



# Productivity, competitiveness and innovation: Lesson's learned from twenty years of MGI research

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**McKinsey Global Institute**

G-24 Technical Group meeting  
March 21, 2013

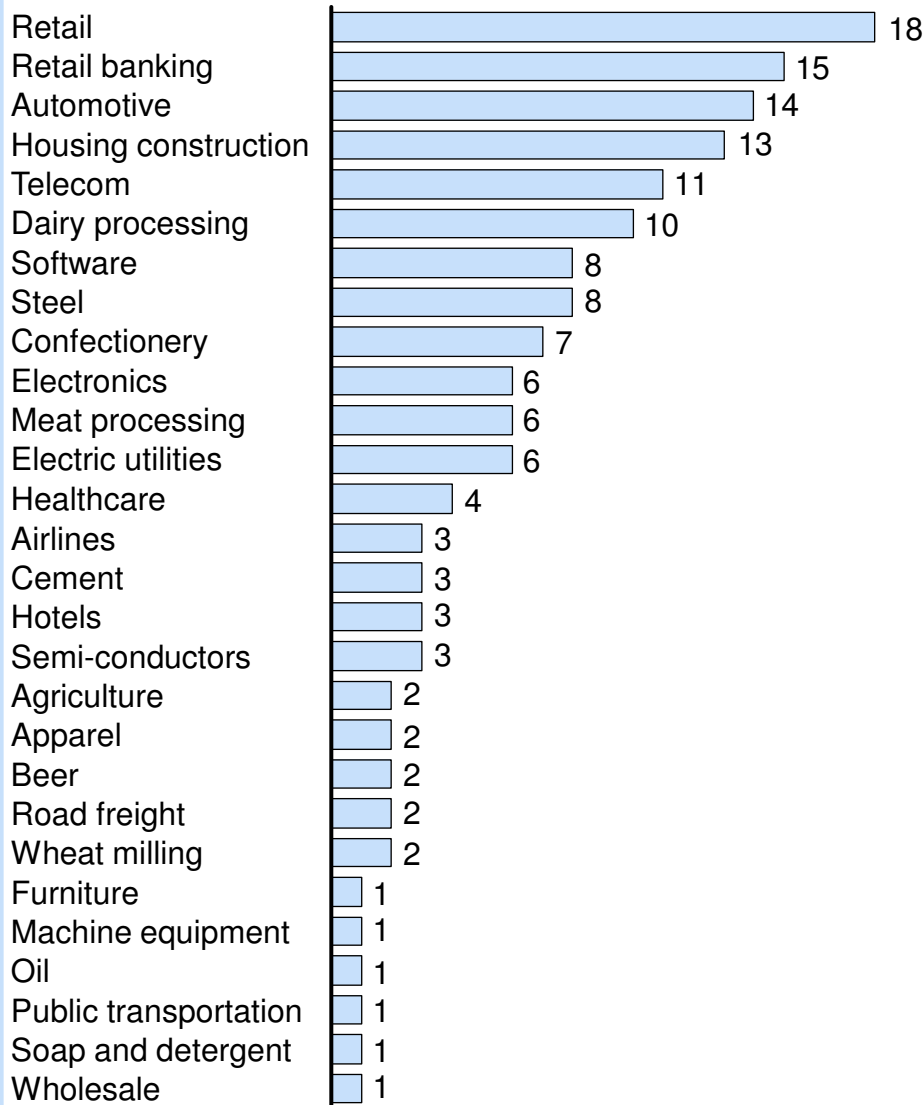
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# McKinsey Global Institute

