

TRANSFORMATION OF THE WORLD ECONOMY

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THREE MAJOR TRENDS IN THE WORLD ECONOMY

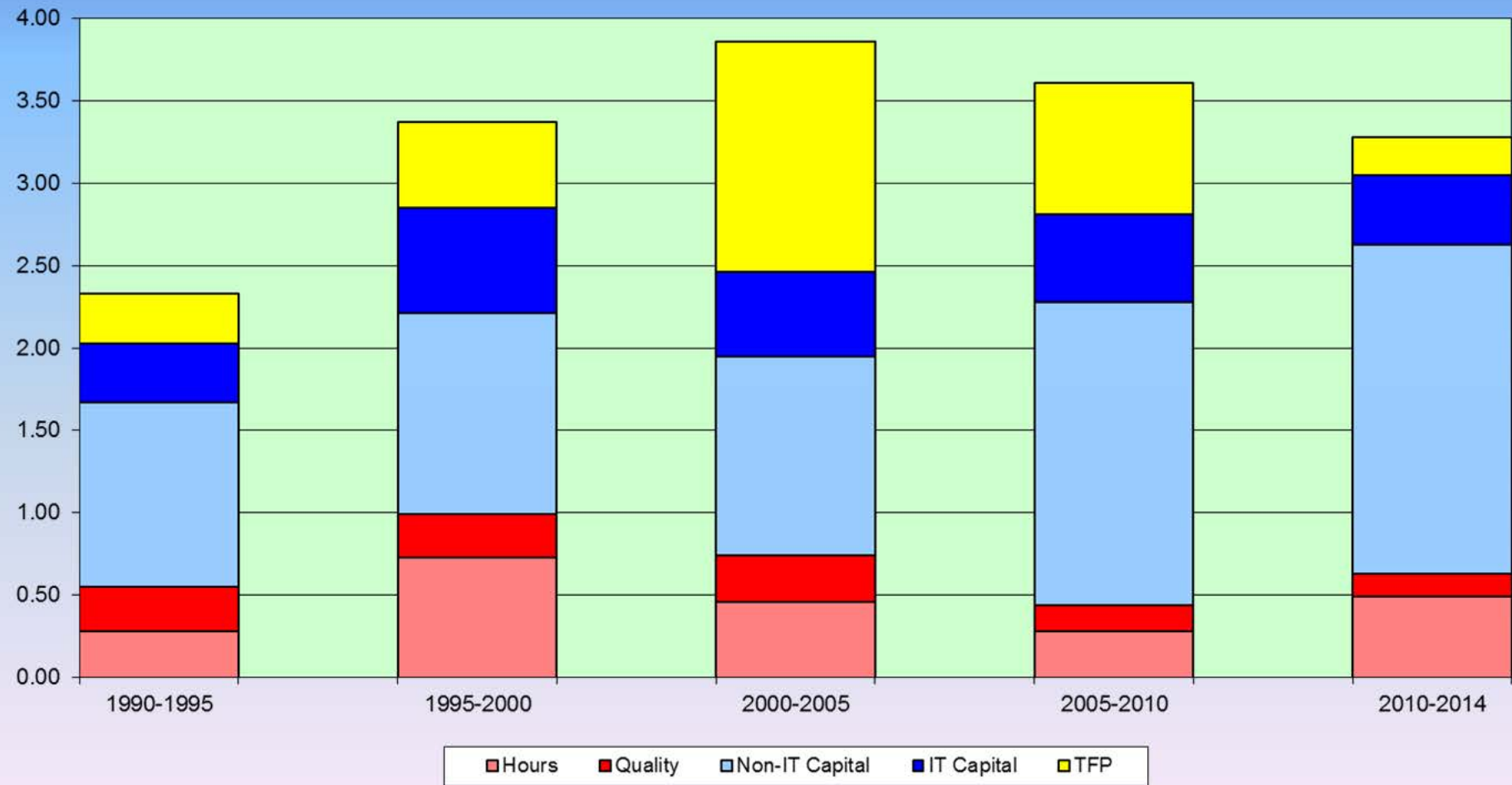
The Growth of the World Economy Has Accelerated Since 1995 and Become Much More Turbulent.

