

Special Commentary — June 8, 2021

What a Drag It Is Getting Old: Implications for Economic Growth Part II: Which Regions Have the Strongest Demographic Outlooks?

Summary

- Looking forward, the United Nations (U.N.) projects that the number of people on the planet will continue to increase, but at a slowing rate. Some major countries, notably China, Germany and Japan, will experience contractions in their respective populations.
- Although Asia may have the most people at present, the population of Africa is growing the fastest among the major regions of the world. No other region comes close to Africa in terms of future population growth. The U.N. projects that the world's population will grow by nearly two billion individuals by mid-century, and that more than half of that increase will occur in Africa.
- Due to these demographic projections, one could possibly infer that Africa is poised to be an economic powerhouse over the next few decades, but an economy's long-run growth rate is determined by productivity growth as well as labor force growth.
- There are many factors that determine productivity growth, but capital accumulation and technological change are some of the most important determinants. Africa may possess a strong rate of labor force growth in coming years, but the outlook for the continent's productivity growth rate is more uncertain.
- The investment-to-GDP ratio in Emerging and Developing Asia has averaged 35% over the past three decades. In contrast, the ratios for Emerging and Developing Europe, Latin America and sub-Saharan Africa have averaged only 20% or so. Capital accumulation in these regions will need to strengthen considerably over the next decade or two for these regions to enjoy Asia-like rates of economic growth.
- Of the 25 largest economies in the world today, only two (Australia and Saudi Arabia) are expected to have population growth rates over the next 30 years that exceed the global average of 0.7% per annum. Among this set of 25 large economies, the population in 10 of them is projected to contract on balance over the next 30 years.

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Introduction

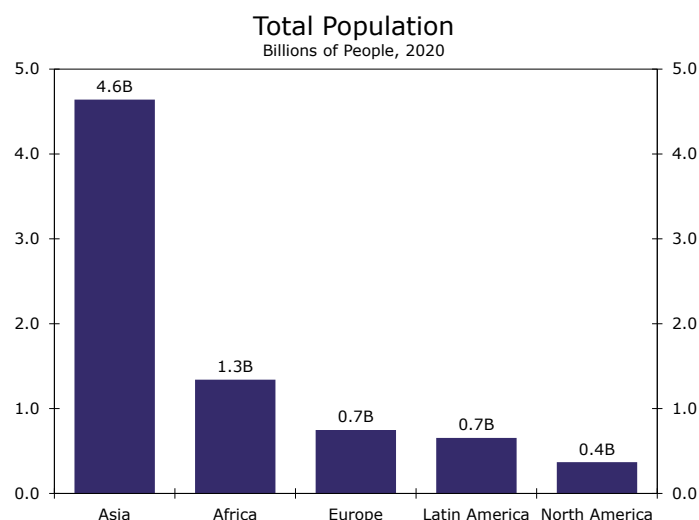
In [Part I](#) of this series, we noted that the world's population has grown from roughly 2.5 billion individuals in 1950 to nearly 8.0 billion today. Looking forward, the United Nations (U.N.) projects that the number of people on the planet will continue to increase, but at a slowing rate. Some major countries, notably China, Germany and Japan, will experience contractions in their respective populations. The demographic outlook is not as dire for the United States as it is for these other major economies, but the American population growth rate looks set to slow further in coming years.

Growth in the labor force is one of the primary determinants of long-run economic growth. As we discussed in the first report in this series, the looming slowdown in the growth of the American working-age population will exert headwinds in coming years on the sustainable rate of U.S. economic growth, everything else equal. In this second installment, we discuss the demographic outlook in some major regions of the world and its implications for potential economic growth. We will delve more deeply into individual countries in follow-up reports.