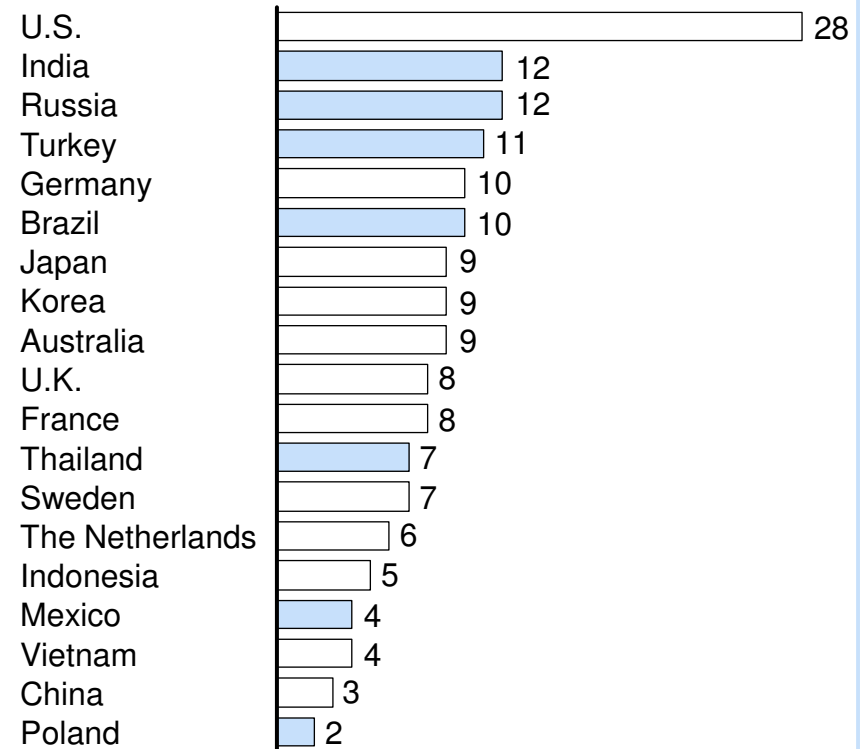
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- The **McKinsey Global Institute (MGI)**, founded **in 1990**, is McKinsey & Company's business and economics research arm
  - MGI's research is a **unique combination of two disciplines: economics and management**. By integrating these two perspectives, MGI is able to gain insights into the microeconomic underpinnings of the broad trends shaping the global economy
  - MGI's research is **funded by the partners of McKinsey & Company** and not commissioned by any business, government, or other institution

