Global Economic Growth Trends

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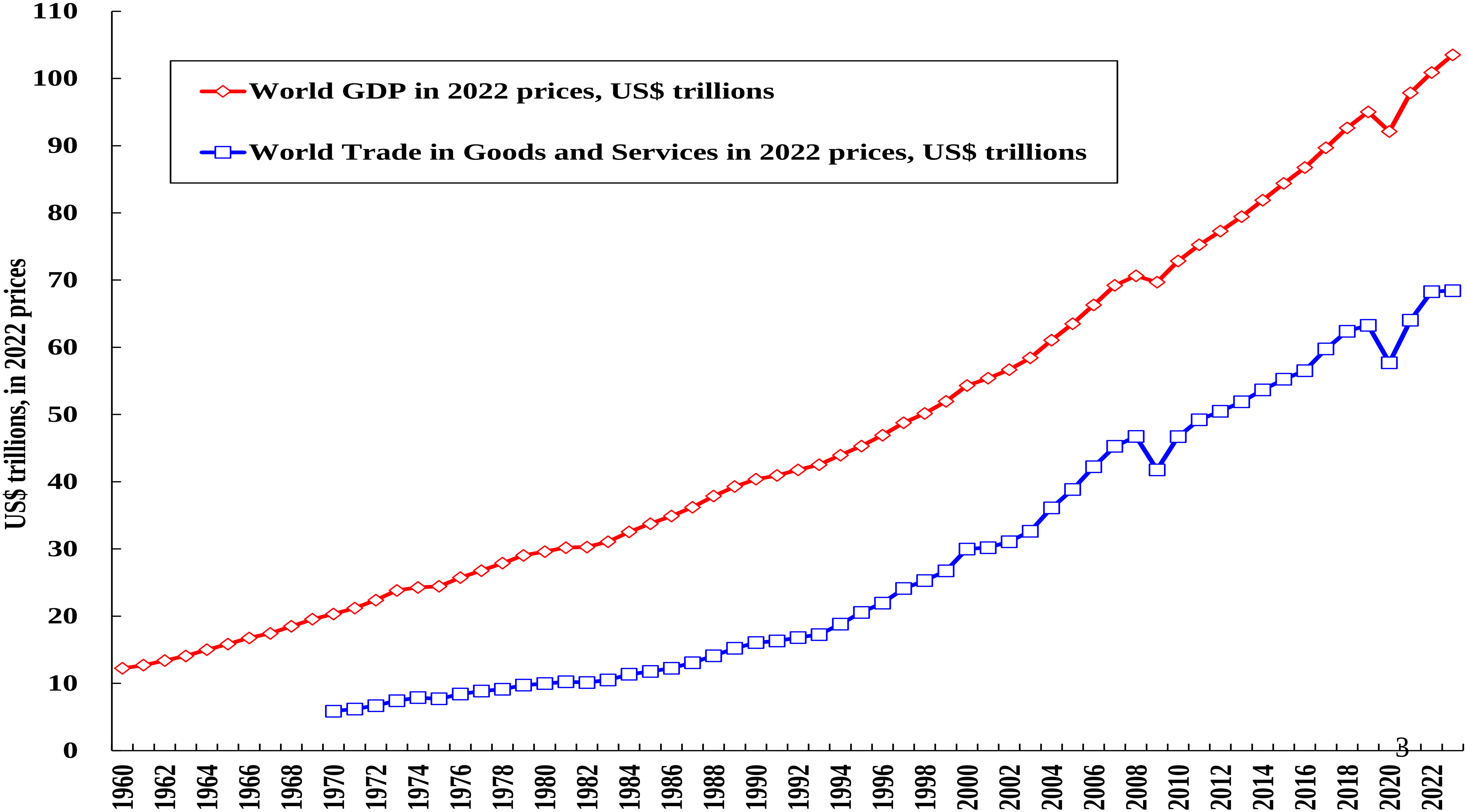
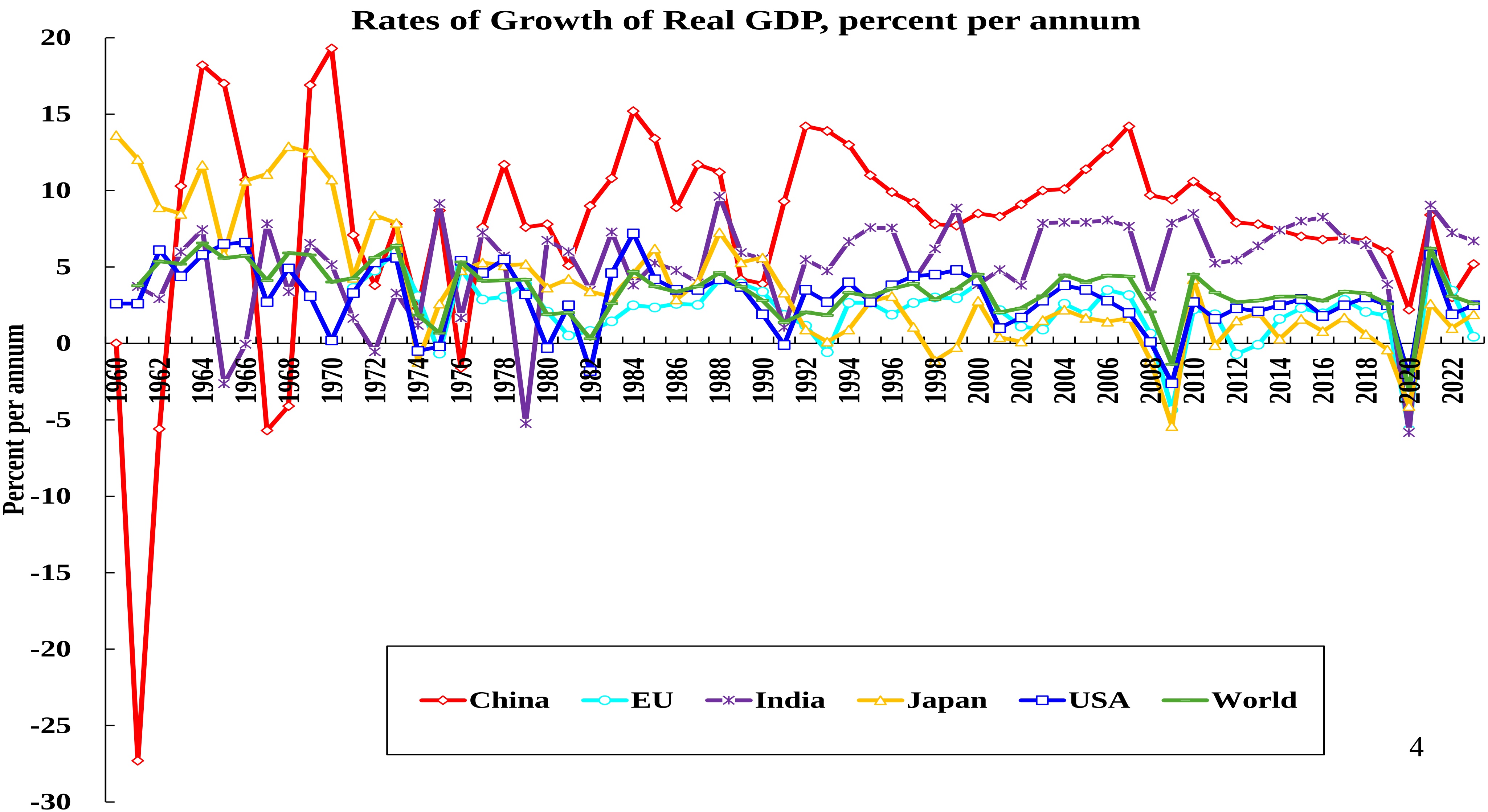
Introduction

