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The European Union in the world

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The euro-zone punches above its weight: 5% in world population, 15.8% in world GNP

The European Union is one of the world's economic powers, being a major player both in terms of trade and production. In the following paragraphs the European Union is compared with other leading countries and regions in the world. Population and GNP give an indication of size, whilst per capita GNP gives a measure of wealth and GDP growth describes economic development.

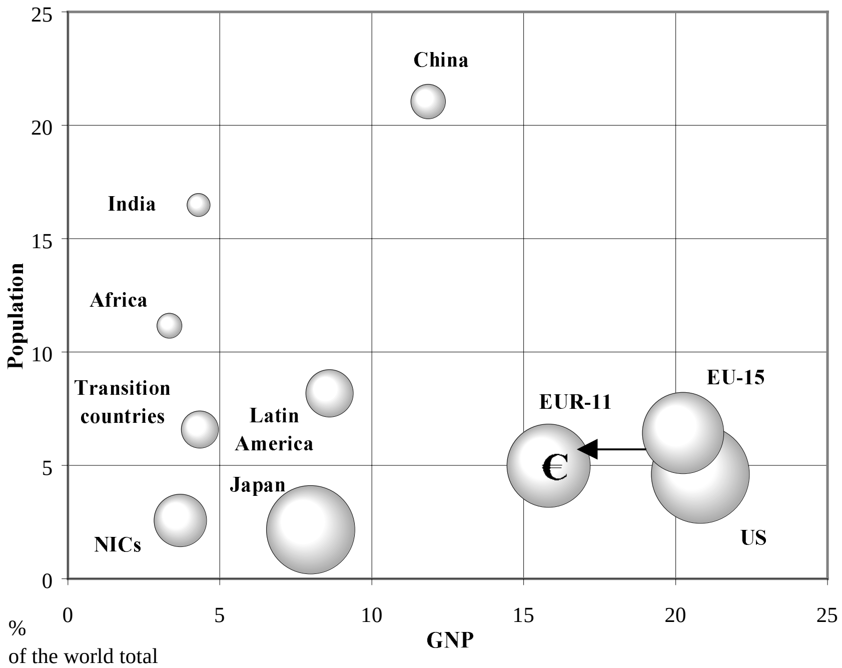

Figure 1: Size of world's main economies by GNP and by population

Reading note: X-axis shows the GNP shares in total for world while the Y-axis indicates the share in world population. The size of the bubbles is proportional to GNP per capita, in PPS.

Source: Eurostat, World Bank *World development report 1998.*

The euro-zone

On 1 January 1999 the euro became a reality as the single currency of eleven EU countries[1]. In order to situate the euro-zone in the world, two main indicators have been used: population and GNP.

The population of the 11 Member States of the European Union participating in the euro represents 5% of the world total, i.e. 1/20. When compared with major countries and regions, euro-zone's **population** as a share of the world's is comparable to that of the USA (4.6%) and more than twice Japan's (2.2%). In all it is equivalent to one-tenth of the total population of Asia, a quarter of China's or a third of India's.

[1] *The euro-zone (EUR-11) consists of the following countries: Belgium, Germany, Spain, France, Ireland, Italy, Luxembourg, the Netherlands, Austria, Portugal and Finland.*

If we consider its importance in world **GNP**, euro-zone's share (15.8%) is more than three times its share of population. The GNP generated in the 11 euro countries is proportionately three-quarters of that produced in the United States (20.8%), and nearly twice Japan's (8.0%).

Compared with Asia, although in population terms the imbalance is great, euro-zone's GNP differs by only 1 percentage point. Euro-zone's GNP is 1.8 times higher than Latin America's, and almost five times the GNP produced in the entire African continent.

The euro-zone is represented among the biggest, the richest and the fastest-growing countries in the world. Germany is a major country in terms of GNP, Luxembourg is the richest country in terms of GNP per head and Ireland recorded the eighth highest GDP growth rate during 1990's.

