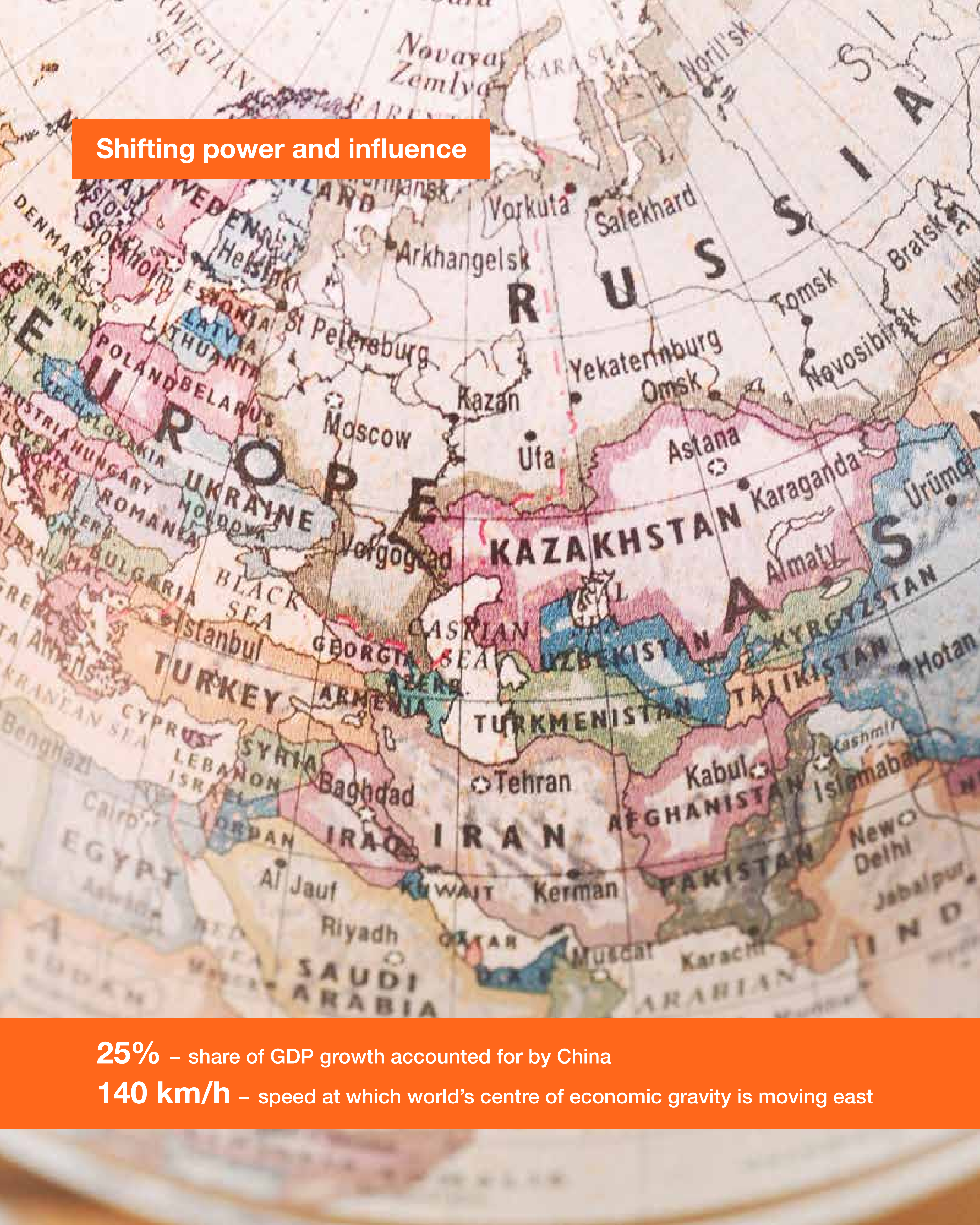
Shifting power and influence



25% – share of GDP growth accounted for by China

140 km/h – speed at which world's centre of economic gravity is moving east

Shifting power and influence

The centre of gravity of economic power continues shifting eastwards, back to where it was 200 years ago. Recent superpowers seek to moderate the pace of change but the realities of population and resource locations are immoveable.

Are we are witnessing the end of an era in globalization and international trade? The structures set up in the wake of the WW2 may no longer be fit for purpose. Western markets are weakening, the US appetite to act as overall arbiter and keeper of the peace diminishes and Europe faces its own constitutional challenges. Asian countries, which have in the main benefitted from a youthful workforce and rising middle class, are beginning not only to influence world trade but also to play a greater role on the diplomatic stage. Africa and South America have yet to make a significant impact, but with a wealth of natural resources at their disposal, the next ten years should begin to change this.

Whether or not this is the Asian century as some foresee, the next decade will see the post-war routes gradually being eclipsed by the power of the Indian Ocean region. South-south trade doubled in the decade from 2000 to 2010, and is likely to account for over a third of global trade by 2025.

After centuries of growth, Europe's days in the economic sunshine are, many think, in relative decline. The Euro experiment has had its day and the Europeans will have to spend the next decade dealing with the repercussions of this failure. Some believe that the region will muddle through while others see three possible options: that the Euro will be split in two, probably on a North and South divide; second, a couple of major former currencies such as the Deutschmark and the Lira will be reintroduced, or third, there will be a complete re-fragmentation of the euro zone into individual national currencies and hence economic interests. Germany will remain the primary power within the EU over the next ten years, but overall Europe's influence will be eroded by its internal problems, such as the UK's threat of 'Brexit'.

