Outperformers: High-growth emerging economies and the companies that propel them

ANU MADGAVKAR | PETERSON INSTITUTE FOR INTERNATIONAL ECONOMICS | WASHINGTON DC

October 17th, 2018
Eighteen emerging economies sustained growth higher than the advanced economies over long periods of time.

18 Outperformers surpassed high-income economy growth rates of GDP per capita over long periods of time

7 achieved >3.5% p.a. over 50 years

- China
- Hong Kong
- South Korea
- Singapore
- Malaysia
- Indonesia
- Thailand

11 achieved >5% p.a. over 20 years

Recent outperformers Outpaced US growth consistently from 1996–2016
- India
- Vietnam
- Cambodia
- Laos
- Myanmar
- Azerbaijan
- Belarus
- Kazakhstan
- Turkmenistan
- Uzbekistan
- Ethiopia
Most emerging economies showed low or inconsistent improvement relative to advanced economies, and a few lagged advanced economy growth rates over 50 years.

**Middlers (select examples)**
No or inconsistent improvement relative to the US from 1965–2016

- **Very recent accelerators**
  - Bangladesh
  - Ghana
  - Poland
  - Philippines
  - Peru
  - Rwanda

- **Consistent growers**
  - Chile
  - Colombia
  - Czech Republic
  - Egypt
  - Hungary
  - Morocco

- **Volatile growers**
  - Argentina
  - Brazil
  - Iran
  - Kenya
  - Mexico
  - Nigeria
  - Paraguay

**Underperformers (select examples)**
Slower relative growth than the US from 1965–2016

- Russia
- South Africa
- Ukraine
- Venezuela
- Zimbabwe
GDP per capita growth among outperforming economies has far exceeded that of other emerging economies.

**Archetype**
- **China**: CAGR 7.3%, 2016 GDP % share 13, Population % share 19
- **Long-term outperformers (e.g. Indonesia, Malaysia)**: CAGR 4.7%, 2016 GDP % share 5, Population % share 6
- **Recent outperformers (e.g. India, Vietnam)**: CAGR 6.0% (1965-1985), 2016 GDP % share 4, Population % share 22
- **High income**: CAGR 2.0%, 2016 GDP % share 59, Population % share 13
- **Other emerging economies**: CAGR 1.7%, 2016 GDP % share 16, Population % share 31

**GDP per capita**

Index: 100 = 1965

<table>
<thead>
<tr>
<th>Year</th>
<th>1965</th>
<th>70</th>
<th>75</th>
<th>80</th>
<th>85</th>
<th>90</th>
<th>95</th>
<th>2000</th>
<th>2016</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP</td>
<td>1,500</td>
<td>3,000</td>
<td>3,500</td>
<td>2,500</td>
<td>2,000</td>
<td>1,500</td>
<td>1,000</td>
<td>500</td>
<td>0</td>
</tr>
</tbody>
</table>

**Legend**
- Red line: China
- Blue line: Long-term outperformers (e.g. Indonesia, Malaysia)
- Light blue line: Recent outperformers (e.g. India, Vietnam)
- Green line: High income
- Orange line: Other emerging economies
A pro-growth agenda of productivity, income, and demand propelled the outperforming economies.

**Higher productivity**
- Capital accumulation added ~60% of total growth in Outperformers or 4–5 pp of per capita GDP growth each year.
- Total factor productivity added ~25% of total growth in Outperformers or 1–4 pp of per capita GDP growth each year.

**Strong and inclusive income growth**
- 4–5 pp higher annual wage growth and...
- 2–5 pp higher annual net income growth of large firms...compared to other emerging and high income economies.

**Boosting demand**
- ~3 pp higher annual consumption growth than other emerging economies.
- Achieved ~30% share of global goods trade and ~25% of global services trade.
Outperformers have adopted pro-growth mindsets and approaches through a variety of ways.

Engaged with firms to enable investment and competition

- Shaped growth agenda with the private sector
  - Malaysian Business Council
  - Singapore's economic policy board

- Provided support, linked to competitiveness
  - Companies merged for not meeting export targets in China, Singapore, South Korea

- Reduced tax distortions, obsolete regulations
  - Singapore, South Korea, Hong Kong in the top 5 on ease of doing business
  - Indonesia and China in the top 50

Improved government agility and capability

- Built agile experimentation skills
  - China's youdian daomian policy to ‘fan out from a point to an area’
  - Regulatory sandboxes in Singapore

- Tapped global expertise but tailored local solutions
  - India's early reforms in industrial licensing and banking
  - Ethiopia's state-led investment in key sectors

- Built a more able bureaucracy
  - South Korean bureaucrats sent to train at German factories
  - China rotating promising bureaucrats through functions

Improved government agility and capability

- Built agile experimentation skills
  - China's youdian daomian policy to ‘fan out from a point to an area’
  - Regulatory sandboxes in Singapore

- Tapped global expertise but tailored local solutions
  - India's early reforms in industrial licensing and banking
  - Ethiopia's state-led investment in key sectors

- Built a more able bureaucracy
  - South Korean bureaucrats sent to train at German factories
  - China rotating promising bureaucrats through functions
Large companies have been important to the growth of outperforming economies.

N = 25 economies; 6,474 companies

Ratio of large-company revenue and value added to GDP

%
Most emerging economies exhibit greater contested leadership among top firms.