- The Growth Trends in World Real GDP and Real International Trade since 1960
  - The growth trend of real GDP remains positive (3.45% p.a.)
  - The growth trend of the **real** quantity of world trade (4.75% p.a.) appears to have stalled—the rate of growth was only 0.2% in 2023
- The Shifting Centres of Gravity of the World Economy
- The Negative Relationship between the Real Rate of Economic Growth and Real GDP per Capita
- Economic Globalisation and De-Globalisation
- The Impact of Artificial Intelligence (AI)
- Concluding Remarks

The Growth Trends in World Real GDP and International Trade in 2022 Prices, US$ Tril.



Rates of Growth of Real GDP: China, the Euro Area, India, Japan, the U.S. and the World



Forecasts of Real Rates of Growth: Mainland China, the Euro Area, India, Japan and the U.S.

	Rates of Growth of Real GDP (percent per annum)				
		International Monetary Fund		The World Bank	
	2023 Actual	2024 Forecast	2025 Forecast	2024 Forecast	2025 Forecast
Mainland China	5.2	4.6	4.1	4.5	4.3
Euro Area	0.5	0.9	1.7	0.7	1.6
India	6.7	6.5	6.5	6.4	6.5
Japan	1.9	0.9	0.8	0.9	0.8
U.S.	2.5	2.1	1.7	1.6	1.7
The World	3.1	3.1	3.2	2.4	2.7

