IN BRIEF

OUTPERFORMERS: HIGH-GROWTH EMERGING ECONOMIES AND THE COMPANIES THAT PROPEL THEM

Emerging economies are the engine of global growth, but the performance of individual economies varies considerably. In this research, we identify outperforming countries that have experienced strong and sustained growth, and focus on the economic policy choices and the often-overlooked contribution of large firms that have driven that growth. Key findings:

- Eighteen of the 71 emerging economies we studied outperformed global benchmarks and their peers by achieving more than 3.5 percent per capita GDP growth over 50 years or 5 percent growth over 20 years. They include long-term success stories such as China and Malaysia, recent high-growth economies such as India and Vietnam, and less heralded outperformers, including Ethiopia and Uzbekistan. These 18 countries have lifted about one billion people out of extreme poverty since 1990—730 million in China alone—and generated 44 percent of emerging market consumption growth between 1995 and 2016.

- Outperformers develop a pro-growth agenda across public and private sectors aimed at boosting productivity, income, and demand. Steps to boost capital accumulation, including (sometimes) forced savings, are a common feature, as are deep connections to the global economy. Governments in these countries have tended to invest in building competence, are agile and open to regulatory experimentation, and are willing to adapt global macroeconomic practices to the local contexts. Critically, their competition policies create an impetus for productivity growth, increased investment, and the rise of competitive firms.

- Large, competitive firms propel outperforming economies. On average, these economies have twice as many companies with revenue over $500 million as other emerging economies. Their revenue relative to GDP almost tripled from 22 percent between 1995 and 1999 to 64 percent between 2011 and 2016, and their contribution of value added to GDP rose from 11 percent to 27 percent in the same period, double the level among developing-economy peers. These firms bring productivity benefits by investing in assets, R&D, and job training, which create spillover effects for smaller firms. Large firms, in turn, benefit from the intermediary goods and services smaller companies provide through the supply-chain ecosystem.

- Competition and contested leadership in the private sector are key features of these dynamic economies, with the best-performing companies subject to fierce competition at home. Less than half (45 percent) of firms that reach the top quintile of economic profit generation manage to stay there for a decade, compared with 62 percent in high-income economies, a consistent pattern across eight sectors. The rewards for those that succeed are higher: the top 10 percent of firms in outperforming economies capture more than four times the share of economic profit as their peers in advanced economies.

- This competitive home environment has spawned innovative global players whose total return to shareholders is eight to ten percentage points higher than high-income peers. They derive 56 percent of their revenue from new products and services, eight percentage points more than advanced economy peers, and are 27 percentage points more likely to prioritize growth abroad.

- Extending the success of outperformers to all other emerging economies could add $11 trillion to the global economy by 2030, an approximately 10 percent boost equivalent to the size of China. Automation and shifting trade patterns, along with other global trends, present new opportunities. There are broad prospects for growth in services, a traditional engine of employment, and in manufacturing, which can also stimulate demand and productivity in other sectors. Despite evidence of premature deindustrialization, we estimate that some emerging economies could boost the share of manufacturing employment as much as four percentage points by 2030 while also increasing the sector's share of GDP by up to three percentage points.

- Success or failure has been regionally driven, as emerging economies are historically more alike regionally than in any other way. That said, every region has fast-growing countries and the potential to achieve better outcomes. Bangladesh, Bolivia, the Philippines, Rwanda, and Sri Lanka, among others, have exceeded 3.5 percent annual per capita GDP growth since 2011. Laying strong policy foundations and fostering the growth of large firms could elevate these and other countries to the ranks of future outperformers.

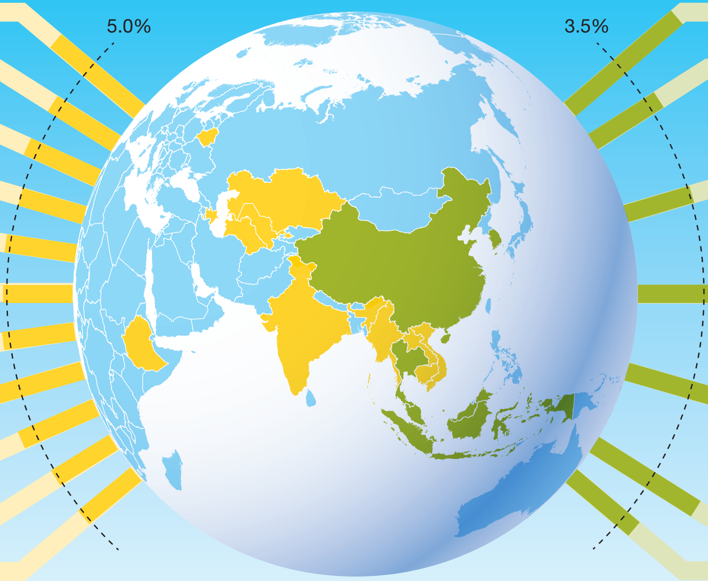
Lessons from outperformers

Of 71 emerging economies studied, 18 achieved rapid, sustained growth

11 Recent outperformers achieved
GDP per capita growth of more than 5.0% annually for 20 years

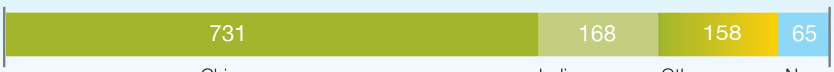
Long-term outperformers achieved 7
GDP per capita growth of more than 3.5% annually for 50 years

Azerbaijan
Belarus
Cambodia
Ethiopia
India
Kazakhstan
Laos
Myanmar
Turkmenistan
Uzbekistan
Vietnam



China
Hong Kong
Indonesia
Malaysia
Singapore
South Korea
Thailand

Outperformers lifted 1 billion people out of extreme poverty in two decades, 95% of total
People lifted out of extreme poverty, million



Two factors driving outperformance

A pro-growth policy agenda ...

Measures that supported capital accumulation and ensured stability helped create a pro-growth agenda

Productivity
- Promoting competition
- Increasing total factor productivity

Income
- 3–5pp faster annual wage growth
- ~60% of growth in consuming classes in emerging economies

Demand
- ~30% of global goods trade in 2016
- 3pp faster annual consumption growth
- Rank highly for global connectivity

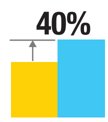
... and highly competitive large companies

Outperformers' large firms are:

More numerous
2x as many large firms for size of the economy compared with other emerging economies

More contested
55% of firms in top quintile are displaced from their ranks within a decade vs only 38% of peers in advanced economies

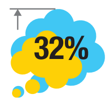
Outperforming rival firms in high-income countries

More successful


higher total return to shareholders

Bolder innovators


more sales from new products

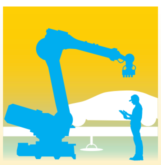
Quicker decision makers


faster investment decisions

Aggressive growers


more cite entering new markets abroad as priority

Three global trends that can help all emerging economies achieve stronger growth



Rapidly evolving technology
Automation could increase labor productivity in emerging economies by 0.8–1.2%

Rising consumption from urbanization
Consuming class in 440 cities could account for almost 50% of global GDP growth by 2025

Growing south–south trade
11x increase in trade between China and other emerging markets between 1995 and 2016

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