The Balance of the World Economy Is Shifting from the Advanced Economies of the G7 to the Emerging Economies of Asia, Especially China and India.

The Transformation of the World Economy has Led to a New World Order, Led by China, the U.S., India, and Japan.

Sources of World Economic Growth

Average annual growth rates, weighted by the income share.



PROJECTING THE GROWTH OF THE WORLD ECONOMY

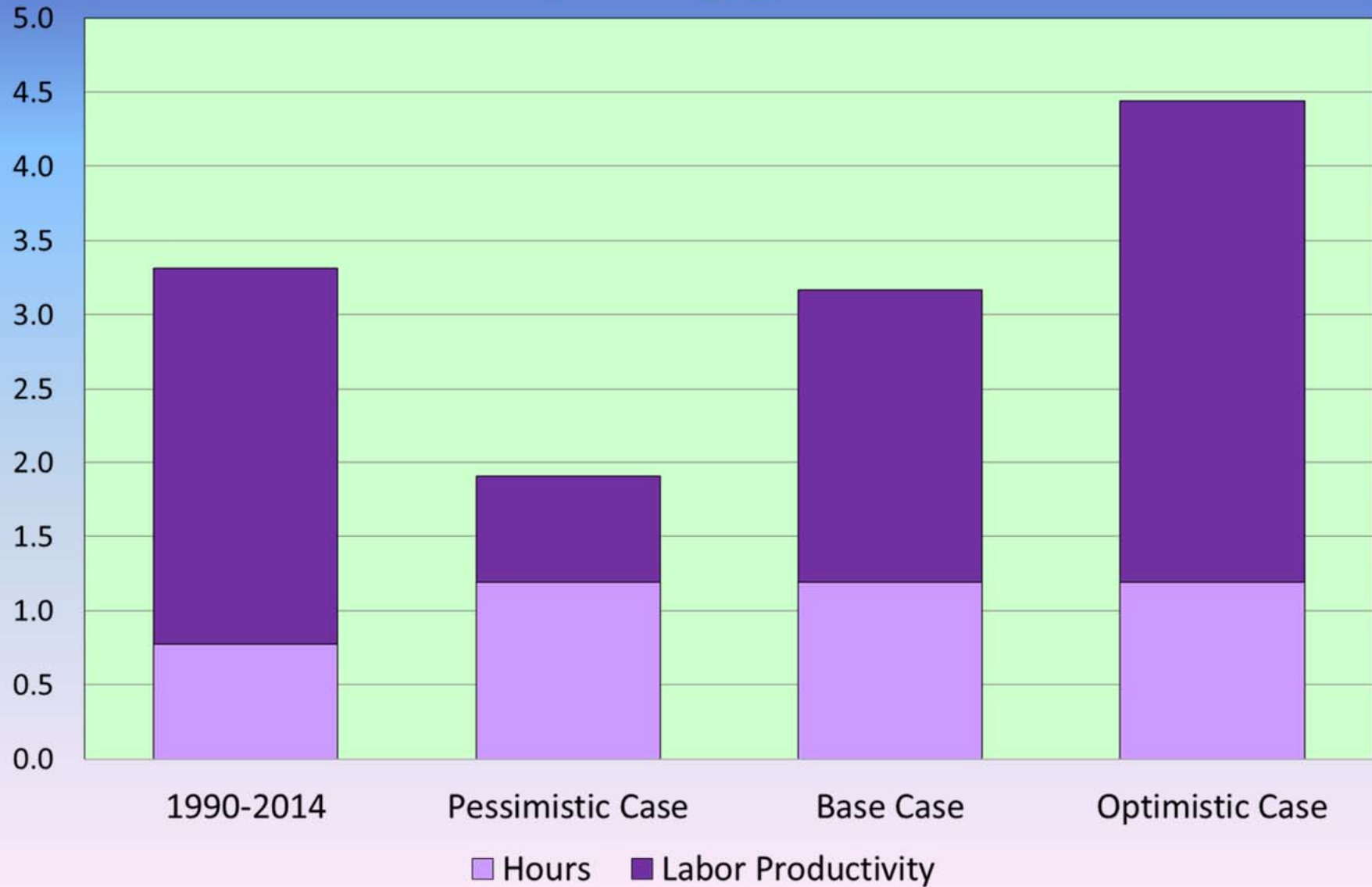
Future Demography: Population Projections for the World Economy Are Available from the United Nations. Labor Input Growth Includes the Growth of the Labor Force and Changes in Labor Quality Due to Age, Gender, and Educational Attainment.