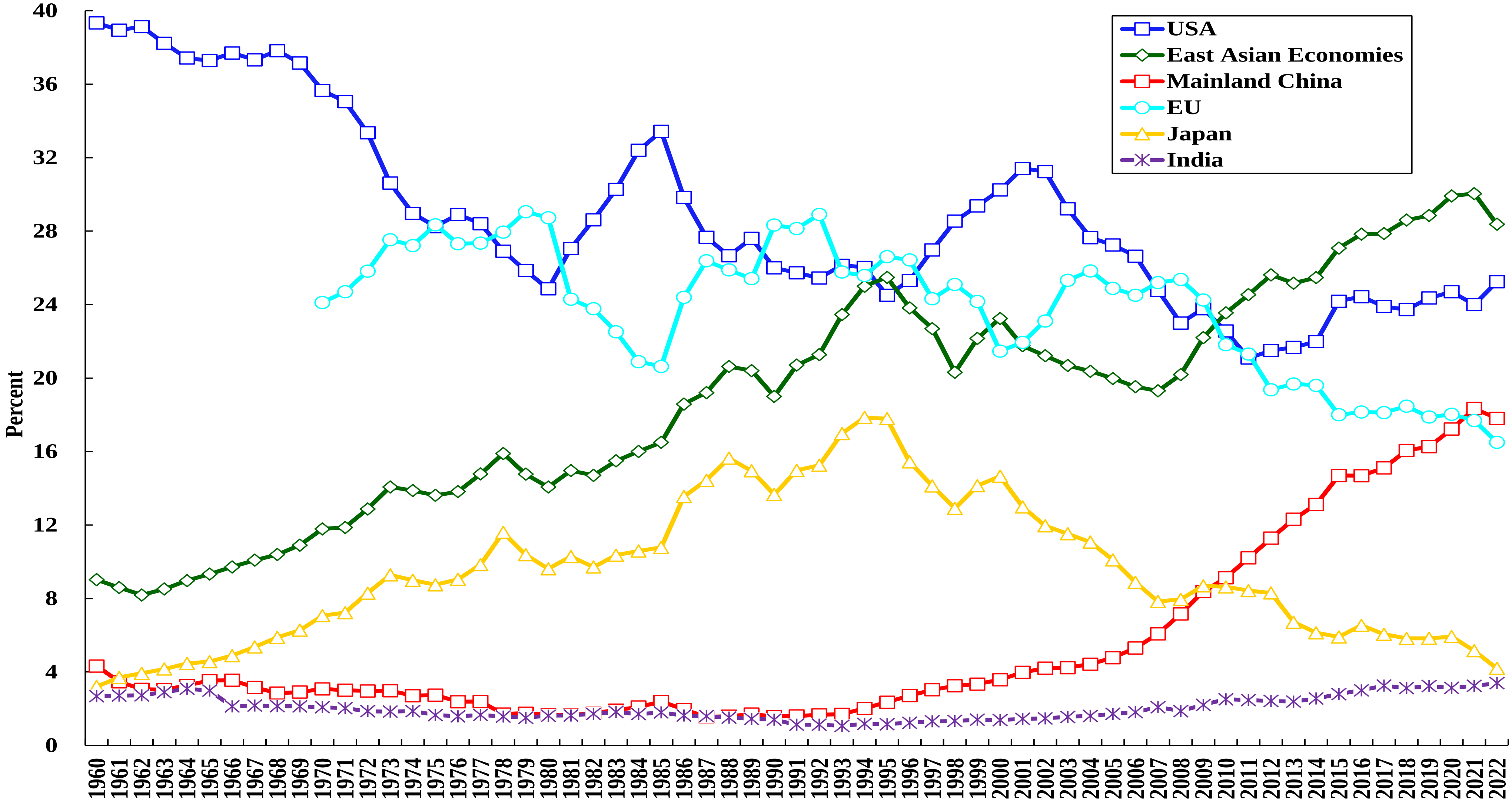
The Shifting Centres of Gravity of the World Economy

- The developing economies have been driving world economic growth in the past three decades. As a group, they have been growing faster than the developed economies as a group.
- Since 1960, the centres of gravity of the world economy have been shifting from North America and Europe to East Asia. And within East Asia, they have been shifting from Japan to China since the mid-1990s.
- With the rise of the Indian and South Asian economies, it appears that the centres of gravity of the world economy will be shifted to Asia in another decade or so, with Asia accounting for more than half of the world's GDP as it once did in the early 1800s.
- The shifts can be seen in real GDP, international trade, manufacturing value-added, wealth, and the choice of currency for the settlement of international transactions.

