SPECIAL ANALYSIS

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The European Union: A player on the world stage

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Introduction

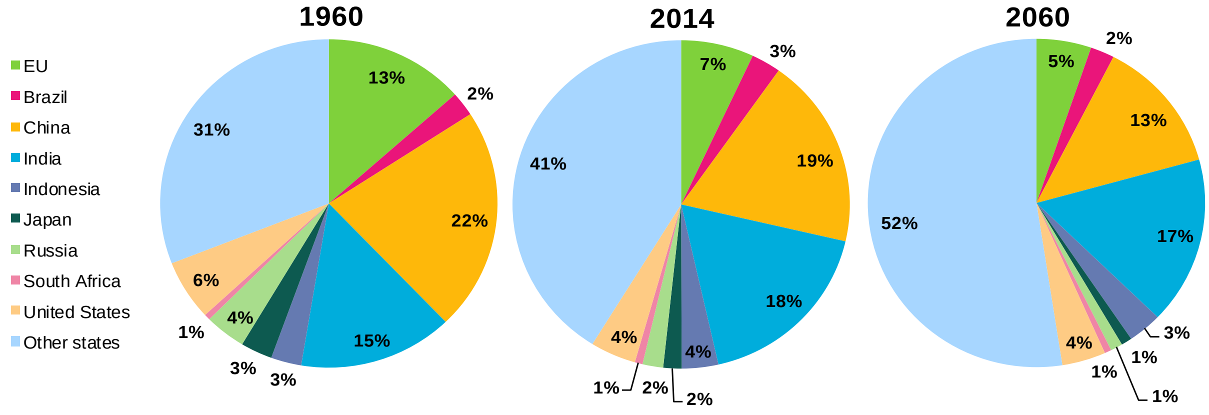
We've updated you on developments and trends in individual European Union states according to various topics and indicators several times already in previous issues of the EU Monthly. But the overall context can easily get lost in details and a narrow focus. How is the European Union getting on among the other big economies?

We've focused on the world economies that are important in terms of their size and prestige or are important competitors and partners to the EU: Brazil, China, India, Indonesia, Japan, Russia, the Republic of South Africa (RSA), and the United States of America (USA), and for comparison we've also included Germany and the Czech Republic.

We've studied these economies according to indicators relating to population and macroeconomic fundamentals, as well as from the point of view of world institutions that have created indices that track competitiveness and entrepreneurship.

Population explosion

Population development and forecast in the world economies



Source: The World Bank, Eurostat

Population Age Structure (2014)

	0-14	15-64	65+
China	17%	74%	9%
Russia	16%	71%	13%
Brazil	24%	68%	8%
Czech Republic	15%	67%	18%
Indonesia	28%	67%	5%
United States	19%	67%	14%
Germany	13%	66%	21%
World	**26%**	**66%**	**8%**
EU	15%	66%	19%
India	29%	66%	5%
South Africa	30%	65%	5%
Japan	13%	61%	26%

Source: World Bank

The world population has grown significantly over the last few decades. Just in the 1960s there were around 3 billion inhabitants on the planet. According to UN data, this number had doubled by 1999 and in 2011 it reached 7 billion. By 2060 it is expected that the world's population will hit 10 billion.

The number of inhabitants in the world economies in question was approximately 2/3 of the world population in 1960. Over the years, however, this proportion has substantially decreased in relation to other states, mainly from Africa, Asia and Latin America. According to demographic projections, this trend should continue in the future. In 2014, the world's population stood at more than 7.2 billion. The most populated country was China, but in which the growth trend is expected to fall. India, which was in second place, will very quickly catch up with China. The economies tracked by us in the given year represented nearly 60% of the world's population. The development of these populations is closely connected to its structure.

What is characteristic of developing countries is that youth make up a substantial portion of the population whereas in developed states the youth component is lower and is falling, which is leading to an ageing population.