# Wealth of accumulated knowledge on country and industry performance

Number of times sector has been studied by MGI



Number of sectors studied by country



# Contents



## **Productivity – the engine of growth**

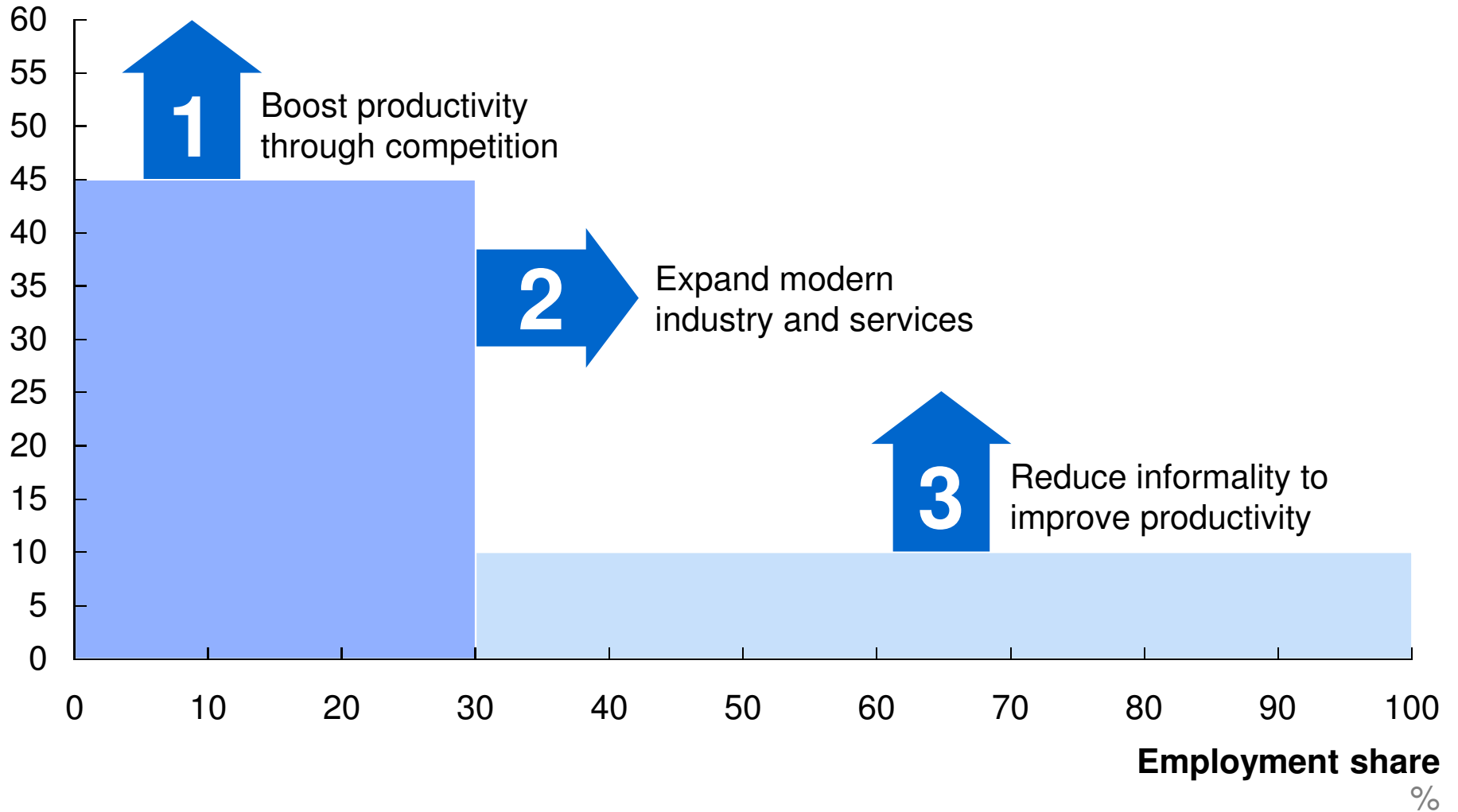
Competitiveness – a sector story

Innovation – the opportunity

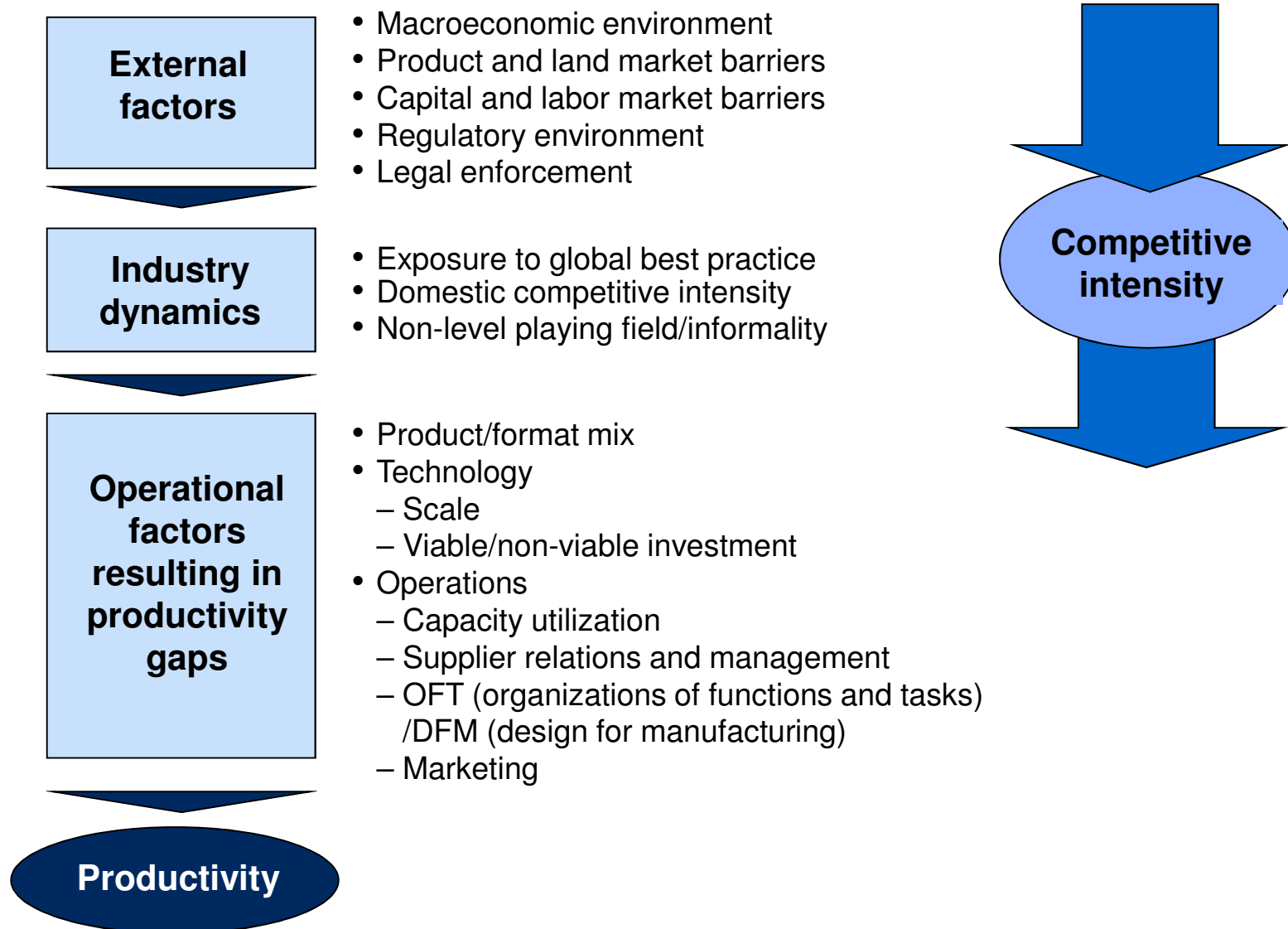
# Three steps to higher productivity

ILLUSTRATIVE

## Labor productivity



## MGI approach identifies causes behind productivity differences



# Range of regulatory barriers to higher productivity and employment in retail

## Impact on retail sector productivity

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### Land market regulations

- Unclear land titles and red tape create barriers to entry and business turnover (India, Poland, Russia)
- Zoning laws and large-scale retail restrictions limit growth of large-scale players (Japan, France, Korea)

### Unequal law enforcement

- Limit growth of more productive formal players (Russia, Brazil, Turkey)
- Reduce incentives for informal player growth and productivity improvements (Brazil, Turkey)

### FDI restrictions

- Reduce competitive intensity among domestic players (India, Korea)
- Restrict access to best practice managerial and operational practices (India, Korea)

