Knowledge Economy Network

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# *The Global Wealth Shifts: Past, Present and Future*

***The World Bank pays considerable interest to economic development in the longer, historical perspective. The Global Development Horizons series, as well as a study by the University of Michigan, the University of Sheffield, the Leverhulme Trust and the Geographical Association reveal global wealth shifts over the past two millennia. The main conclusion one can draw from the interesting graphic presentations of the shifts in global wealth atlas is that is was always knowledge that determined the wealth of nations, regions, continents. 2000 years ago China and India were the richest. In modern times, Renaissance and the Industrial Revolution brought about a turn-around, and Europe and North America very quickly became dominant economic and technological giants, Japan kept recording steady growth, joined from early 1900s by parts of Latin America, while Africa did not demonstrate much progress over the last 5 centuries. During the last 4-5 decades relative stagnation of Europe and North America is very visible, while Japan remains strong. In Latin America primarily Brazil is showing strong development, while India and China grow most dynamically.***

The total GDP volumes depend on population size (see the ballooning of regions on the world map on the following page), but equally on level of wealth in a particular region. The study also does not go into wealth distribution within the regions, but merely tries to depict global wealth shifts and the multipolarity of the world economy. According to the World Bank, China is expected to become the largest economy in the world sometime between 2020 and 2030, while India, if trends continue, will become the second largest economy by 2035. By 2025, six major emerging economies – Brazil, China, Indonesia, South Korea and Russia – will account for more than half of all global growth, the World Bank predicted last year.

Some emerging countries barely noticed the recession, while many mature economies continue to struggle. In the last quarter of 2009, Thailand grew at an annual rate of 15.3% and Taiwan at 18%. Many economists expect growth in emerging markets to be four percentage points higher than growth in the rich world for at least the next five years. Asia has done pretty well over the past couple of decades. Its share of the world economy has risen steadily, from 18% in 1980 to 27% in 1995 and 34% in 2009, and, all things being equal, Asian PPP will probably exceed the combined sum of America's and Europe's within the next four years. This isn't surprising when you consider that three of the world's four biggest economies by PPP (China, Japan and India) are in Asia.

Also of interest is that the number of high-net-worth individuals rose 1.6 per cent in Asia-Pacific last year to 3.37 million people, led by growth in China and Japan along with Malaysia and Indonesia. That surpasses North America's high-net-worth population of 3.35 million. It's the first time in the report's 16-year history that neither Europe nor North America are at the top of regional comparisons. Over the years, with rapid economic growth and large trade surplus compared with the rest of the world, Asia has accumulated over US$4 trillion of foreign exchange reserves - more than half of the world's total. These vast reserves are leading countries like China to invest heavily abroad, just this week China has offered to set up a $10bn credit line for Latin American countries to support infrastructure projects in the region.

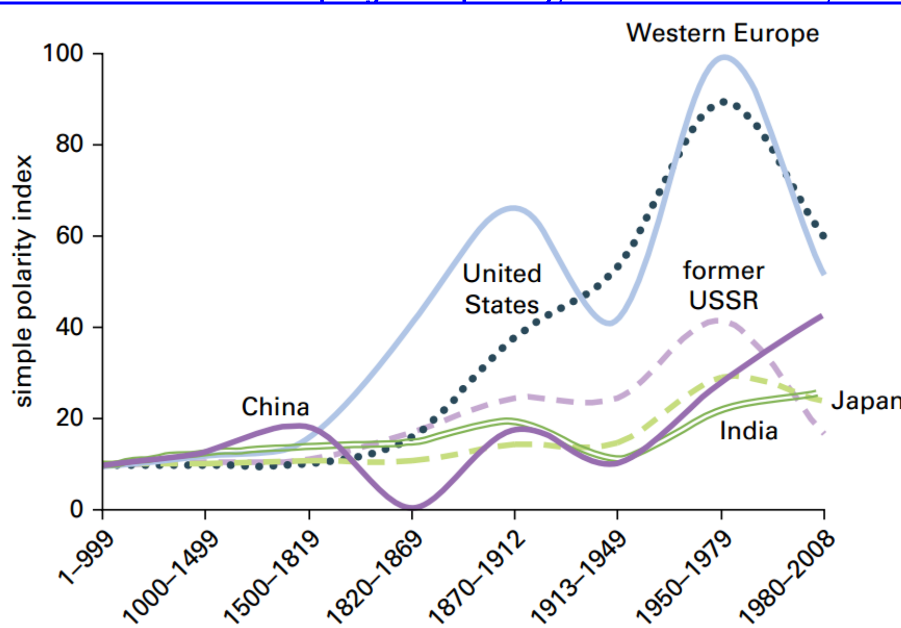
The world's biggest multinationals are increasingly doing their R&D in emerging markets. Fortune 500 companies have 98 R&D facilities in China and 63 in India (some more than one). General Electric's healthcare arm has spent more than $50m in the past few years to build a vast R&D centre in India's Bangalore, its biggest anywhere in the world. Cisco is spending more than $1 billion on its second global headquarters - Cisco East - in Bangalore(like GE has done) Microsoft's R&D centre in Beijing is its largest outside US. Knowledge intensive companies such as IT specialists and consultancies have hugely stepped up the number of people they employ in developing countries. For example, a quarter of Accenture's workforce is in India.