Future Productivity: Productivity Projections for the World Economy Are Available from The Conference Board in New York. These Are Based on Future Trends in the Development of Information Technology and Non-Information Technology.

We Derive Output and Capital Input Projections from Future Trends in Demography and Productivity. Future Productivity Growth Is the Main Source of the Substantial Uncertainty in Projections of the Growth of the World Economy.

Range of World Output Projections

Annual percentage growth rates



OUTLOOK FOR THE G7 ECONOMIES

Future U.S. Economic Growth: Our Projection Is for a Modest Revival from the Slow Growth of 1.5 Percent Annually for the Past Decade, 2004-2014, to Potential Growth at 1.75 Percent Annually for the Decade, 2014-2024.

Downside Risk for the U.S. Economy Is the Failure of Attempts to Develop a Sustainable Fiscal Policy. Upside Risk for the U.S. Economy Is a Substantial Stimulus to Growth from a Long Overdue Major Tax Reform.

Future Japanese Growth: Our Projection Is for a More Substantial Revival from Growth Around Half a Percent Annually for the Past Decade to Potential Growth of One Percent for the Next Decade. Adverse Demographic Trends Pose Major Obstacles.

The Major Downside Risk for the Japanese Economy is Continuation of the Stagnant Productivity Growth of the Past Two Decades. A New Growth Strategy Will Be Required to Overcome the Two Decades of Economic Stagnation.