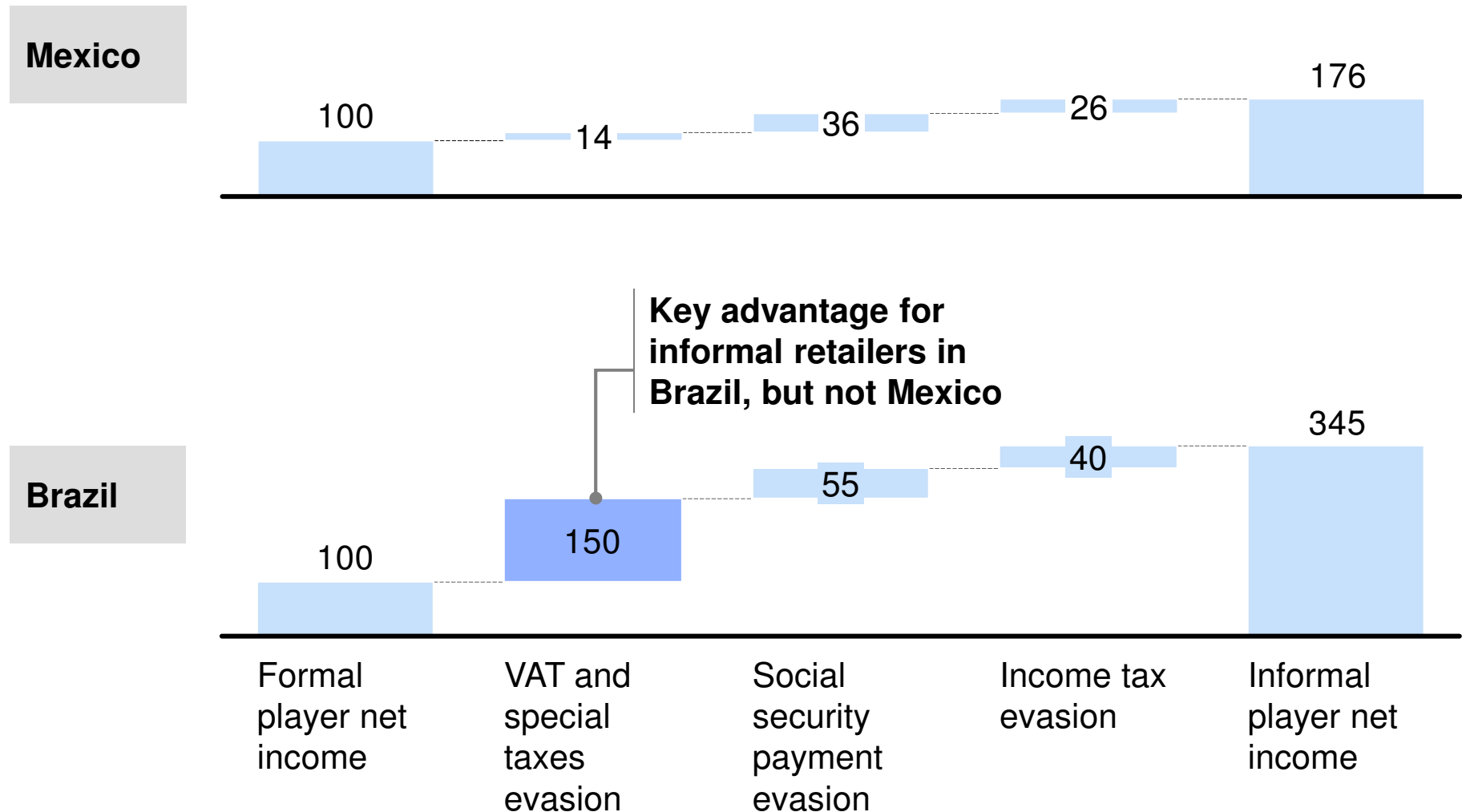
### Other

- Minimum wage and labor security reduce incentives to provide high service formats (France, Sweden)
- Hours restrictions limit service level (Germany)
- Price restrictions reduce competitive intensity (France\_