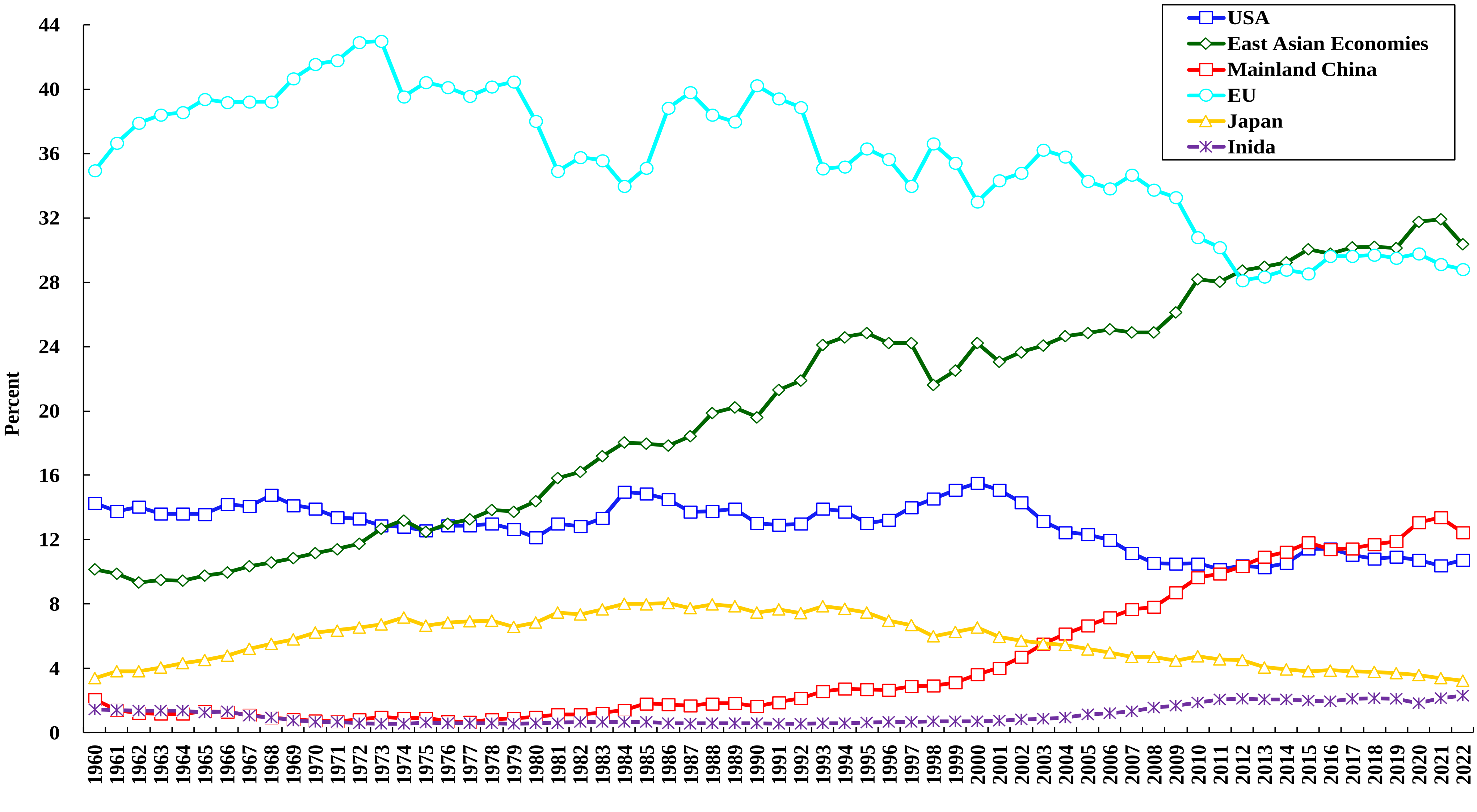
The Shifting Centres of Gravity of the World Economy: Real GDP and International Trade

- Based on market prices and exchange rates, between 1960 and 2022, the share of the U.S. in world GDP declined from 40% to 25%; and the share of Mainland China rose from 4% to approximately 18%. During the same period, the share of East Asia as a whole rose from 9% to almost 30%; Japan's share went from 3.2% to 4.2%, although at its peak, Japan accounted for 18%; and India's share went from 2.7% in 1960 to 3.4% in 2022. China's share was similar to India's share before the Chinese economic reform and opening to the world.
- With the continuing growth of India, ASEAN, South Asian and Middle Eastern economies, Asia's share of world GDP is likely to exceed one half once again in another decade or so.
- Between 1960 and 2022, the share of the U.S. in international trade in goods declined from 14.3% to 10.7%; and the share of Mainland China rose from 2% to 12.4%. During the same period, the share of East Asia as a whole rose from just over 10% to over 30%, surpassing the European Union; Japan's share declined from 3.4% to 3.2%; and India's share rose moderately to 2.3%.
- With the inclusion of India and other Asian economies such as Bangladesh and the oil and gas producers of the Middle East, Asia's share of world trade already approaches one half of the total.

The Shares of East Asia, EU, China, India, Japan and the U.S. in World GDP, 1960-2022