Range of G7 Output Projections



OUTLOOK FOR THE MAJOR EMERGING ECONOMIES

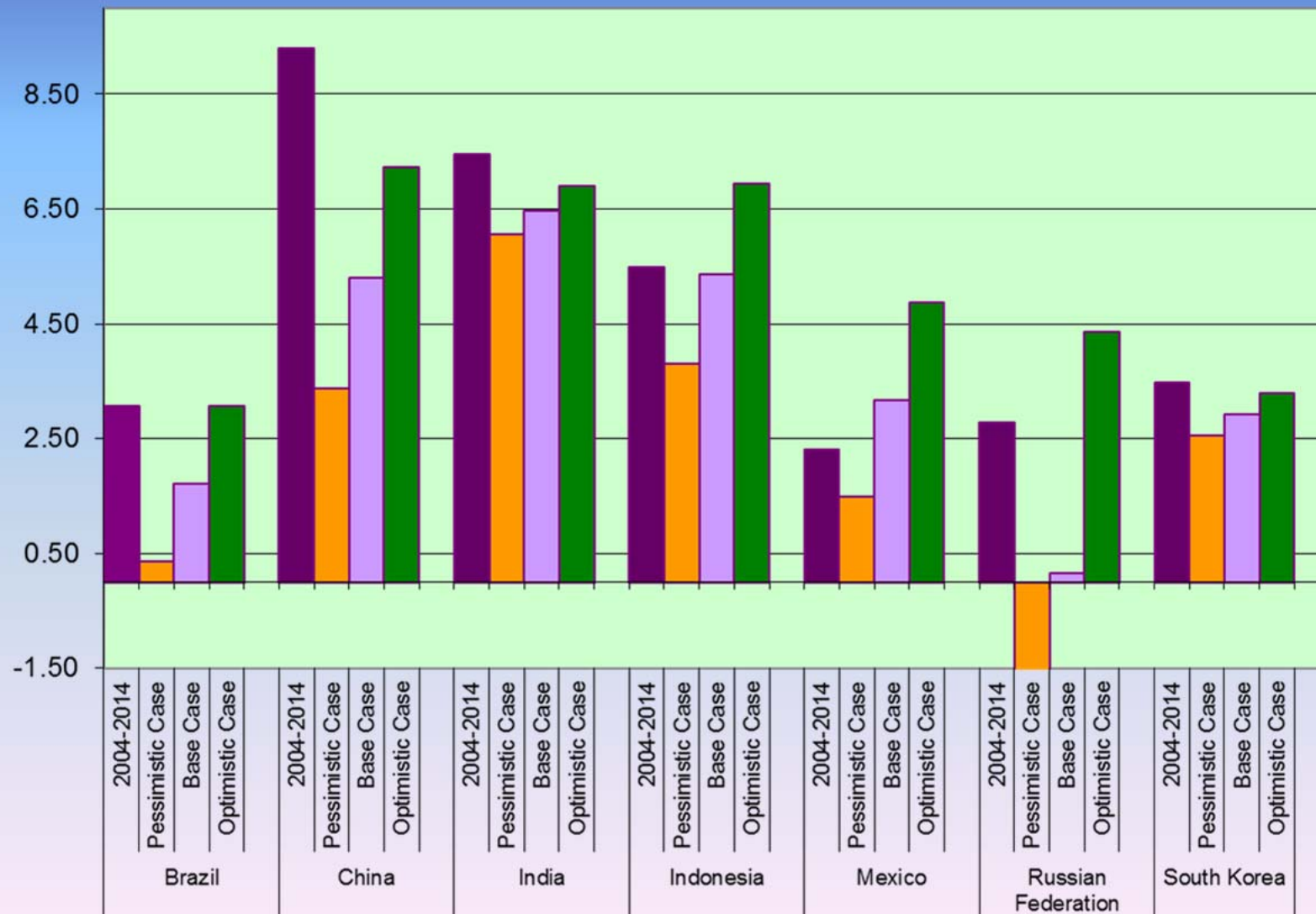
Future Chinese Economic Growth: Our Projection Is for a Substantial Slowdown from Nine Percent Growth for the Past Decade, 2004-2014, to a Sustainable Growth Rate of Five Percent for the Next Decade, 2014-2024. This Is Well Below Official Chinese Projections.

The Major Downside Risk for the Chinese Economy Is for Financial Distress Due to Unmanageable Levels of Debt. The Upside Potential of the Official Projections Would Require Major Financial and Fiscal Reforms Yet to Be Undertaken.

Future Growth of the Indian Economy: Our Project Is a More Modest Slowdown from the Growth of the Past Decade, Almost 7.5 Percent Annually, to a More Sustainable 6.5 Percent Annually in the Coming Decade.

The Downside Risk for the Indian Economy Is Failure to Restore Fiscal Balance and Maintain Control of Inflation. The Upside Potential of India's Favorable Demographic Trends Depends on Labor Market Reform and Greatly Increased Integration with the World Economy.

Range of Output Projections for Emerging Economies



SUMMARY OF THE TRANSFORMATION OF THE WORLD ECONOMY

Despite the Economic Turbulence of the Past Two Decades, the World Economy Is Entering a Period of Sustainable Growth at a Rate of almost 3.2 Percent Annually, Only Slightly below the Growth Rate of 3.3 Percent for the Past Quarter Century.

Relative Importance of the Major Emerging Economies, China and India, Will Continue to Increase, Even with Much Slower Growth in China and a Modest Slowdown in India. Growth Potential Will Increase Modestly in Both Japan and the U.S.

Upside Potential Growth of the World Economy Is Considerable, But Would Require Ambitious Domestic Reforms in the Major Emerging Economies that Appear Unlikely. Downside Risks Are for Continued Stagnation of Productivity Growth around the World.

Conclusion: The Base Case Projection of World Economy Is for Moderate but Sustained Growth and a Continuing Shift from the Advanced Economies of the G7 to the Major Emerging Economies. This Has Established the New World Order of the 21st Century.

GDP Share Projection World's GDP in 2014 = 100