The biggest….

If we consider a country's size in terms of **population**, China is by far the world's leading country, accounting alone for more than a fifth of world total. China and India together account for nearly 38% of total world population. The European Union and US follow, representing most populous advanced countries; but together they cover only 11% of world population.

If, instead, we consider **production**[(1)] (GNP) as the benchmark defining "big" countries, the rankings change radically: The United States occupies top position, accounting for little more than a fifth of world GNP, China slips to third place and India to sixth. Japan produces the fourth largest GNP but comes only ninth in terms of population.

The **European Union** produces 20.2% of total world GNP, second only to the United States (20.8%). Among EU countries, Germany has the highest quota (4.7%), France, United Kingdom and Italy follow at around 3% (3.5%, 3.3% and 3.1% respectively). The European Union has 6.4% of total world population, more than the US and nearly three times as many as Japan.

When we consider the **advanced countries**[(2)] and the rest of the world**,** the picture is quite striking: population distribution is fairly well balanced, but GNP shares are very unbalanced. The 32 "advanced" countries produce around four-fifths of total world GNP; in other words almost half the population (40%) produces only one fifth of total wealth.

Notably, the **seven leading economies** (G7) alone produce around half of world GNP (45.2%), although they represent less than 12% of world population.

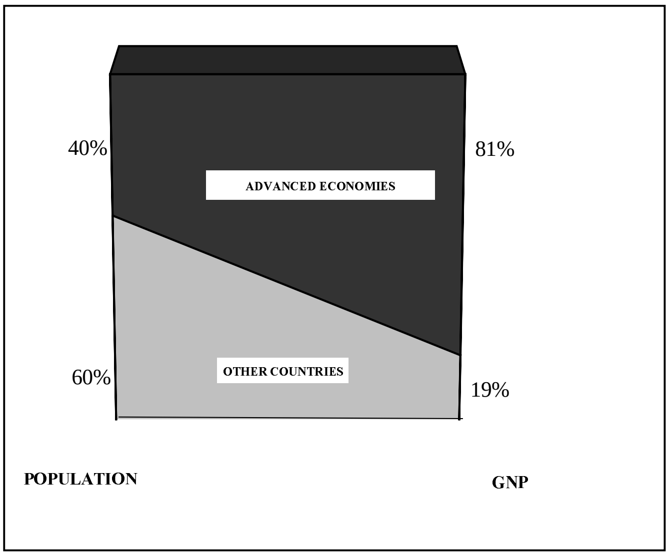

Figure 2: Distribution of GNP and population (as a % of the world total)

Source: Word Bank, *World development report 1998.*

The gap between the weight in terms of GNP and population is widest in **Asia.** In 1997 the Asian countries[(3)] had nearly half the world population (49.1%) but the region's production was less than a fifth of the world total (16.3%). The newly industrialised Asian economies (NIC1 and NIC2)[(4)] accounted for just 3.7% of world GNP and 2.6% of world population.

Latin America, as a whole, accounts for around 8%, both in population (8.2%) and GNP (8.6%). The region's four emerging economies (Argentina, Brazil, Chile and Mexico) account for four-fifths of total Latin American GNP, and 6.3% of total world GNP.

[(1)] *In order to measure countries output, GDP (Gross Domestic Product) is usually preferred. Because of lack of updated figures, in this case output is indicated by GNP (Gross National Product), converted into international dollars using the purchasing power parities (PPPs).*
[(2)] *Advanced countries are the 29 OECD member countries plus Hong Kong, Singapore and Israel. The rest of the world is included in Other countries.*
[(3)] *Excluding Japan.*
[(4)] *Newly industrialized countries (NICs) include Hong Kong, Singapore and South Korea (NIC1) and Malaysia, Philippines and Thailand (NIC2); no data are available for Taiwan.*

The **transition countries** are home to 6.6% of world population, (similar to the European Union's share), but their GNP is barely a fifth of the EU's. The Russian Federation is the most populous country, easily exceeding the aggregate of the 10 Central and East European countries involved in the process of accession to the EU[1]. When comparing GNP, the shares of world total come closer: The Russian Federation accounts for 1.7% of world GNP, and Candidate countries 1.5%.

