The World's Top 10 Economies

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When it comes to the top 10 national economies around the globe, the order may shift a bit, but the key players usually remain the same, and so does the name at the head of the list. The United States has been the world's biggest economy since 1871. But that top ranking is now under threat from China.

The Top 10 Economies in the World

Note: This list is based on IMF's World Economic Outlook Database, October 2016. Select data is from the CIA World Factbook.

1. United States

The U.S. economy remains the largest in the world in terms of nominal GDP. The $18.5 trillion U.S. economy is approximately 24.5% of the gross world product. The United States is an economic superpower that is highly advanced in terms of technology and infrastructure and has abundant natural resources. However, the U.S. economy loses its spot as the number one economy to China when measured in terms of GDP based on PPP. In these terms, China's GDP is $21.3 trillion and the U.S. GDP is $18.5 trillion. However, the U.S. is way ahead of China in terms of GDP per capita (PPP) – approximately $57,294 in the U.S. versus $15,423 in China.

2. China

China has transformed itself from a centrally-planned closed economy in the 1970s to a manufacturing and exporting hub over the years. Since it initiated market reforms in 1978, the Asian giant has achieved economic growth averaging 10% annually (though it's slowed recently) and, in the process, lifted almost half of its 1.3 billion population out of poverty and become the undisputed second-largest economy on Earth. The Chinese economy has already overtaken the U.S. economy in terms of GDP, based on another measure known as purchasing power parity (PPP), and is estimated to pull ahead of the U.S. steadily in the following years. However, the difference between the economies in terms of nominal GDP remains large with China's $11.3 trillion economy. The Chinese economy has long been known for its strong growth, a growth of over 7% even in recent years. However, the country saw its exports projected to grow only by 1.9% in 2016, and total GDP growth has gone down to 6.5% and is projected to slow to 5.8% by 2021. The country's economy is propelled by an equal contribution from manufacturing and services (45% each, approximately) with a 10% contribution by the agricultural sector. In its October 2012 World Economic Outlook report, the International Monetary Fund (IMF) projected that China's gross domestic product (GDP) would outpace that of the U.S. as early as 2017. The Organization for Economic Cooperation and Development (OECD) forecasts China's GDP (based on 2005 PPP) at $15.26 trillion for 2016, exceeding the forecasted U.S. GDP of $15.24 trillion for the very first time.

3. Japan

Japan's economy currently ranks third in terms of nominal GDP, while it slips to fourth spot when comparing the GDP by purchasing power parity. The economy has been facing hard times since 2008, when it first showed recessionary symptoms. Unconventional stimulus packages combined with subzero bond yields and weak currency have further strained the economy (for related reading, see: *Japan's Economy Continues to Challenge Abenomics).* Economic growth is once again positive, to just over 0.5% in 2016; however it is forecasted to stay well below 1% during the next six years. The nominal GDP of Japan is $4.73 trillion, its GDP (PPP) is $4.93 trillion, and its GDP (PPP) per capita is $38,893.

4. Germany

Germany is Europe's largest and strongest economy. On the world scale, it now ranks as the fourth largest economy in terms of nominal GDP. Germany's economy is known for its exports of machinery, vehicles, household equipment, and chemicals. Germany has a skilled labor force, but the economy is facing countless of challenges in the coming years ranging from Brexit to the refugee crisis (for related reading, see: *3 Economical Challenges Germany Faces in 2016).* The size of its nominal GDP is $3.49 trillion, while its GDP in terms of purchasing power parity is $3.97 trillion. Germany's GDP (PPP) per capita is $48,189, and the economy has moved at a moderate pace of 1-2% in recent years and is forecasted to stay that way.

5. United Kingdom

The United Kingdom, with a $2.65 trillion GDP, is currently the world's fifth largest. Its GDP in terms of PPP per capita is $42,513. The economy of the UK is primarily driven by services, as the sector contributes more than 75% of the GDP. With agriculture contributing a minimal 1%, manufacturing is the second most important contributor to GDP. Although agriculture is not a major contributor to GDP, 60% of the U.K.'s food needs is produced domestically, even though less than 2% of its labor force is employed in the sector. After the referendum in June 2016 when voters decided to leave the European Union, economic prospects for the UK are highly uncertain, and the UK and France may swap places. The country will operate under EU regulations and trade agreements for two years after the formal announcement of an exit to the European Council, in which time officials will work on a new trade agreement. Economists have estimated that Brexit could result in a loss of anywhere from 2.2-9.5% of GDP long term, depending on the trade agreements replacing the current single market structure. The IMF, however, projects growth to stay between 1.05-1.09% in the next five years.