According to the Financial Times 500 List, the number of MNCs from Brazil, India, China and Russia more than quadrupled in 2006-08, from 15 to 62. Brazilian top 20 MNCs more than doubled their foreign assets during 2006. Regarding them as sources of economic growth and high-quality brainpower, Western multinationals are investing ever bigger hopes in emerging markets. These MNCs expect about 70% of the world's growth over the next few years to come from emerging markets, with 40% coming from just two countries, China and India. China and to a lesser extent India are pouring resources into education over the past couple of decades. China produces 75,000 graduates in engineering or computer science, and India 60,000 annually.

Indeed, thanks to rapid advances, many Asian companies have established their place in the global economy. Take for example India's ArcelorMittal, the world's largest steel company, or Lenovo, China-based computer technology company which did not even exist in 1990, bought IBM's personal computer business five years ago and is now the world's fourth-largest PC-maker, after Hewlett-Packard, Acer and Dell.

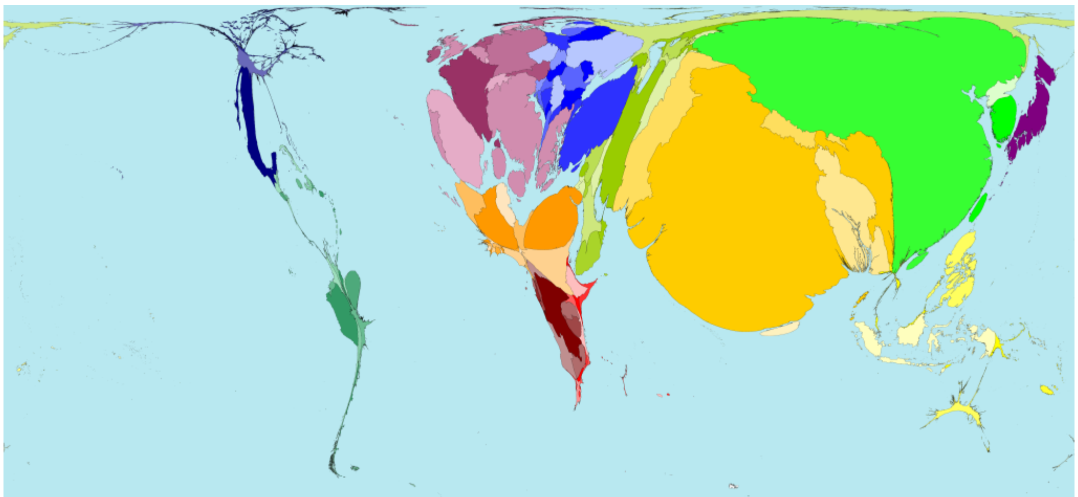
Over the course of two millennia, large swings in global growth leadership have occurred. Until the first half of the second millennium, China and India were the world's predominant growth poles. Starting in the 1500s, Western Europe began its unrelenting rise, accounting for a rising share of total global output and playing a growing role in shaping global growth dynamics.