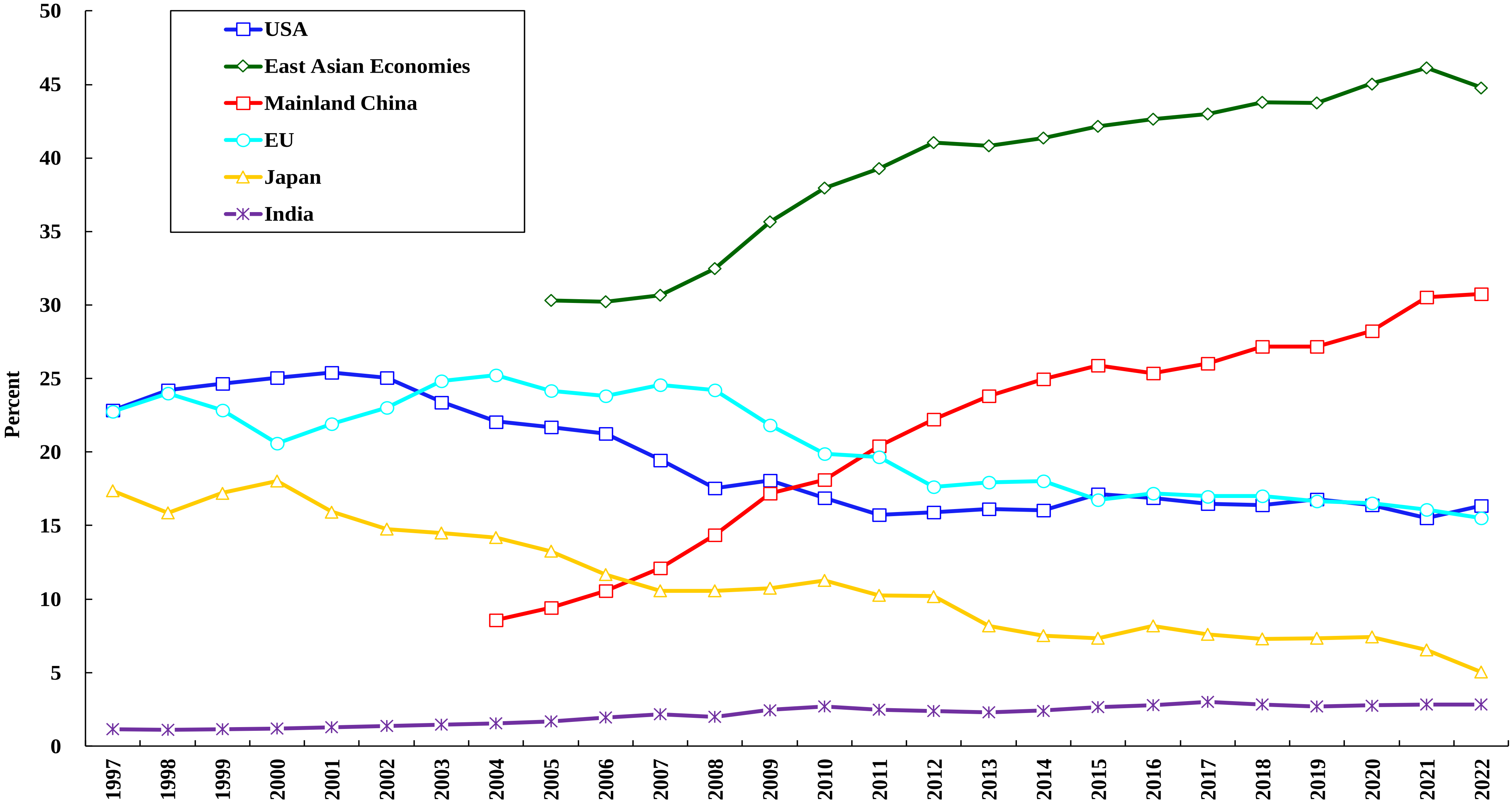
The Shares of East Asia, EU, China, India, Japan and the U.S. in World Trade, 1960-2022



The Shifting Centres of Gravity of the World Economy: Value-Added in Manufacturing

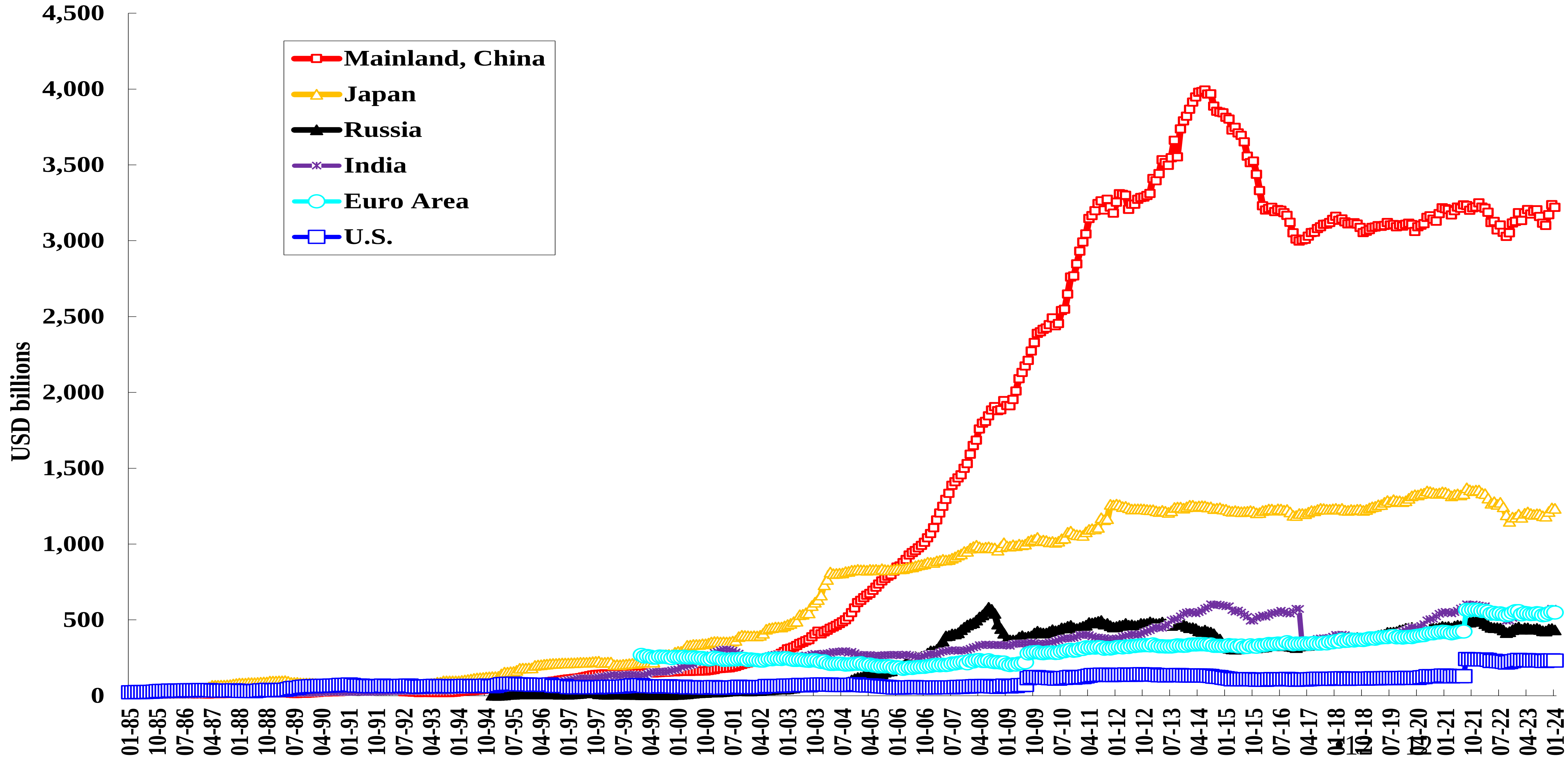
- In 2022, the share of East Asia in manufacturing value-added was just under 45%; the share of Mainland China was over 30%; and the shares of the European Union and the U.S. had declined to 15.5% and 16.4% respectively. Japan's share declined from over 17% in 1997 to just above 5% in 2022. Between 1997 and 2022, India's share rose from 1.1% to 2.8%.
- The share of Asia is also likely to be more than half of the world total.