6. France

France, the most visited country in the world, today has the sixth largest economy with a nominal GDP of $2.48 trillion. Its GDP in terms of purchasing power parity is around $2.73 trillion. France has a low poverty rate and high standard of living, which is reflected in its GDP (PPP) per capita of $42,384. The country is among the top exporters and importers in the world. France has experienced a slowdown over the past few years and the government is under immense pressure to rekindle the economy, as well as combat high unemployment which stood at 9.8% in 2016 (a slight drop from 10.35% in 2015). According to IMF forecasts the country's GDP growth rate is expected to rise over the next five years, and unemployment is expected to continue to go down.

7. India

India ranks third in GDP in terms of purchasing power parity at $8.7 trillion, but its nominal GDP puts it in a seventh place with $2.25 trillion. The country's high population drags its GDP (PPP) per capita down to $6,658. India's GDP is still highly dependent on agriculture (17%), compared to western countries. However, the services sector has picked up in recent years and now accounts for 57% of the GDP, while industry contributes 26%. The economy's strength lies in a limited dependence on exports, high saving rates, favorable demographics, and a rising middle class. India recently overtook China as the fastest growing large economy.

8. Italy

Italy's $1.8 trillion economy is as of this writing the world's eighth largest in terms of nominal GDP. Italy is among the prominent economies of the Eurozone, but it has been impacted by the debt crisis in the region. The economy suffers from a huge public debt estimated to be about 133% of GDP, and its banking system is close to a collapse and in need of a bailout/bail-in. The economy is also facing high unemployment, but saw a positive economic growth in 2015 for the first time since 2011, which is projected to continue. The government is working on various measures to boost the economy that has contracted in recent years. The GDP measured in purchasing power parity for the economy is estimated at $2.22 trillion, while its per capita GDP (PPP) is $36,313.

9. Brazil

With its $1.77 trillion economy, Brazil now ranks as the ninth largest economy by nominal GDP. The Brazilian economy has developed services, manufacturing, and agricultural sectors, with each sector contributing around 68%, 26%, and 6% respectively. Brazil is one of the BRIC countries, and was projected to continue to be one of the fastest growing economies in the world. However, the recession in 2015 caused Brazil to go from seventh to ninth place in the world economies ranking, with a negative growth rate of 3.2%. The IMF does not expect positive growth until 2017, and the unemployment rate is expected to grow to over 11% during the same time period before it declines again. The Brazilian GDP measured in purchasing power parity is $3.1 trillion, while its GDP per capita (PPP) is $15,211.

10. Canada

Canada has recently pushed Russia off the top 10 list with a nominal GDP of $1.53 trillion. Canada has a highly service-oriented economy, and has had solid growth in manufacturing as well as in the oil and petroleum sector since the Second World War. However, the country is very exposed to commodity prices, and the drop in oil prices kept the economy from growing more than 1.2% in 2015 (down from 2.5% in 2014). The GDP measured in purchasing-power parity is $1.7 trillion, and the GDP per capita (PPP) is $46,239.

The nominal GDP of the top 10 economies adds up to over 66% of the world's economy, and the top 15 economies add up to over 75%. The remaining 172 countries constitute only 25% of the world's economy.

Will It Even Matter?

Only for bragging rights! With a population less than one-fourth that of China, the U.S. is still projected to remain one of the world's most prosperous economies in terms of per capita GDP, which reflects living standards and quality of life for a nation's residents. Even so, it throws an interesting light on the whole subject of GDP and global economies.

And Looking Forward …

Some other economies that are a part of the "trillion-dollar" club and have the potential to make it to the top 10 going ahead are South Korea ($1.4 trillion), Russia ($1.26 trillion), Australia ($1.25 trillion), Spain ($1.25 trillion), and Mexico ($1.06 trillion).

By the year 2020, a great shift is projected to occur in the worldwide balance of economic power. Most of the economies in the current top 10 list are developed countries in the western world. But analysts predict emerging market economies will become some of the most important forces in the next few years.

The Top Economies of 2021

The rising importance of emerging market economies in 2021 will have broad implications for the world’s allocation of consumption, investments and environmental resources. Vast consumer markets in the primary emerging market economies will provide domestic and international businesses with many opportunities. Although income per capita will remain the highest in the world's developed economies, the growth rate in per capita income will be much higher in major emerging market nations such as China and India.

According to projected nominal GDP, the top economies in 2021 will be China, the U.S., India, Japan, Germany, Russia, Indonesia, Brazil, the U.K. and France respectively. One of the major reasons for the growth of emerging economies is that advanced economies are mature markets that are slowing. Since the 1990s, the economies of advanced countries have experienced far slower growth in comparison to the rapid growth of emerging economies such as India and China. The worldwide financial crisis from 2008 to 2009 fueled the trend of decline among the advanced economies.