Finally, **Africa** shows a large gap between GNP and population shares: population is a substantial 11.2% of total world population, but the share of GNP produced in the entire African continent is a mere 3.3%. Among African countries, South Africa is the largest in terms of GNP, producing less than 1% of world GNP.

	GNP	POP
Advanced economies	***59.8***	***19.1***
Other countries	***40.2***	***80.9***
G7	**45.2**	**11.7**
EU-15	**20.2**	**6.4**
Germany	4.7	1.4
France	3.5	1.0
Italy	3.1	1.0
EUR-11	*15.8*	*5.0*
United Kingdom	3.3	1.0
US	20.8	4.6
Japan	8.0	2.2
Asia	**16.3**	**49.1**
NICs	*3.7*	*2.6*
China	11.9	21.0
India	4.3	16.5
Oceania	**1.2**	**0.4**
Countries in transition	**4.3**	**6.6**
Russian Federation	1.7	2.5
CCs	*1.5*	*1.4*
Latin America	**8.6**	**8.2**
L.A. emerging countries	*6.3*	*5.3*
Africa	**3.3**	**11.2**
South Africa	0.7	0.8

Table 1: Size of main economies by GNP (in PPS) and by population (as a % of the world total)

Source: Eurostat, World Bank *World development report 1998*

The richest….

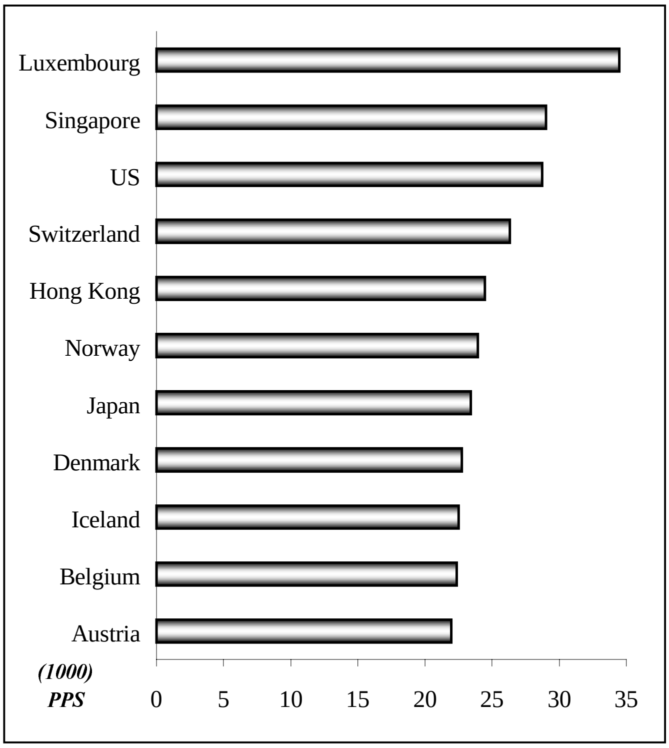

Figure 3: Ten highest GNP per head (in PPS) in the world, 1997

Source: World Bank *World development report 1998*

Per capita GNP is a broad measure of wealth. According to the World Bank classification, Luxembourg is the wealthiest country in the world, followed by Singapore. This ranking seems to suggest that "small is good" - in fact, excluding the USA and Japan, all the wealthiest countries have less than 10 million population.

Four Member States of the European Union are in the top ten: Luxembourg (as noted), Denmark, Belgium and Austria. As a whole the Union comes in 20th position, while **euro-zone** gains four places and comes 16th among the world's richest countries.

Only two of the ten richest countries, the United States and Japan, are major industrial powers. The remaining G7 countries are ranked between 11 and 20, the order being Canada, France, Germany, United Kingdom and Italy.