The Shares of East Asia, EU, China, India, Japan & the U.S. in World Manufacturing Value-Added



Total Foreign Exchange Reserves minus Gold: Selected Economies: Selected Economies

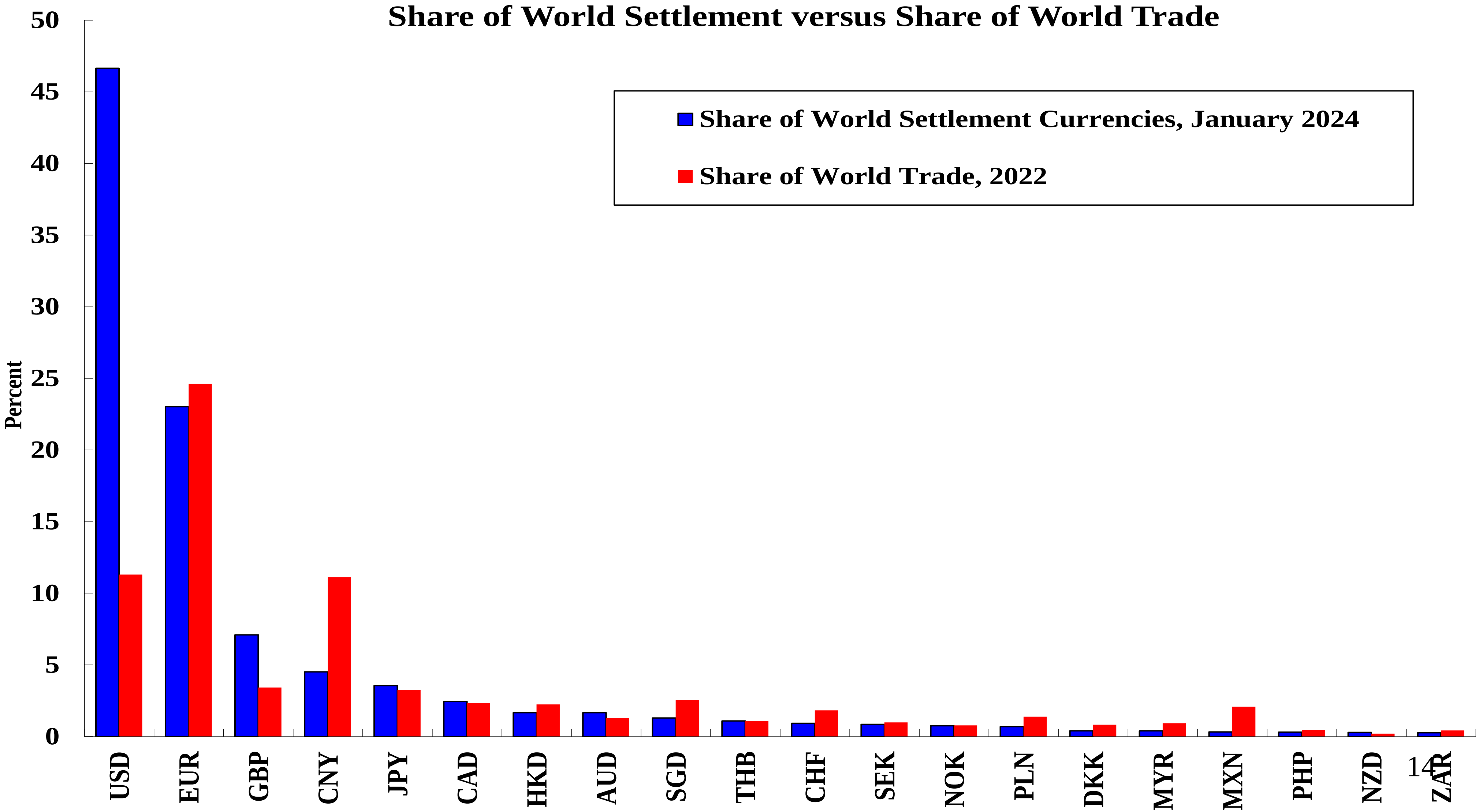
Total Foreign Exchange Reserves minus Gold, Selected Countries and Regions