For example, in 2000 the U.S., the number one economy in the world, accounted for 24% of the world's total GDP. This declined to just over 20% in 2010. The financial crisis and a faster-paced growth by emerging economies were key factors in the decline of the U.S. economy in relation to China. In the mid-2000s, Japan’s economy saw a slight recovery after a lengthy period of inactivity that was due, at least in part, to inefficient investments and to the burst of the asset price bubbles. The global economic downturn has had a significant impact on the country because of prolonged deflation and the country’s heavy dependence on trade.

The economies of countries in the European Union, which include France, Italy and Germany, account for just over 20% of the world’s total GDP. This is a relatively large decrease from the year 2000, when these countries collectively held over 25% of the world’s GDP. The increase in average population age and rising unemployment rates is contributing to this slowdown.

Before the Brexit vote in late June 2016, the IMF issued a report warning the UK of the economical consequences of leaving the EU. Brexit aside, the IMF predicts advanced economies will experience a growth of less than 3% in 2020. Advanced economies are also facing challenges in terms of public debt reduction and government budget deficits. The IMF also forecasts that growth of Asian economies will be significantly higher, at approximately 9.5%, and it is one of the factors driving the worldwide economic recovery.

The Advance of Emerging Countries

Emerging economies are catching up with the progress of the advanced world and are predicted to overtake many of them by 2020. This will cause a substantial shift in the global balance of economic power. China's share of the world's total GDP increased more than 6% from 2000 to 2010. As already noted, by some calculations, China is already ranked as the largest economy in the world.

Many analysts foresee India surging in growth and taking over Japan's place as the third largest economy in the world by 2020. Some believe India may grow even more rapidly and push the U.S. into third place. Analysts point out India's young and faster-growing population as key factors in the rate of growth for this country's economy.

Russian and Brazilian growth potential is great, as both countries are two of the world's largest exporters of natural resources and energy. However, in the future, the lack of economic diversification in Russia may be likely to cause the country some difficulty with continued growth.

Analysts also expect that by 2020, Mexico will have the 10th largest economy by GDP measured at PPP terms. The country's proximity to the U.S., growing business and trade deals with the U.S. and a growing population will aid its economic development.

Implications of the Economic Shift

As household incomes rise and populations expand, the service and consumer goods markets will present exponential opportunities in emerging markets. More specifically, luxury goods will have opportunities in these markets as more families reach the middle class.

One of the biggest implications is the importance placed on younger consumers. Though in some emerging countries, including China, the population is aging, the populations of emerging markets are overall significantly younger than those of people in advanced economies. Young consumers also represent substantial power over purchases, particularly large items such as cars and homes, as well as the items needed to furnish homes.

Emerging countries are likely to become important foreign investors. The foreign investments they are responsible for making only serve to enhance their influence in the global economy. Investments from foreign countries, including those from advanced nations, will also flow more readily into these developing nations, further driving their economies toward future growth.

Why Is GDP Important?

The GDP of a country provides a measure of the total monetary value of all the goods and services it produces during a certain time period, most commonly a year. This is an important statistic that indicates whether an economy or growing or contracting. In the United States, the government releases an annualized GDP estimate for each quarter and also for an entire year; it makes a preliminary estimate, based on the initial information it has, and then makes a second estimate and a final one as more information flows in.

A country's GDP is essentially a measure of the health and size of its economy. Countries with healthy economies tend to produce more goods and have higher GDPs, and could therefore be said to be the most productive. A growing GDP represents expansion within a country's economy, signaling that it is in the process of becoming more productive.

Providing a quantitative figure for GDP helps a government make decisions such as whether to stimulate the economy by pumping money into it, in case the economy is not growing and needs such stimulus. And in case the economy is getting heated, a government could also act to prevent it from getting overheated.

Businesses can also use GDP as a guide to decide how best to expand or contract their production and other business activities. And investors also watch GDP since it provides a framework for investment decision-making.

Types of GDP

There are different ways to calculate GDP. Nominal GDP is the total value of all the finished goods and services produced within a country’s borders in a specific time period, evaluated at current market prices in its local currency. But GDP can also be calculated based on purchasing power parity (PPP), which is essentially the implied exchange rate at which the currency of one country would have to be converted into that of another country to buy an identical basket of goods and services in each. One of the best-known examples of PPP is the “Big Mac” index, published by The Economist magazine, which calculates simplified PPP exchange rates based on the popular McDonald’s sandwich. The biggest advantages of PPP exchange rates is that they have greater stability over time as compared to more volatile market exchange rates, and they provide a better estimate of consumers’ purchasing power in developing nations.

As a general rule, developed countries have a smaller gap between their nominal GDP (i.e., current prices) and GDP based on PPP. The difference is greater in developing countries, which tend to have a higher GDP when valued on purchasing power parity basis.

Another method of analyzing a country's productivity is by calculating its GDP per capita, which is accomplished by simply dividing its GDP by its population. This gives an indication of how productive, on average, each citizen is.

We interviewed supermodel Jessica Perez about launching her app “Tycoon”. Watch her story here.