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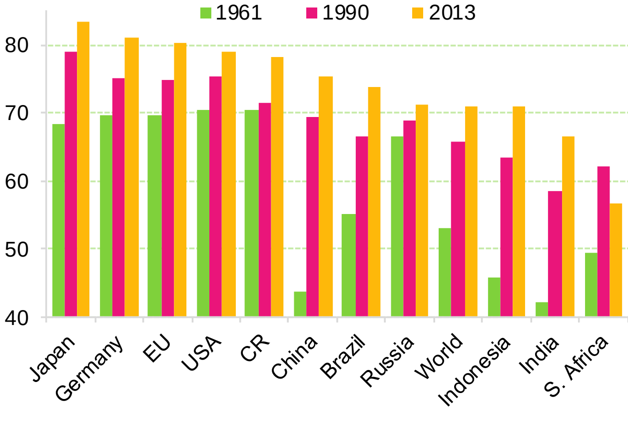
In our monitored economies this is highly evident in Japan, where the number of people older than 65 represents more than one quarter of the population, which will place great pressure on the working age population. The greatest proportion of people of working age in the economies in question is in China and Russia. Less developed states have a higher proportion of children in the population, as is the case in RSA, India and Indonesia. An important shift can also be observed in increasing life expectancy (the life expectancy of a new-born), which was substantially higher in developed countries than in developing countries.

This difference is slowly disappearing, mainly thanks to improving health care and declining infant mortality. This is highly evident in comparable economies where substantial improvements have occurred in the given indicator over the last 50 years.

Life expectancy (years)



Zdroj: The World Bank

For example, in China life expectancy has increased since 1961 by more than 30 years and in India and Indonesia by approximately 25 years.

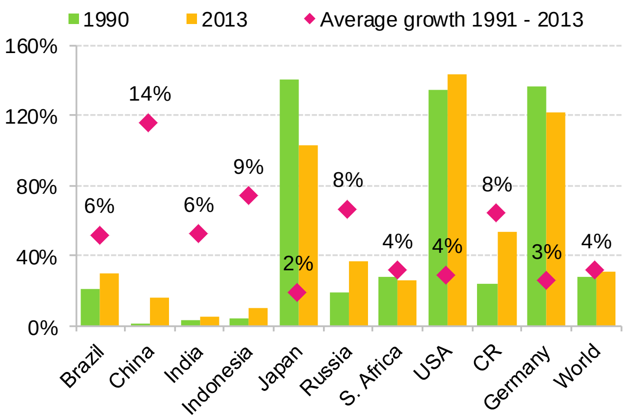
Developing states still core of the world economy

Assessment of economic performance usually begins (and unfortunately also often ends) with the economic performance indicator measured by GDP – primarily thanks to the wide availability of data and ease of interpretation.

Of the economies in question, the greatest "wealth" is created in the EU – nearly 24%. Following close behind is the United States (22%) which also leads in GDP per capita. A total of 13% of world production was created in China in 2014.

However, the dynamics of development again don't look favourable – while shortly after the collapse of the Soviet bloc the countries of the current EU produced a third of world production, today it's less than one quarter. The United States was able to make excellent use of the emergence of new market economies and their share increased, but it later lost it again.

Labour productivity



Source: World Bank; comparison with EU (EU = 100 %); labour productivity grew by 4% p. a. on average

One can't look at this development, however, as a "failure" because this decline is only relative, as the economies of these states have continued to grow – the European Union, the United States and Japan (which is in a similar position) increased GDP over the whole period, and after 2000 at an even faster pace. The decreasing share of world GDP is a result of the development of completely new markets that had earlier had a negligible impact on the world economy.

Total world GDP has more than doubled over the last 25 years. Of the newly created GDP from the last 25 years 75% is accounted for by states included in this report – the most by the USA and the EU (both 20%) and China (18%). They are followed at some distance by India, Brazil, Japan and Russia, of which each state contributed around 3% of newly created GDP.

The absolute record holder of economic growth is clearly China, which over the last 30 years has jumped from almost nothing to being one of the most important world economies.

While it accounted for 1.6% of GDP in 1990, in 2014 it accounted for more than 13% of world production because its volume of GDP grew 28x! Nobody else has been able to even imitate similar phenomenal success – the second most successful country of those economies in question, Indonesia, has managed to increase its production by nearly 8x "only". Among the other successful economies are India (growth of 533%) and Brazil (408%).