Asia has two of the highest per capita GNP, Singapore and Hong Kong. The next is Korea, ranked 28. **Latin America's** first appearances in the list are Chile (27) and Argentina (30). Slovenia and the Czech Republic are the leading **East European** countries (26 and 28 respectively). The first **African** country is well down: South Africa (37).

[1] *Candidate countries (CCs) are Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia and Slovenia. No data are available for Cyprus.*

Wide differences can be seen within geographical. Asia as a whole shows the widest difference by far, with Singapore and Bangladesh at the extremes. Between NICs and the rest of Asia[1], it can be noted that widest gaps are between newly industrialised countries; per capita GNP recorded in Singapore is 4.5 times Thailand's.

The Middle East also presents very wide differences, with the extremes of per capita GNP in Israel and Yemen. The gap is less narrow in Africa, with the largest disparity between South Africa and Ethiopia.

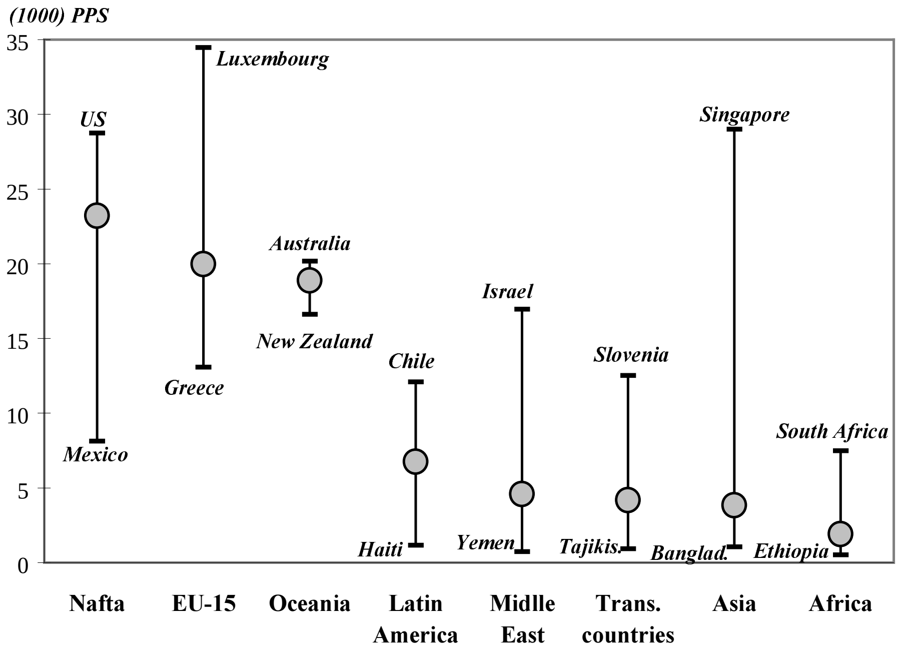

Figure 4: GNP per head, 1997 (main geographical areas - highest/lowest)

Reading note: the grey markers show figures for geographical areas, the extremities of the lines show maximum and minimum value. The size of the lines shows the variance range.
Source: Eurostat, World Bank *World development report 1998.*