Asia Is the World's Most Populous Region, But Africa Is Growing the Fastest

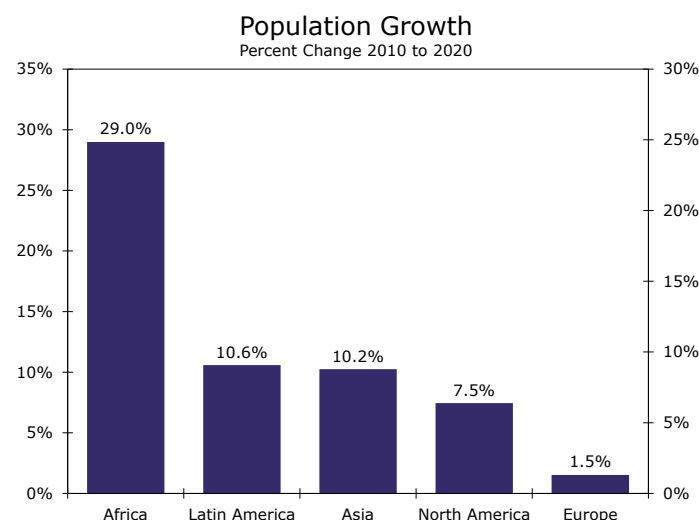
Asia, with an estimated population of roughly 4.6 billion people in 2020, is the most populous region in the world ([Figure 1](#)). The two most populous countries in the world—China had a population of 1.44 billion in 2020 with India right behind at 1.38 billion—are included in the overall total for Asia. Africa is a distant second with 1.3 billion individuals at present, followed by Europe (0.7 billion), Latin America and the Caribbean (0.7 billion) and North America (0.4 billion).¹

Figure 1



Source: United Nations and Wells Fargo Securities

Figure 2



Source: United Nations and Wells Fargo Securities

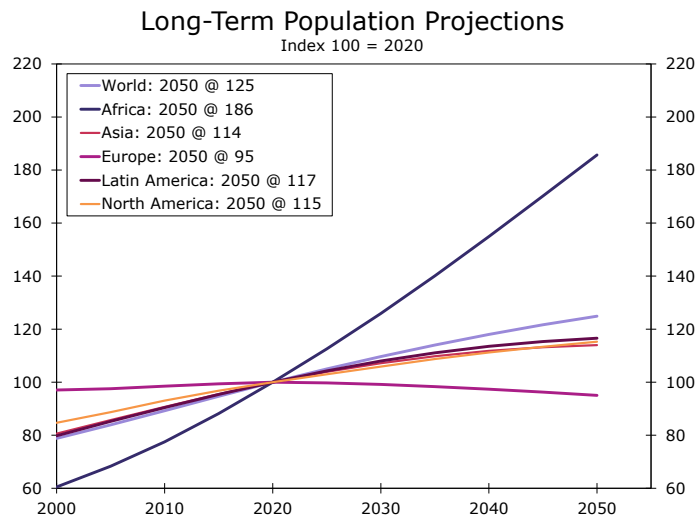
Although Asia may have the most people at present, the population of Africa is growing the fastest among the major regions of the world. Between 2010 and 2020, the number of individuals in Africa increased by 29% ([Figure 2](#)). The respective populations of Latin America and Asia each rose by roughly 10% during the past decade, while the number of Europeans barely grew at all. Looking ahead, the U.N. projects that population growth in Africa will remain strong ([Figure 3](#)). If, as the U.N. forecasts, the population of Africa increases by about 85% between 2020 and 2050, then the number of Africans will grow at a robust rate of 2.1% per annum on average. No other region comes close to Africa in terms of future population growth. The U.N. projects that the world's population will grow by nearly two billion individuals by mid-century, and that more than half of that increase will occur in Africa.

The populations of North America and Latin America are each expected to grow by roughly 15% by 2050. The U.N. forecasts that the number of individuals in Asia will also increase by 15% or so over that period, although this overall change masks some important differences. Specifically, India, which should surpass China as the world's most populous country by the end of the current decade, is expected to realize an increase in its population of nearly 20% by mid-century. In contrast, China's population looks set to contract by 3% or so by 2050, and the U.N. projects that Japan's population will fall by more

Africa has the strongest rate of population growth at present, and will continue to do so for the foreseeable future.

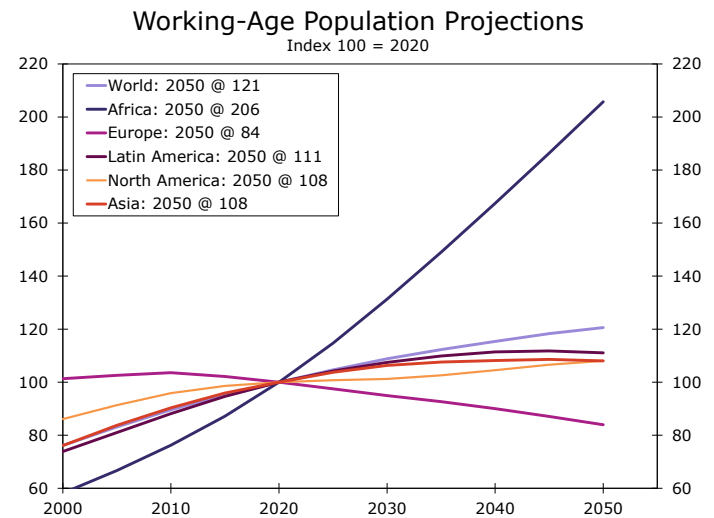
than 15% over the next 30 years. The number of individuals in Europe will also drop over the next few decades due in large part to significant population declines in many countries in Eastern Europe.