Bridging Europe and Asia, but a long way from being an economic superpower, lies Turkey. Since the establishment of a Customs Union with the EU in 1996, Turkey's EU exports have grown and in 2014 accounted for nearly $70 billion, or 43.5% of its total. Whether the former description of Turkey as 'the world's most progressive Muslim state' will still hold in 2025, its influence on the regional and global economy seems set to grow as does, given its geopolitical location, its sway on global trade.

Things, though, are not looking good in Russia. A declining population, access to secure water and food supplies previously supplied by former Soviet Union neighbours lost, its economy corrupt and dominated by quasi-state firms whose revenues depend on political contacts rather than economic efficiency. GDP growth averaged a paltry 2.4% from 2011 to 2014 despite high oil prices and renewed access to credit markets. Most economists see that Russia will have a less rosy future – with less focus on increasing its global financial interaction. This won't deter Putin, keen to bolster his status at home, from maintaining a presence on the world stage. Its current military postulating around the Middle East in order to regain influence in key locations is perhaps understandable.

The Euro experiment has had its day.

Certainties

Wherever you go in the Middle East there are some elements of commonality but also many areas of difference – especially concerning competition and conflict between Sunni and Shia, the financing of ISIS, the changes afoot in Saudi and the future ambitions of Iran to create a new Persian Empire. The US's influence is declining, for economic and political reasons. Many OPEC economies need to increase diversification; not only is there the climate change challenge, but the potential to act as a growing, pivotal gateway for China and India, not just to the Middle East but significantly (in the long-term) to Africa.

Few doubt the scale of the African continent (a land mass greater than India, China, the US and Europe combined, its workforce the world's largest by 2040) and its resources. With a collective GDP of $2.6 trillion by 2020 and $1.4 trillion of consumer spending, many anticipate the impact of around 500m new middle class consumers. The question here is one of timescale; will there be significant change in the next decade or, like India, a longer period of transition?

India's perfect population pyramid, a massive domestic market, a growing middle class, more successful home-based multinational private companies, little interest in military expansion to secure resources, and world class expertise in IT and process innovation, all add up to the potential for India to be a top 3 economy. With a highly connected Indian diaspora and a number of very progressive business leaders, many see India as a certain long-term bet; but, for others, India is still a tricky place to do business, with a sagging infrastructure and endemic corruption presenting huge obstacles. The government aims to double India's exports of goods to $900 billion a year by 2020 and improve India's share of global trade from 2% to 3.5% by 2020. The World Bank, EIU, IMF and UN all expect between 6 and 7% GDP growth for the next decade. But progress on reform has been slow.

Also in the region, Singapore will continue to be a major global trade hub, and be the Asian leader in GDP per capita; Indonesia will grow steadily via more progressive government polices and a strong base of raw material exports. But it is China that dominates. IMF figures show over the past decade it has averaged over 25% of the world's GDP growth. Some are questioning the long-term sustainability of the Chinese economy, especially with the burden of unbalanced demographics stemming from the impact of the One Child policy. If China uses more of its economic might and soft diplomacy to reshape the world order, and if the Remnimbi maybe one day usurps the dollar as the world's reserve currency, then China could dominate world trade.

Many see India as a certain long-term bet.

The fortunes of the other BRIC nation, Brazil, reflect China's curtailment of the commodity boom; future growth for the next decade is projected to be under 3%. Other Latin America countries, Chile, Peru and Mexico, will benefit from being in the TPP. By contrast the more 'inward looking' Argentina is generally seen to be stumbling from one crisis to another.

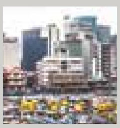
North lies the United States. Whereas China has 20% of the world's population and generates around one seventh of global GDP, the US has 6% of the world's population but still produces up to 25% of its GDP. Increasingly self-supporting both in trade and energy, will the US remain as the world's naval policeman and 'guarantee' to keep global trade routes open? It may be several decades before there is a significant decline in US foreign policy and economic influence.

The world's centre of economic gravity has changed over past centuries. Since the mid-1980s, the pace of that shift, from the West toward Asia, has been increasing dramatically, at a speed of 140 kilometres a year - faster than ever before in human history. Having spent the first 1,000 years in Iraq and then gradually reached its westernmost point just off the Newfoundland coast in the 1950s, a McKinsey model sees that by 2025, with the growing impact of India and Africa, it will be near to the Russian border with China and Mongolia. Changes are on the cards.

Will the US remain as the world's naval policeman.

Related insights

Africa growth

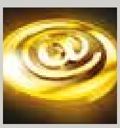


With a land mass bigger than India, China, the US and Europe combined, few doubt the scale of the African continent and its resources. However, until recently only some have seen it as the growth market that it is fast becoming.

Declining government influence

National governments' ability to lead change comes under greater pressure from both above and below - multinational organisations increasingly set the rules while citizens trust and support local and network based actions.

Currencies of meaning



New trusted currencies of exchange and meaning emerge to better facilitate transactions, trade, authentication and validation. Money is complemented by new systems to which we attach greater significance.

Standards driving trade

International regulation is progressively aimed at freeing up trade and making it simpler and less bureaucratic – but there are a number of agreements, standards| and protocols that some are seeing as increasingly constraining.