The fastest-growing …

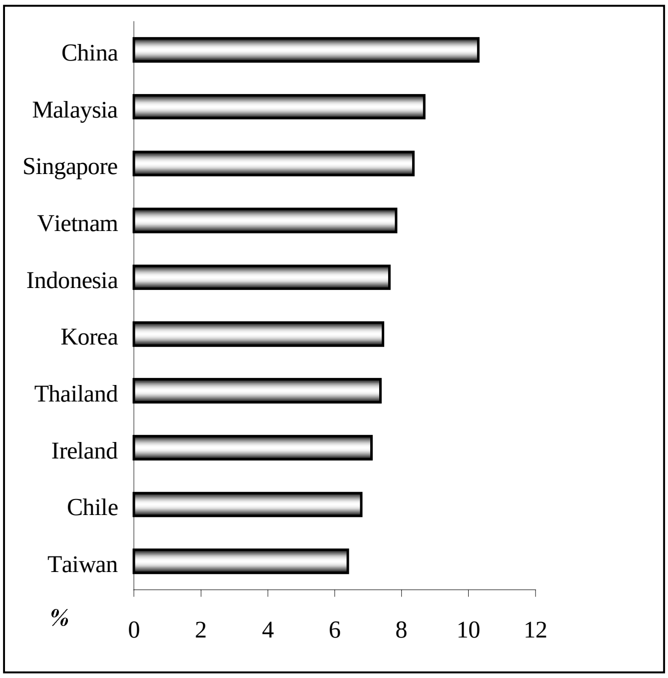

Figure 5: Ten fastest-growing in the world
(1990/97 average growth rate)
Source: Eurostat, IMF *World Economic Outlook, May 1998*

When by "fast" we mean GDP[2] growth rates during 1990's, the world's leading country is China (+10.3% average growth over 1990/97). Malaysia and Singapore follow with comparably robust average rates of +8.7% and +8.4%.

Eight of the top ten fastest-growing economies are in Asia, though recent turmoil suggests that the figures will change. Europe is represented in the top ten by Ireland at +7.1% average growth, and Latin America by Chile at +6.8%.

In the **Middle East,** Lebanon (+7.4%) has the highest GDP growth; Israel recorded +5.4% over the period 1990/97. Among **African countries**, Lesotho and Uganda grew fastest, both around +6%; South Africa managed only +1.1%.

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[1] *Excluding Japan.*
[2] *In this case GNP was not appropriate, since it is not available at constant prices. For GDP we refer to IMF World Economic Outlook, May 1998.*

When comparing the world's main countries (the EU, US and Japan) and groups of emerging countries (NICs and emerging Latin American economies), trends vary widely. During the 1990s the Asian NICs recorded by far the highest GDP growth rates; and the recent crisis cannot yet be detected in available data. The emerging economies of Latin America approached the NICs' growth rate only in 1994, immediately after which they suffered the 1995 economic crash– the "tequila effect".

After recovering from economic slowdown, in 1997 Japan entered a recession from which it has not yet emerged. The US and the European Union show the most stable and positive trend in recent years, although both have recorded negative results (in 1991 for the USA and 1993 for the Union).

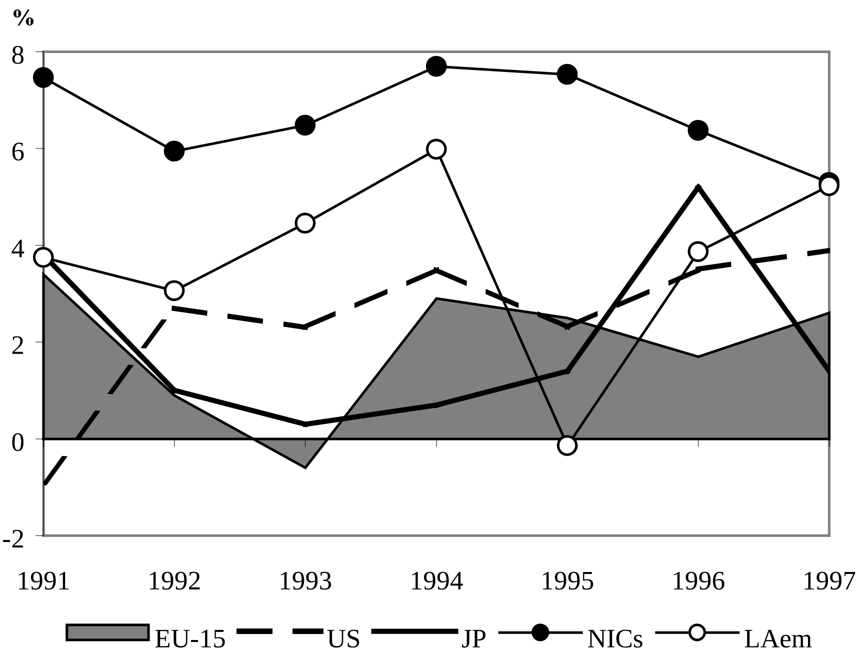

Figure 6: GDP growth rates during 1990's.