The Internationalisation of the RMB: Share of World Settlement versus Share of World Trade

- In the following chart, we compare the share of world settlement of the currency of a country or region (blue column) in January 2024, with the share of world trade in goods and services of that country or region (red column) in 2022 (this is because the 2023 world trade data are not yet complete).
- In 2022, the Euro Area accounted for the largest share of world trade, 24.6%, followed by the U.S, with 11.3%, and the Mainland China, with 11.1%. (We note that these shares are sensitive to changes in exchange rates.)
- In January 2024, the U.S. Dollar accounted for the largest share of world settlement, at 46.6%, the Euro accounted for 23.0%, and the British Pound accounted for 7.1%. The Renminbi share in world settlement had been increasing rapidly, from 2.3% in March 2023, to 3.1% in July 2023, 4.1% in December 2023 and 4.5% in January 2024 to become the fourth most frequently used settlement currency. The Japanese Yen was in fifth place, accounting for 3.6%. We note that for the U.S. Dollar, the British Pound and the Japanese Yen, their shares of settlement were all higher than the respective shares of these countries in world trade. The share of Renminbi in world settlement is likely to continue to grow but is not expected to catch up to the U.S. Dollar any time soon.

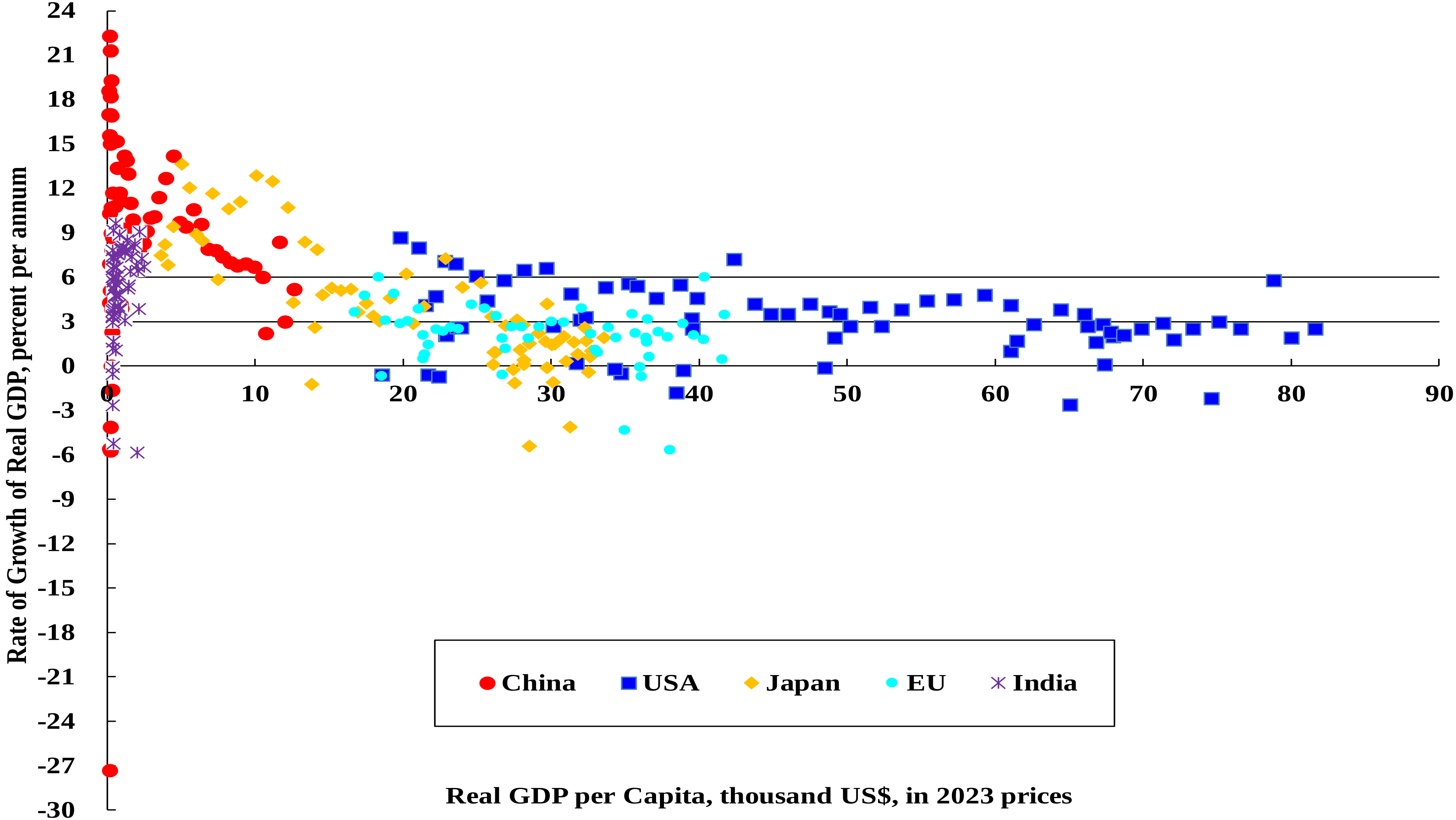
Share of World Settlement versus 2022 Share of World Trade, Selected Economies, Jan. 2024