**Historical evolution of simple growth polarity, selected economies, 1–2008**

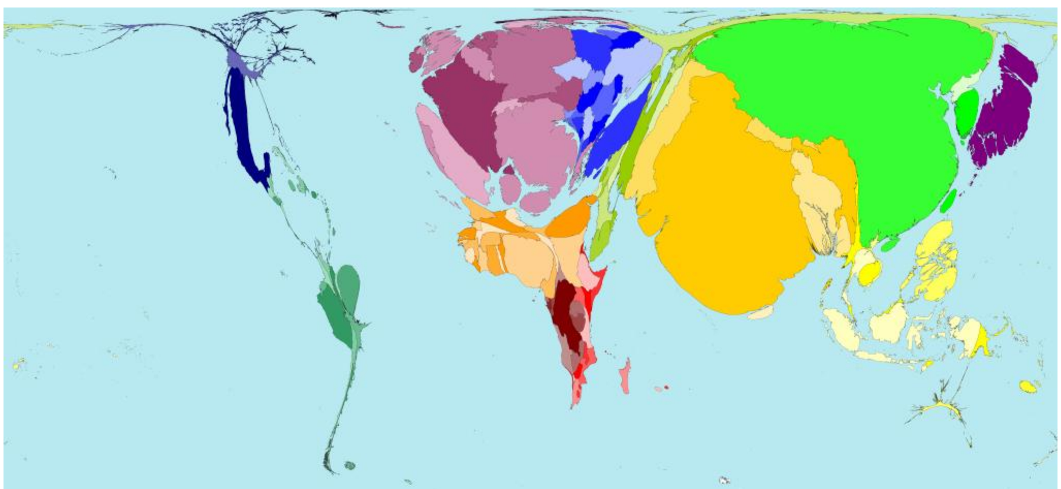


Below is an estimate of the wealth of territories over 2000 years ago, using modern boundaries and modern concepts. There was probably much less variation between regions. The lowest wealth was in South America, with an average Gross Domestic Product (GDP) per person of US$400 adjusted for purchasing power. The world average was US$445. By 1990 the average per person GDP adjusted for purchasing power was US$5248; but the wealth per person in the poorest regions was 4% of that in the richest. As GDP per person variations are low this map looks very similar to the population map for year 1. The Americas produced less because fewer people lived there.

**Wealth Year 1**



**Wealth Year 1500**



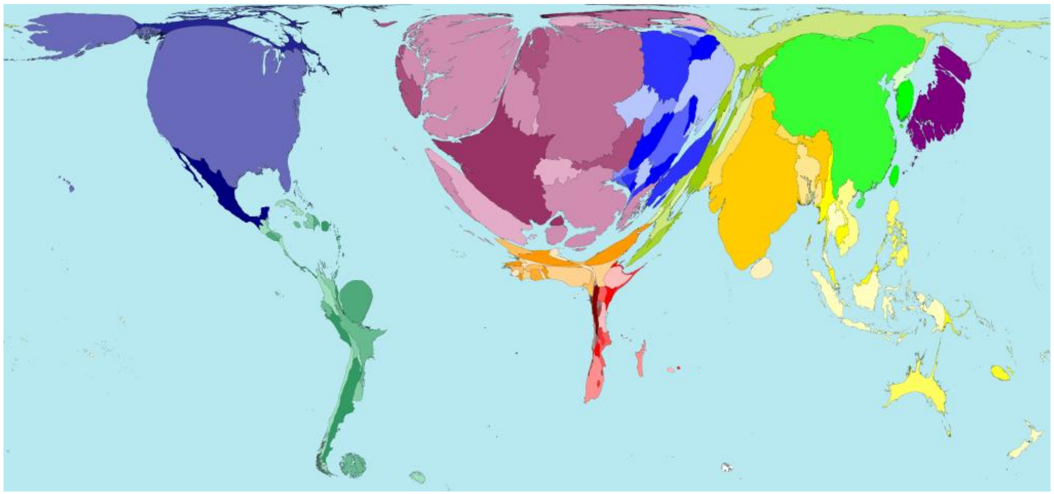
In the year 1500 European territories were some of the wealthiest on earth, when measured by the Gross Domestic Product (GDP) per person. The regions with the largest total GDPs were Eastern Asia and Southern Asia. These were also the most populous regions at the time.