Reading note: NICS are Newlly Industrialized Asian countries and LA em are Latin Emerging Countries. See footnote 4 p.2

Source: Eurostat, IMF *World Economic Outlook May 1998*.

Components of GDP

If demand is divided into its main components, the first fact that is immediately apparent is that private consumption is the primary component everywhere in the world[(1)], apart from Singapore. Another fact that emerges is the directly proportional relationship between private consumption and a country's wealth. Unlike the uniformity of private consumption's share of GDP, there is wide variation in the share of government consumption and investments.

When the **European Union** is compared with its major trading partners, government consumption (GC) was fairly high as a proportion of GDP in comparison with the **United States** and Japan in 1997. In the case of the former, private consumption (PC) ranked first, while for **Japan** it was investments (I) that took first place. When a similar comparison is made with the new areas of economic development, the emerging countries of Latin America stand out with regard to private consumption, the Asian NICs for investments and the Candidate countries for government consumption.

(1) The "world" refers to the 130 countries mentioned in the World Bank's World development report 1998.

A look at the individual Member States of the European Union shows that private consumption and also investments account for the highest shares of GDP in Greece and Portugal. In the Nordic countries (Denmark, Finland and Sweden) and the United Kingdom, however, government consumption ranks first as a share of national output.

Among the **Latin American countries** that have been selected, the pattern of GDP is broadly similar, although private consumption figures fairly prominently in Argentina, with government consumption in Brazil and investments in Chile featuring in the same way.

The structure of GDP varies in the **newly industrialized countries of Asia**, however. Private consumption as a proportion of GDP ranges from 72% in the Philippines to only 39% in Singapore. Indeed, as pointed out earlier, Singapore is the only country where private consumption is not the main component of GDP, and investments are in fact relatively more important. A common feature of all the Asian NICs is the significance of investments; in all these countries, apart from the Philippines, gross fixed capital formation accounts for more than a third of GDP.

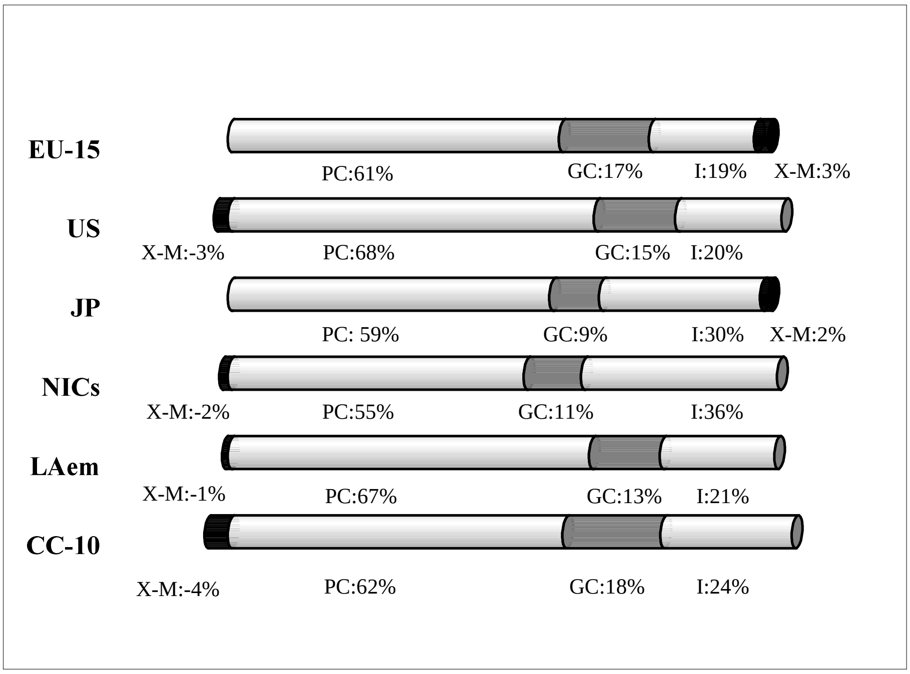

Figure 7: Demand structure in 1997 (as a % of GDP)