Figure 3



Source: United Nations and Wells Fargo Securities

Figure 4



Source: United Nations and Wells Fargo Securities

The growth rate of the working-age population (*i.e.*, individuals between 15 and 64 years of age) paints a picture for Africa that is even more compelling than total population growth. As shown in [Figure 4](#), the U.N. expects that the working-age population in Africa will more than double by mid-century. This sharp increase in the number of working-age individuals reflects the elevated birth rate in Africa. There were about 38 births per 1000 individuals in Africa at the turn of the 21st Century (the comparable rate in the United States at that time was only 14), and the U.N. projects that the African birthrate will remain relatively high at 27 per 1000 individuals at the end of the 2030s.

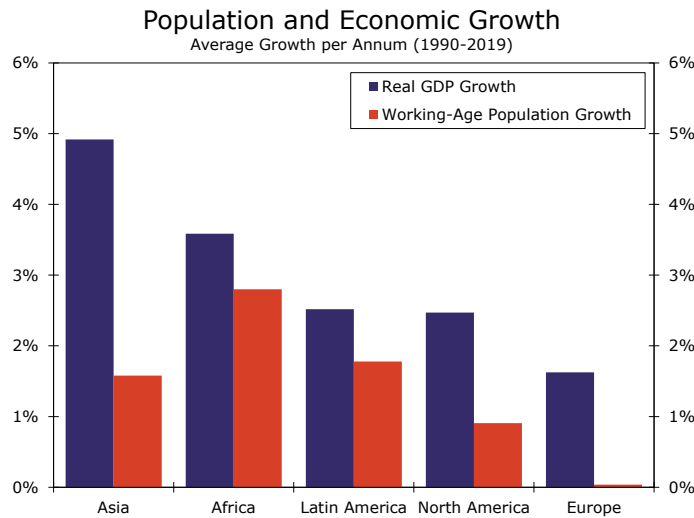
Does Strong Population Growth Necessarily Imply Strong Economic Growth?

Due to these demographic projections, one could possibly infer that Africa is poised to be an economic powerhouse over the next few decades. [Figure 5](#) shows that rates of real GDP growth tend to be correlated with population growth rates. Africa's working-age population grew at an annual average growth rate of 2.8% between 1990 and 2019, and its 3.6% per annum economic growth rate over that period was the second strongest among the five major regions of the world. On the other end of the spectrum, the working-age population in Europe was more or less flat on balance over the past three decades, and Europe's 1.6% per annum GDP growth rate was the slowest among the regions.

However, Asia boasted the strongest economic growth rate over the period despite the relatively slow growth rate in its working-age population. Clearly, long-run economic growth must be determined by more than simply population growth. As we noted in Part I, an economy's long-run potential growth rate is essentially the sum of its labor force growth rate and its rate of labor productivity growth. There are many factors that determine productivity growth, but capital accumulation and technological change are some of the most important determinants. Africa may possess a strong rate of labor force growth in coming years, but the outlook for the continent's productivity growth rate is more uncertain.

Rates of real GDP growth tend to be correlated with population growth rates.

