



 [Print this article](#) |  [Close this window](#)

Huge implications as world economy moves to the east

Ross Gittins

May 28, 2011 - 12:00AM

YOU'D need to be living under a rock not to have heard that the world's centre of economic gravity is moving from west to east - towards us.

Advertisement

The shift is occurring because of the re-emergence of China and India as major economic powers. Why re-emergence? Because in the 18th century - before the West's industrial revolution - the two accounted for almost half of gross world product.

By 1990, China and India's share of world GDP was down to less than 10 per cent. Today it's about 20 per cent. By 2030 it may be up to 33 per cent.

Everyone knows the rapid industrialisation and urbanisation of these two countries is the cause of our resource boom. But as Treasury points out in its annual sermon (otherwise known as budget statement No. 4), there's more to it.

"As China and India continue to develop, the growing cities now driving demand for Australia's mineral resources will be populated by an increasingly wealthy and upwardly mobile middle class, with incomes and tastes to match," Treasury says.

"Increasing consumer purchasing power and changing spending patterns will open up new, often unforeseen, opportunities for Australia - well beyond those flowing from the current mining boom." One study has estimated that the number of middle-class consumers in Asia could increase by more than 1.2 billion people by 2020. If so, these projections would mean that by the end of this decade Asia would have more middle-class consumers than the rest of the world combined, with China surpassing the US as the world's largest middle-class market in terms of dollars.

By 2030, with India following China's lead, the world could have gone from mostly poor to mostly middle class, with two-thirds of middle-class consumers living in our region.

(Like all projections by economists, this one confidently assumes the natural resources and ecosystem services needed to make this possible will be readily obtained - presumably, from another planet. But let's not allow ecological realities to spoil our happy analysis.)

In poor countries, spending on basic goods typically accounts for quite a high share of GDP, with household incomes barely covering the necessities of life. Then, in the early stages of economic development, a surge in investment spending causes consumption's share of GDP to fall quite sharply.

In time, however, continued growth allows a larger middle class to devote more money to buying luxury goods and services. As a result, consumer spending's share of GDP recovers as economies reach middle-income status. China is fast approaching income levels where consumption often turns, and the Chinese government is focused on reforms to foster higher growth in household incomes and to rebalance the economy towards domestic demand. So Treasury says there's considerable scope for a strong rise in the consumption share in the medium term.

Since the early 1990s, China's urban households have devoted less of their spending to food and more to medical services, transport, communication, education, recreation and culture.

Just over the past 10 years, the proportion of urban households owning a car has gone from virtually none to 12 per cent. The number of computers owned per 100 households has gone from eight to 70, while the number of mobile phones has gone from 16 to 188.

As for tourism, China and India's sheer population size mean they're starting to overtake those countries formerly dominant in providing tourists, the US, Britain and Japan. In 1995, about 4.5 million people from mainland China and 3 million from India travelled abroad for business and leisure.

By 2009, China's travellers had increased to 48 million. Australia is already getting its cut. China and India's share of our education exports has risen sharply. China's share of our wine exports is now five times larger than five years ago.

Treasury says it's not possible to forecast the exact mix of goods and services that will be demanded, let alone the global economy that will best service these demands. You can say that again.

This story was found at: <http://www.theage.com.au/business/huge-implications-as-world-economy-moves-to-the-east-20110527-1f8rd.html>