GDP – Development and growth

	World GDP share			Growth since 1990		GDP per capita
	1990	2000	2014	2000	2014	2014
EU	33.6%	26.5%	23.7%	16%	143%	36,244
CR	0.18%	0.18%	0.26%	52%	410%	30,445
Germany	7.8%	5.9%	4.9%	10%	118%	45,616
USA	26.5%	30.9%	22.4%	72%	191%	54,629
China	1.6%	3.6%	13.3%	236%	2,786%	13,217
Japan	13.8%	14.2%	5.9%	52%	48%	36,426
Brazil	2.0%	2.0%	3.0%	42%	408%	15,838
India	1.4%	1.4%	2.7%	46%	533%	5,708
Russia	2.3%	0.8%	2.4%	-50%	260%	25,636
Indonesia	0.51%	0.50%	1.14%	44%	677%	10,517
South Africa	0.50%	0.41%	0.45%	22%	212%	13,046
World	-	-	-	48%	245%	14,939

Source: World Bank, GDP per capita is expressed in PPS, otherwise nominally

It's important to add that the Czech Republic over the last 25 years has recorded absolute economic growth comparable to India or Brazil.

Developed countries have logically fallen behind in economic growth dynamics – growth is considerably faster in poorer countries. This is caused by growth from a lower foundation, but also by the fact that developed countries are creating new technologies, which is a far more demanding activity than importing existing technology. An important finding is also that the world grew much faster after 2000.

Labour productivity (measured as GDP per labour force) is comparable to the EU only in Japan. In the United States it is approximately 40% higher. In none of the developing nations is labour productivity even close to that in developed countries - in "most successful" Russia it is nearing 40% the level of the EU, and in China it is only 16%. Nevertheless it's good to see the effect of convergence in productivity as well – while productivity in the wealthy states is growing relatively slowly, in the developing nations it is in some cases skyrocketing – for example in China by 14% per year. It is worth mentioning the Czech Republic, which was able to increase productivity in recent years at a comparable pace to India or Indonesia despite a substantially higher base.

Similarly, the inflationary environment can be divided into the periods pre- and post-2000 – the 1990s were generally marked by higher inflation. During those years Brazil and Russia suffered a heavy blow in the form of hyperinflation which repeatedly reached hundreds of percent per year (even thousands of percent in the case of Brazil). Of course, inflation was higher in the 1990s than today in practically all states. Inflation is generally lower in developed states than in emerging nations.

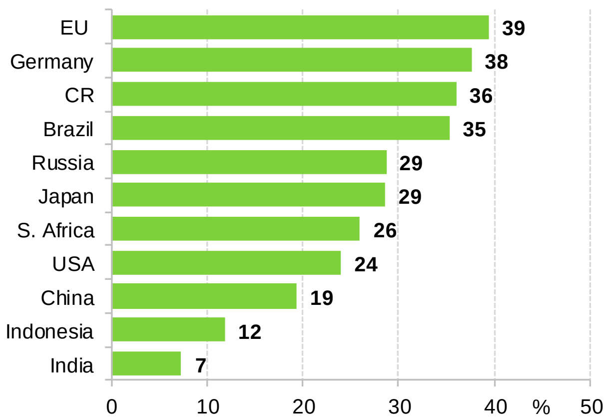
Developing states still core of the world economy

In the context of developed states taxes are one of the most important cost items. Lower taxes are therefore a very effective way of attracting foreign companies.

Of the surveyed countries, the lowest taxes are in India and Indonesia. In India the tax burden makes up only 7% of GDP. The reason is the large number of people living under the poverty line, the large amount of production created in small enterprises and because the country suffers from shortcomings in state infrastructure. In Indonesia the tax take is 12% of GDP.

In China, the tax take is also considerably lower than is usual in the West (19% of GDP) – it compensates for its shortcomings in income, however, with direct state involvement in many strategic companies.

Tax rates - Tax burden on GDP (2014)



Source: Heritage Foundation; European Commission

In the rest of the world production is taxed 24% or more. The most tax has long been levied in the European Union where the rate of tax redistribution is close to 40% of GDP.

Competitiveness – the developed world still on top

Apart from statistical data, it's good to also look at other "softer" aspects of the economy. We therefore include in the report 3 rankings of competitiveness from prestigious organizations.