The regions with the lowest GDP in 1500 were Central Africa and Southeastern Africa. These regions also had the lowest GDP per person. In 2002 these regions enjoyed an even smaller proportion of the world total GDP expressed in purchasing power parity dollars than they did in 1500.

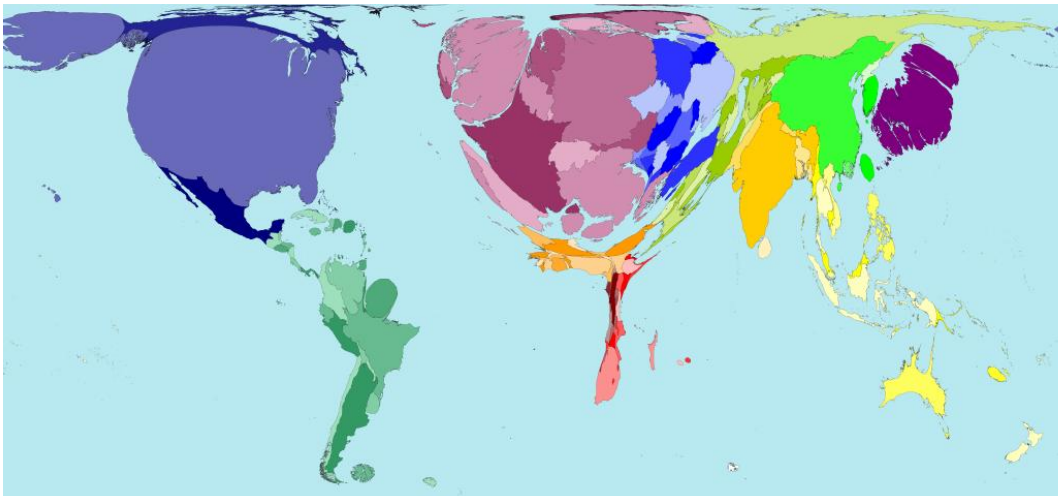
By the 1900s Western Europe had experienced an industrial revolution. Workers who may previously have performed all stages of a production process in their own homes were now in mechanised factories, more knowledgeable, and with greater division of labour. This increased efficiency and therefore output.

In the period between 1500 to 1900 the world average of Gross Domestic Product per person had doubled. The world population had also risen over this period, thus the rise in total Gross Domestic Product was even greater than the per person increases. In 1900 the world total was only US$2 trillion, expressed in 1990 purchasing power parity.