The Negative Relationship between the Real Rate of Growth and Real GDP per Capita

- It is an empirical regularity that as the real GDP per capita of an economy rises, the real rate of growth of the economy will fall.
- This is demonstrated in the following chart in which the real rates of economic growth of China (red), the European Union (turquoise), India (purple), Japan (yellow) and the U.S. (blue) are plotted against their respective real GDPs per capita. As expected, there is a negative relationship between the rate of growth of real GDP and the level of real GDP per capita. (Data for the European Union as a whole only go back to 1970 and miss the truly high-growth years.)
- However, we note that China, with a GDP per capita of US$12,626 in 2023, is currently still operating in the range that permitted average annual rates of growth much higher than 6% for EU, Japan and the U.S. in earlier periods. The real GDP per capita of the U.S. was US$81,610 in 2023, with its economy operating within a range below 3% average annual rate of growth. India, with a per capita real GDP of less than US$2,500 in 2023, still operates in the high-growth range.
- Perhaps when Chinese real GDP per capita reaches US$30,000 in 2023 prices, projected to occur around 2040, the Chinese average annual real rate of economic growth will begin to decline to 5% or below.

Rate of Growth of Real GDP vs Real GDP per Capita: EU, China, India, Japan and the U.S.



Economic Globalisation and De-Globalisation

- Just as economic globalisation increases the welfare of all participating economies because of the enlargement of their choice sets, economic de-globalisation will reduce the welfare of all the formerly participating economies because of the shrinkage of their choice sets. When the choice sets expand, welfare cannot decrease; when the choice sets contract, welfare cannot increase.
- However, just as economic globalisation creates winners and losers in every participating economy, economic de-globalisation will also create winners and losers in every formerly participating economy. The free market will reward the winners but not the losers. It is up to the individual governments to compensate the losers.
- De-coupling or de-risking may be viewed as a form of diversification and is not all bad. It has costs but also benefits. In the short term, it will cause disruptions of the existing supply chains and increase costs. However, it will eventually make economies more resilient and markets much more competitive through having multiple sources of supply for almost every product and service. The competition among the multiple sources will lower prices and improve quality of products and services for consumers and users worldwide, and reduce the risks of supply interruption for whatever reason, and everyone will be better off. It will also make export restrictions ineffective.

The Impact of Artificial Intelligence (AI)

- What impact will rapid advances in Artificial Intelligence (AI) and other technologies have on global economic growth?
- The potential impact of artificial intelligence can be large but should not be exaggerated. It should increase the productivity of all human workers. Artificial intelligence has certain comparative advantages relative to humans because it can read much faster, remember much better, and summarise much more quickly. However, it is short on at least two dimensions—it relies primarily on what has been recorded to have occurred and cannot be creative or original, and it cannot distinguish between right and wrong. Thus, humans still have the most important roles to play.
- We have to guard against potential fraud, assisted by AI. We also should avoid enabling automatic responses by AI without human intervention.
- However, it is true that AI, coupled with robotics, can substitute for many workers. For example, paralegals and research assistants will probably be replaced by AI. In wealthier developed economies, universal basic income may be coming.

Concluding Remarks

- The major economies have all been recovering from the COVID-19 pandemic to varying degrees, except for the European Union, Russia and Ukraine, because of the ongoing war in Ukraine. A ceasefire in Ukraine will be positive for the economies of the EU, Russia and Ukraine.
- As the China-U.S. strategic competition is likely to be the new normal in the next five to ten years, some degree of economic de-globalisation, de-coupling and de-risking is inevitable. In the short term, it will lower economic welfare in every economy. However, in the long term, when all is done and settled, the net result is likely to be greater resilience for the world economy, and perhaps even greater welfare for all.
- Of course, the world economy will do better if China, U.S. and all the other countries can cooperate to promote a global economic recovery, as they did in the aftermath of the Global Financial Crisis of 2008. Collectively, they can also make much more progress in the prevention of climate change.
- My personal forecast is that the Chinese GDP will grow between 5% and 5.5% in 2024, given the many uncertainties. If achieved, it is a very respectable rate of growth for a major economy. The Chinese economy will continue to grow at an average annual rate of between 5% and 6% for the coming decade.
- Maintaining an adequate growth of aggregate demand is essential for continued Chinese economic prosperity.