access to clean drinking water in 2011, according to the World Health Organisation. Population expansion aggravates these figures, especially in Africa where malnutrition and famine is acute;

~ Traditionally strong consumer markets such as Western Europe, Japan and the USA are suffering, partly a result of large government and private debts, as well as slowing economic growth and demographic factors. Emerging countries, driven by dynamic and consumption-hungry economies, are rapidly commanding greater attention from businesses, redirecting the flow of global demand. By 2020, China will be the world's largest economy, accounting for 19.1% of global GDP in PPP terms (Purchasing Power Parity), compared to the USA's share of 16.9%.

Effects on businesses

~ Businesses stand to benefit from an expanding global population, as this is direct growth in consumer markets. However, global macroeconomic shifts are reshaping business operating models and strategies. Brand loyalty in

advanced economies is low and competition fierce, while traditional brand identities developed in Western markets may hold little currency among emerging-market consumers;

~ Although the world population is expanding, it is also ageing, with the global old-age dependency ratio (persons older than 65 per persons aged 15-64) increasing from 11.8 in 2005 to 12.1 in 2010. There is also a greater trend towards single-person, single-parent and empty-nester households, while more young people are delaying marriage to focus on education and careers;

~ Scarcity of resources and environmental concerns as a result of population expansion are pressuring businesses to use costly green technologies and recycling methods, whether due to government regulation or brand imaging. However, as energy prices continue to rise, there will be greater consumer demand for energy-efficient lighting, transportation and housing. Nonetheless, rising energy prices will weigh on business input costs and discretionary consumer spending potential;

~ Urbanisation and population growth is leading to megacities (metropolitan areas with populations in excess of 10.0 million people) that hold vast potential. The UN estimates that there will be 26 megacities in 2025 up from 19 in 2007, driven by urban population growth in emerging markets. However, according to a 2007 UN-Habitat report, one billion people were living in urban slums, with this figure set to double by 2030;

~ The communications sector is expanding alongside world population growth ensuring that generations born in the 21st century are growing up comfortable with new technologies. Although regions such as North America and Western Europe, with high proportions of urban residents and annual per capita disposable incomes exceeding US\$20,000 in 2010, are leading telecommunications access, the developing world is catching up.

Government challenges

~ Governments are facing some of the toughest challenges in maintaining sustainable population expansion. Pollution, depleting fish stocks, deforestation and energy supplies must be balanced with consumer demand, improving income equality, industrial production and economic growth;

~ Population growth is invariably linked to greenhouse gas emissions. The world's three most populated countries (China, India and the USA) were together responsible for 49.0% of the world's CO2 emissions from the consumption and flaring of fossil fuels in 2010. Their governments have been facing increasing international pressure to cut emissions;

~ Although India is feeling the burden of a large and rapidly expanding population straining energy supplies and imports, its youthful population is bringing the country significant demographic dividend. By contrast, China's population growth continues to be restricted by its one-child policy, and is likely to face labour market pressures and a growing old-age dependency;

~ Population expansions in arid or infertile areas are draining food and water supplies. Middle Eastern states such as Qatar and the UAE have resorted to buying farmland in developing economies such as Brazil to build up food stocks, despite the controversy of these schemes. Both countries have invested heavily in capital-intensive water desalination plants. Qatar's population expanded by 103.0% over 2005-2010, the fastest rate worldwide, followed by the UAE with 101.2%;

~ Western Europe had the largest proportion of over-65s globally in 2010 as well as low fertility rates, with large retiree populations stretching government and company finances, as well as narrowing the labour pool. By contrast, North African nations such as Egypt and Tunisia are home to some of the youngest and fastest-growing populations worldwide, yet their governments are struggling to create enough jobs;

~ Nonetheless, population expansion can be a massive boon to economic growth, as illustrated by Brazil, Turkey and India. These countries are undergoing a demographic transition following generations of high birth rates, with falling youth dependency ratios (percentage of persons aged 0-14 per persons aged 15-64) and fertility rates, as well as increasing female labour market participation, combining to increase the share of working-age people, thus raising output per capita. This demographic dividend is adding significant economic dynamism to these nations;

~ Conversely, Western European nations such as Greece, which continued to see low birth rates and marginal population growth over 2000-2010, are struggling to engineer economic growth, while their government finances will face the added burden of population ageing and pensions provisions.

Prospects

A February 2011 UN report produced six projections for global population growth, with the medium scenario (the most likely) anticipating the world population peaking at 9.4 billion in 2070 before declining. This is based on fertility rates dropping in most developing countries, as economic and social trends seen in advanced economies are taken on.

Population expansion will be led by Asia Pacific in absolute terms over 2011-2020, though Middle East and Africa is expected to see the fastest rate of growth. Population ageing will continue, with the global median age reaching 31.5 years by 2020.

Demographic changes are increasingly influencing government policy. In April 2011, the Russian government announced a US\$53.0 billion plan to raise birth rates and enhance life expectancy. Although China is looking to scrap its one-child policy by 2015, India will overtake China as the most populous country in the world by 2026, according to India's July 2010 National Population Stabilisation Fund report.

As pressure on global resources rises, prices of many commodities will become progressively volatile and the focus on renewable energy will continue.

Consumers will likely adapt to rising food and energy prices by changing their dietary habits and turning to energy-efficient options. Maintaining food and energy security will be the biggest challenge facing governments of rapidly growing emerging markets in the future.

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