# Large tax benefits to informality in Brazilian food retail

ROUGH ESTIMATE

Indexed to formal sector net margin = 100

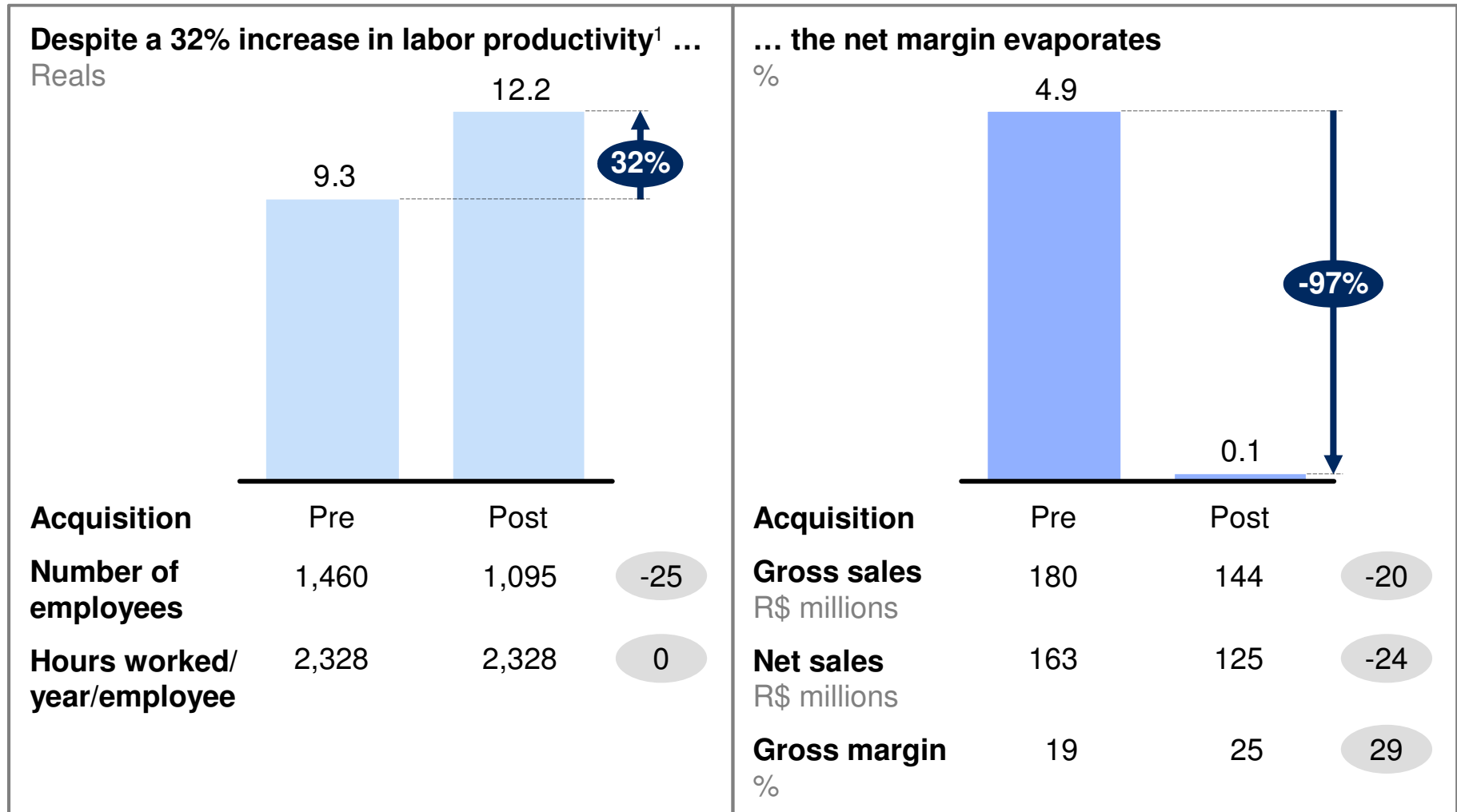


Note: Analysis modeled for a representative supermarket—informal sector assumption is that 30 percent net sales and employee costs go unreported.