Source: Eurostat, World Bank *World development report 1998.*

Another major feature that emerges from an analysis of GDP components is the contribution that they make to overall growth. In the **European Union**, as in all the other countries considered, private consumption has been the main component of growth throughout the 1990s, accounting for 65% of growth in GDP. The trade balance ranks second as a contributor to growth, accounting for 15%.

In the **United States** the main impetus for growth in the period 1990-97 came from private consumption, although investments also had a considerable impact; government consumption was completely neutral, and the trade balance had a negative impact. Private consumption was also a major factor in **Japan**, but the other components of GDP also provided fairly even contributions to growth.

One interesting feature is how the various components influenced growth in the countries with the highest rates of growth in the 1990s. In both Asia and Latin America private consumption provided the biggest impetus to growth. The effect of the other components varied, however: in the **Asian NICs** investments had a much greater impact than the other components, while in the **emerging countries of Latin America** government consumption and investments were more or less equal in their contribution to growth. Another difference was the effect of the trade balance: in both cases it was negative, but for the Latin American countries the increasing trade deficit proved a major barrier to growth in GDP.

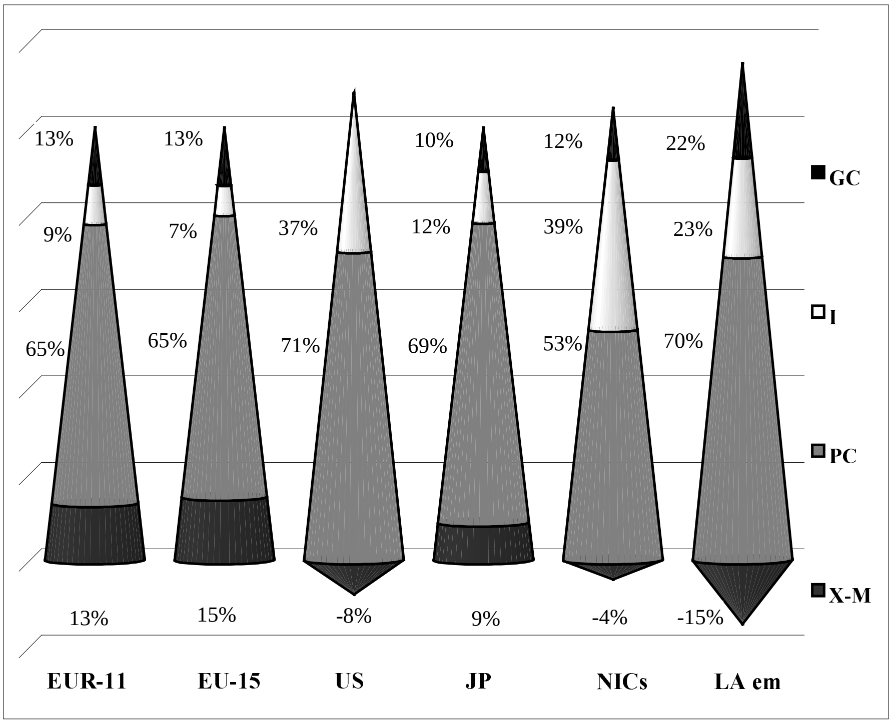

Figure 8: Contribution to GDP growth 1990/97 (as a % of total growth rate)

Note: no data is available for Candidate countries.
Source: Eurostat, IMF *World Economic Outlook May 1998.*

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