**Wealth Year 1900**



**Wealth Year 1960**

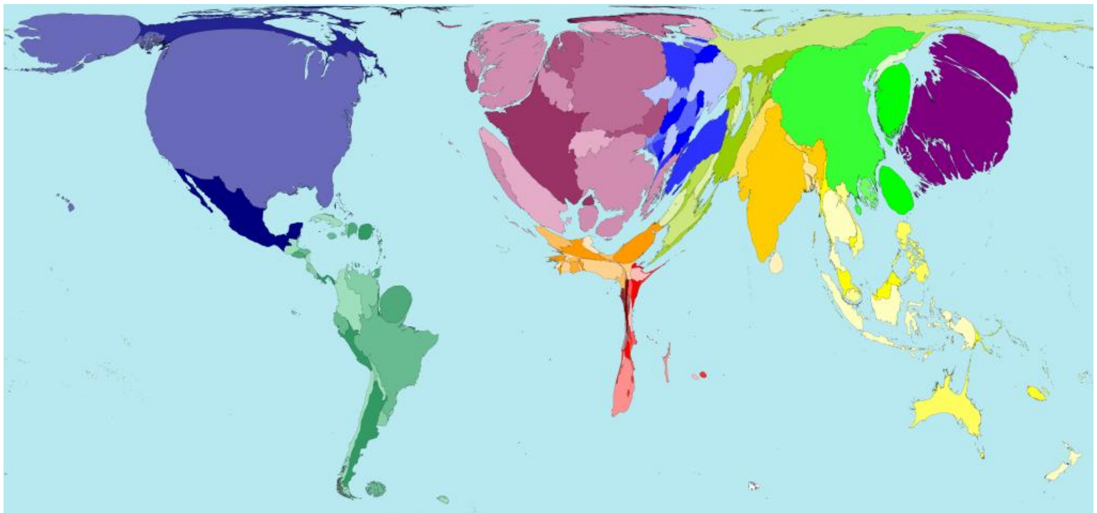


In 1960 most of the world's wealth was recorded as being produced in North America and Western Europe. Wealth distribution maintained a similar pattern to that in 1900, except that the proportion of world wealth found in Asian territories generally decreased, whilst it increased in South American territories. The highest levels of Gross Domestic Product per person in 1960 were in the small Middle Eastern territories of Qatar, Kuwait and the United Arab Emirates. The territories with the lowest Gross Domestic Product per person were mainly in Northern Africa and Southeastern Africa.

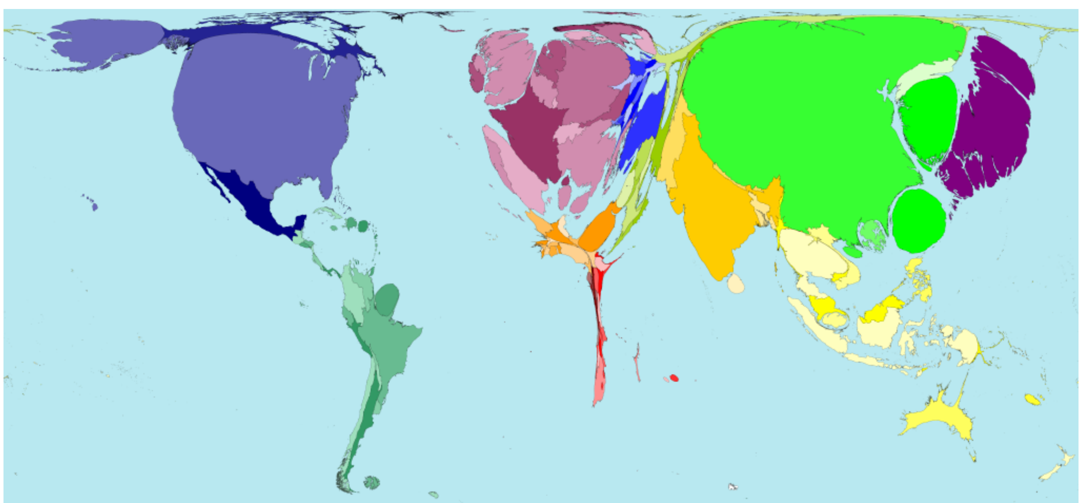
In 1990 the region with the lowest wealth or Gross Domestic Product (GDP) was Central Africa. The GDP of Central Africa was 0.8% of the GDP of the richest region, North America. If just 1% of the North America's GDP had been redistributed to Central Africa the region's GDP would have more than doubled.

Wealth per person had doubled since 1960, and the world GDP rose from PPP US$8 trillion to US$27 trillion over these thirty years. This vast increase in wealth was distributed in a broadly similar pattern to 30 years before. Important change is the growth of Japan, China, the Republic of Korea and Taiwan.

**Wealth Year 1990**



**Wealth Year 2015**



The projected wealth of China in 2015 could mean it producing 27% of all the wealth in the world, if the economic trends established between 1975 and 2002 continue for another 13 years. In year 1 of the current era China produced 26% of the wealth in the world, but slowly declined to generating only 5% of the world total in 1960. Whilst China is predicted to recover its former position within the world economy, this time instead of the Americas having a very small percentage of world wealth, as in year 1, now it is Africa that is predicted to remain small on the international economic stage. Eastern European countries are also predicted to have decreasing proportions of world wealth.

Sources used:

- Global Development Horizons 2011, Multipolarity: The New Global Economy
- Study by the University of Michigan, the University of Sheffield, the Leverhulme Trust and the Geographical Association on Worldmapper - A collection of world maps, where territories are re-sized on each map according to the subject of interest

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