Figure 5



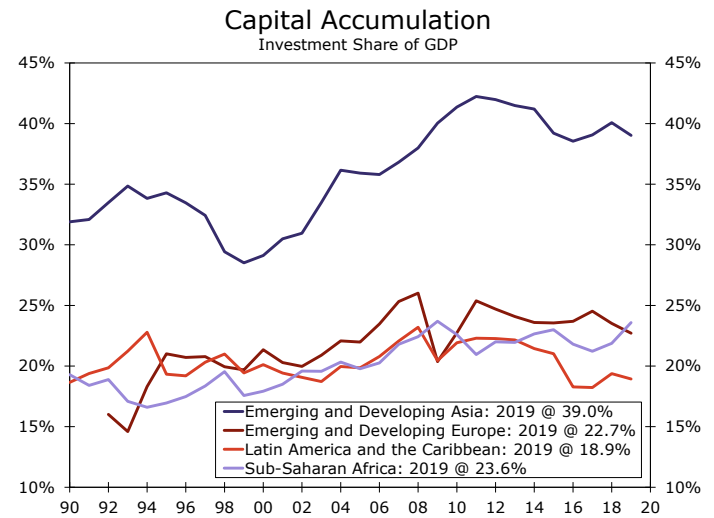
Source: United Nations and Wells Fargo Securities

Asia's robust rate of economic growth over the past few decades has been determined, at least in part, by its strong rate of capital accumulation that has led to strong productivity growth. As shown in [Figure 6](#), the investment-to-GDP ratio in Emerging and Developing Asia has averaged 35% over the past three decades. Although the outsized rate of investment spending in China has helped boost the overall ratio for the region, many other Asian economies have also registered strong rates of capital accumulation. In contrast, the ratios for Emerging and Developing Europe, Latin America and sub-Saharan Africa have averaged only 20% or so. Looking to the immediate future, the International Monetary Fund forecasts that these ratios will remain more or less unchanged through the middle part of the current decade. Capital accumulation in these regions will need to strengthen considerably over the next decade or two for these regions to enjoy Asia-like rates of economic growth.

In that regard, the investment-to-GDP ratio in China has averaged 40% per year since 1990, which helps to explain the country's 9% per annum real GDP growth rate over that period. But unlike China, which is a sovereign nation with similar economic policies and institutions across its 31 provinces, municipalities and autonomous regions, Africa, Emerging and Developing Europe, and Latin America are collections of individual countries. According to the IMF's classification, there are 16 countries in Emerging and Developing Europe, 33 countries in Latin America and the Caribbean, and 45 countries in Sub-Saharan Africa. Each of these countries has its own set of economic policies and institutions. Just because, say, Nigeria adopts policies that deliver strong rates of economic growth in coming years does not necessarily imply that, say, Kenya will be able to do the same. Furthermore, it is not entirely clear which policies governments can implement to deliver strong rates of economic growth on a sustainable basis.

With a few notable exceptions, most of the 156 economies that the IMF classifies as "Emerging Market and Developing Economies" are small. For example, U.N. data show that Nigeria currently has a population of more than 200 million people, which makes it the seventh most populous country in the world. It is also Africa's single largest economy. However, the size of Nigeria's economy at present is less than \$500 billion, which represents only about 0.5% of global GDP. Even if the Nigerian economy were to grow at double-digit growth rates every year for the next decade or two, which clearly would be a good omen for the economic well-being of the residents of Nigeria, it would barely move the needle in terms of global GDP growth. Of the 25 largest economies in the world today, only two (Australia and Saudi Arabia) are expected to have population growth rates over the next 30 years that exceed the global average of 0.7% per annum. Among this set of 25 large economies, the population in 10 of them is projected to contract on balance over the next 30 years.

Figure 6



Source: International Monetary Fund and Wells Fargo Securities

Capital accumulation has been very strong in Asia.

With a few notable exceptions, most developing countries are small economies.

Conclusion

The world's population grew rapidly between the end of the Second World War and the beginning of the 21st Century, but growth has slowed over the past two decades. Looking forward, the U.N. projects that the number of people in the world will continue to grow through mid-century, albeit at a decreasing rate. Although Africa's population should continue to grow at a strong rate, Asia, Latin America and North America likely will experience significantly slower rates of population growth. The number on individuals in Europe is set to contract in the next few decades.

Although countries in Africa generally have the brightest outlooks in terms of population growth, they will need to raise their rates of capital accumulation, which would help boost productivity growth, if they are to experience truly spectacular rates of economic growth. But given their generally small size, strong rates of economic growth in individual African countries would not be a game changer in terms of global GDP growth, at least not in the foreseeable future. Contracting populations in some of the world's largest economies likely will exert headwinds on global GDP growth, everything else equal, in coming years. We will address the demographic outlooks in some of these large economies, and their implications for economic growth, in future reports in this series.

Endnote

¹The U.N. includes Mexico in its population total for Latin America and the Caribbean rather than for North America. ([Return to text](#))

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