Percent of firms remaining in top quintile of economic profit (2001-05 and 2011-15)

- Malaysia: 20%
- China & Hong Kong: 34%
- Canada: 36%
- South Korea: 43%
- Australia: 50%
- Japan: 58%
- India: 60%
- Germany: 62%
- France: 63%
- Switzerland: 63%
- USA: 68%
- UK: 76%
Top emerging economy firms are more innovative, globally oriented, proactive and nimble than high-income peers.

Comparison of self-reported performance and practices for top-performing firms across archetypes

<table>
<thead>
<tr>
<th></th>
<th>Sales from new products</th>
<th>Global expansion</th>
<th>Digital disruption proactiveness</th>
<th>Average investment speed</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>% of sales</td>
<td>% prioritizing expansion abroad</td>
<td>Percentage points</td>
<td>Number of weeks</td>
</tr>
<tr>
<td>Outperformers (China, India, Indonesia)</td>
<td>56</td>
<td>74</td>
<td>58</td>
<td>13</td>
</tr>
<tr>
<td>Non-outperformers (Brazil, South Africa)</td>
<td>51</td>
<td>60</td>
<td>19</td>
<td>11</td>
</tr>
<tr>
<td>High income (Germany, United States)</td>
<td>48</td>
<td>47</td>
<td>25</td>
<td>19</td>
</tr>
</tbody>
</table>

**Comparison of self-reported performance and practices for top-performing firms across archetypes**

- **Sales from new products**: Outperformers outperform non-outperformers and high-income peers by 8 percentage points (pp).
- **Global expansion**: Outperformers prioritize expansion abroad at a rate 27 percentage points (pp) higher than non-outperformers.
- **Digital disruption proactiveness**: Outperformers are 2.3 times more proactive than non-outperformers in adopting new technologies.
- **Average investment speed**: Outperformers complete new investments 6 weeks faster than non-outperformers.
Reliance Jio made rapid investment to become a market leader.

Reliance Jio’s capital investment by quarter outpaces its next largest competitor.\(^1\)

\[ \frac{4}{1} \]

\(^1\) Based on reports of planned investment for Reliance Jio for 1 quarter in 2017 of $2.8B, compared to reports of planned investment by Bharti Airtel of $2.5B for 2017-2018

SOURCE: Counterpoint Research Market Monitor Q1 2018; Photo credit: https://commons.wikimedia.org/wiki/File:Jio_Phone.svg
Transsion disrupted the African market by creating products that best served local customer needs.

46% 2017 market share in Africa

#1 in the African handset market

SOURCE: McKinsey Global institute; Transsion Holdings; IDC; Q4 2017 CMR Report; Literature review; Photo credit: https://upload.wikimedia.org/wikipedia/commons/a/a7/Dual-SIM-Handy.jpg
Looking ahead, emerging economies can grow trade increasingly amongst themselves.

### Goods trade by development status, %

<table>
<thead>
<tr>
<th>Year</th>
<th>South-South</th>
<th>China-South</th>
<th>China-North</th>
<th>South-North</th>
<th>North-North</th>
</tr>
</thead>
<tbody>
<tr>
<td>1995</td>
<td>3</td>
<td>8</td>
<td>29</td>
<td>55</td>
<td>5</td>
</tr>
<tr>
<td>2000</td>
<td>4</td>
<td>9</td>
<td>30</td>
<td>51</td>
<td>7</td>
</tr>
<tr>
<td>2005</td>
<td>6</td>
<td>12</td>
<td>31</td>
<td>43</td>
<td>11</td>
</tr>
<tr>
<td>2010</td>
<td>8</td>
<td>14</td>
<td>32</td>
<td>35</td>
<td>15</td>
</tr>
<tr>
<td>2016</td>
<td>10</td>
<td>16</td>
<td>30</td>
<td>33</td>
<td>16</td>
</tr>
</tbody>
</table>

### Change in value of trade, 1996–2016

- South-South: 6x
- China-South: 11x
- China-North: 6x
- South-North: 3x
- North-North: 2x

South-South and China-South share of global goods trade rose from 8% to 20%.
Automation could be an important source of labor productivity in emerging economies.

| Outperformers | China         | 1.2 | 20 |
|               | Indonesia     | 1.0 | 16 |
|               | India         | 0.8 | 12 |
| Non-outperformer emerging economies | Brazil       | 1.1 | 18 |
|                                          | Mexico        | 1.1 | 18 |
|                                          | Philippines   | 0.9 | 14 |
|                                          | Nigeria       | 0.7 | 11 |
|                                          | Kenya         | 0.5 |  7 |
| Global average                               | 0.8–1.4       | 15  |
With a boost in productivity, emerging markets can drive 72% of additional global growth and represent 55% of GDP by 2030.

Global GDP potential scenario
$ trillion, constant 2010 $
Sustaining recent momentum could help some emerging economies join the next wave of outperformers.

GDP per capita growth
CAGR 2011–16, %

- Countries with top quartile heat map scores and top quartile growth rates
  - Philippines
  - Sri Lanka
  - Bangladesh
  - Rwanda
  - Bolivia
  - Côte d’Ivoire
  - Dominican Republic

- Countries with top quartile heat map scores but lower growth
  - Tanzania
  - Paraguay
  - Mozambique
  - Kenya
  - Senegal
  - Colombia
  - Pakistan
  - Morocco
  - Nigeria
  - Peru
  - Ecuador

- Countries with second quartile heat map scores
  - Bolivia
  - Senegal
  - Bangladesh

Heat map score based on fundamental indicators, 2011–16
MCKINSEY GLOBAL INSTITUTE

Download MGI research at www.mckinsey.com/

@McKinsey_MGI
McKinseyGlobalInstitute