The first of them is the Doing Business Index from the World Bank, which looks at competitiveness from the perspective of state bureaucracy. It's based on the assumption that in order for a country to be successful in international trade companies must not be subject to pointless bureaucratic obstacles.

Various indicators of the quality of the bureaucratic environment are therefore included in the index – from the difficulty of establishing a company to exporting and through to building permits.

The Economic Complexity Index, created at MIT, on the other hand focuses on products – what specifically is exported in a given country? It is based on the thesis that countries which export relatively few specific products will be less competitive than those countries that diversify their export portfolio.

Rank in Competitiveness Indices

	Doing Business	Economic Complexity Index	World Economic Forum
USA	7.	12.	3.
Germany	14.	3.	5.
Japan	29.	1.	6.
EU	26.	14.	22.
CR	44.	6.	37.
China	90.	22.	28.
S. Africa	43.	59.	56.
Russia	62.	45.	53.
Indonesia	114.	69.	34.
Brazil	120.	56.	57.
India	142.	54.	71.
Countries included	**189**	**144**	**144**

Source: World Bank, MIT, World Economic Forum; the EU average is computed as weighted average of member states; GDP is used as weight

The last indicator is the Competitiveness Index published by the World Economic Forum – it tries to capture the competitiveness of an economy from many different angles – from infrastructural facilities to the innovation environment to monetary stability, education and institutional quality.

All three indices clearly demonstrate the advantage of the developed world – developed countries are traditionally in the top third of the rankings. Approximately half of the states from the EU are in the first 30 places in all the rankings, and in the case of economic complexity there are even 21.

Of the countries studied, Germany and the United States are at the very top, closely followed by Japan. Conversely, the worst results were achieved by India and Brazil – they are the countries, which although they have been on the rise in recent years, started out from a very low base. They will expect a very long journey still before achieving an economic environment comparable to the developed world.

China suffers from the complication of its bureaucratic environment, although it is ranked very well in other indices. This can be partially explained by China's meteoric rise in recent years.

Some may be surprised by the Czech Republic's placing. Thanks in particular to its very strong industrial base and strong ties to the German economy it was ranked at an excellent 6th place in the world in terms of economic complexity.

In comparison to the rest of the EU we definitely have something to catch up with in the Doing Business rankings – 18 countries from the EU are ranked better than the Czech Republic.

In the World Economic Forum's Competitiveness Index we should also aim high – we achieved weak results especially in terms of institutions, infrastructure and innovative environment in which there is room for improvement not only of European but mainly domestic policies. On the path to competitiveness we have to work on othe innovation system – the enterprises in the Czech Republic must be able to produce high quality goods succeeding on the international market.

Conclusions

The data convincingly show that the meteoric rise of China in the last two decades has radically changed the structure of world trade and shifted the centre of gravity eastward. The developing economies, however, are not growing only economically – they are also growing in terms of population.

While the developed economies are facing a problem in the form of an ageing population, in the less developed parts of the world there won't be an emergency regarding workers (with the exception of China where the situation is greatly complicated by the one child policy).

On the other hand, the economic data do not confirm the arrival of the new dynamic tigers from the BRICS countries – Brazil and India have in recent times grown quite rapidly, but they can't be compared to the intensive growth in China. Russia is at the present time in considerable difficulties and South Africa's economy has not shown any impressive results for a long time.

On the other hand, the competitiveness rankings show that the transition to a market economy has enabled many states to become wealthy relatively quickly and helped many people out of poverty, although in comparison to the developed world they are still clearly losing out – labour productivity is very low, the administrative environment is still very complicated and not enough added value is created in those states.

The European Union's share of generated GDP has fallen over the last 20 years, but it is still a key player (and will be for a long time to come). Twenty-four percent of world production is created there and work productivity is more than 6x higher, for example, than in China.

The EU invests a fundamental part of its economic production in building state infrastructure – the rate of taxation in the EU is close to 40% of GDP. In the competitiveness indices it is placed at the top of all the rankings.

But we need to recognize our competitive advantage – in the economy of the 21st century it's very difficult for us to compete with cheap labour. This era has long passed in the world.

On the other hand, we are competing in the world with excellent technology that is turning the world on its head, as we managed to do several times already last century together with the United States and Japan.

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