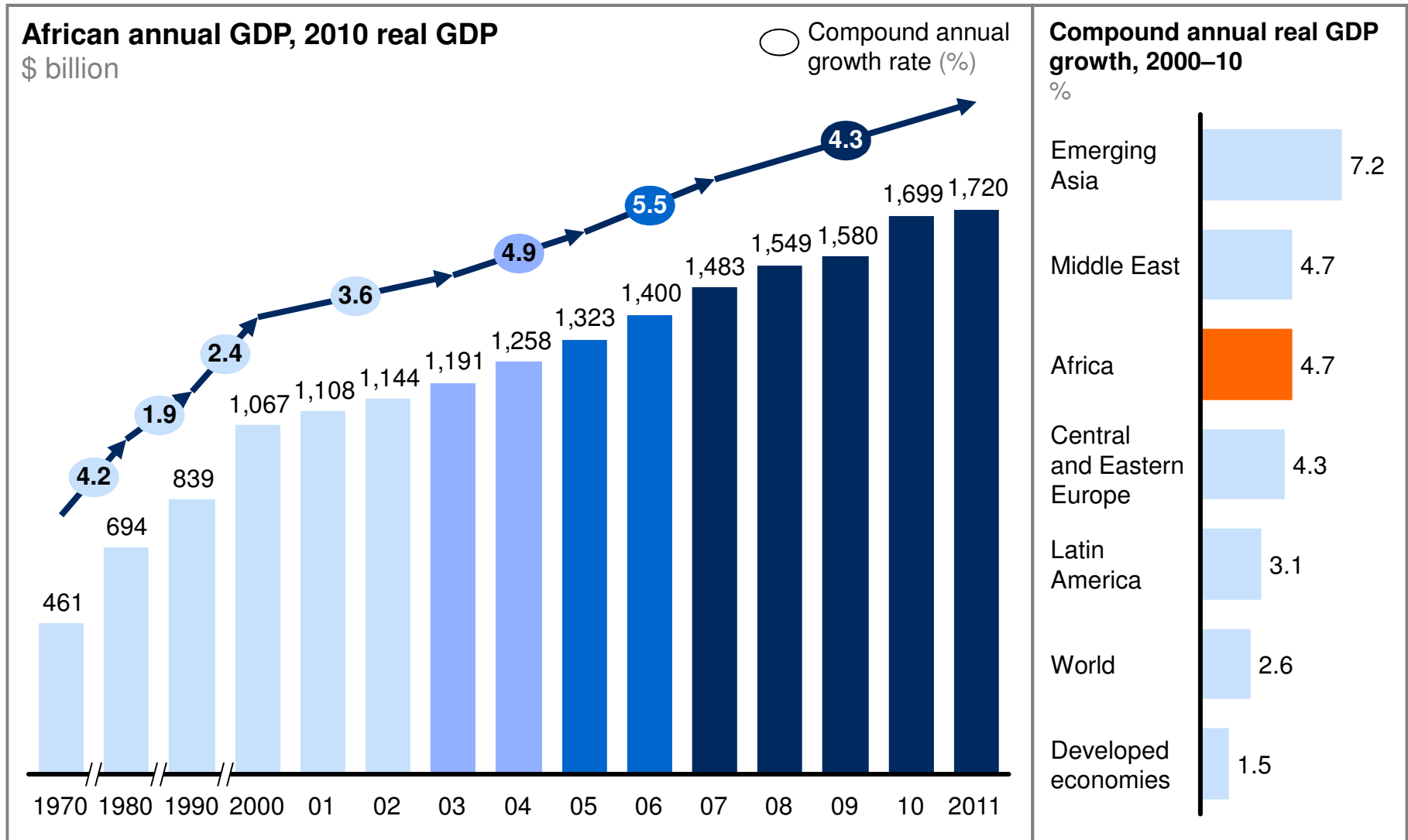
# Formal players cannot grow by acquiring informal competitors

● Percent change



<sup>1</sup> Gross margin per employee hour based in net sales.

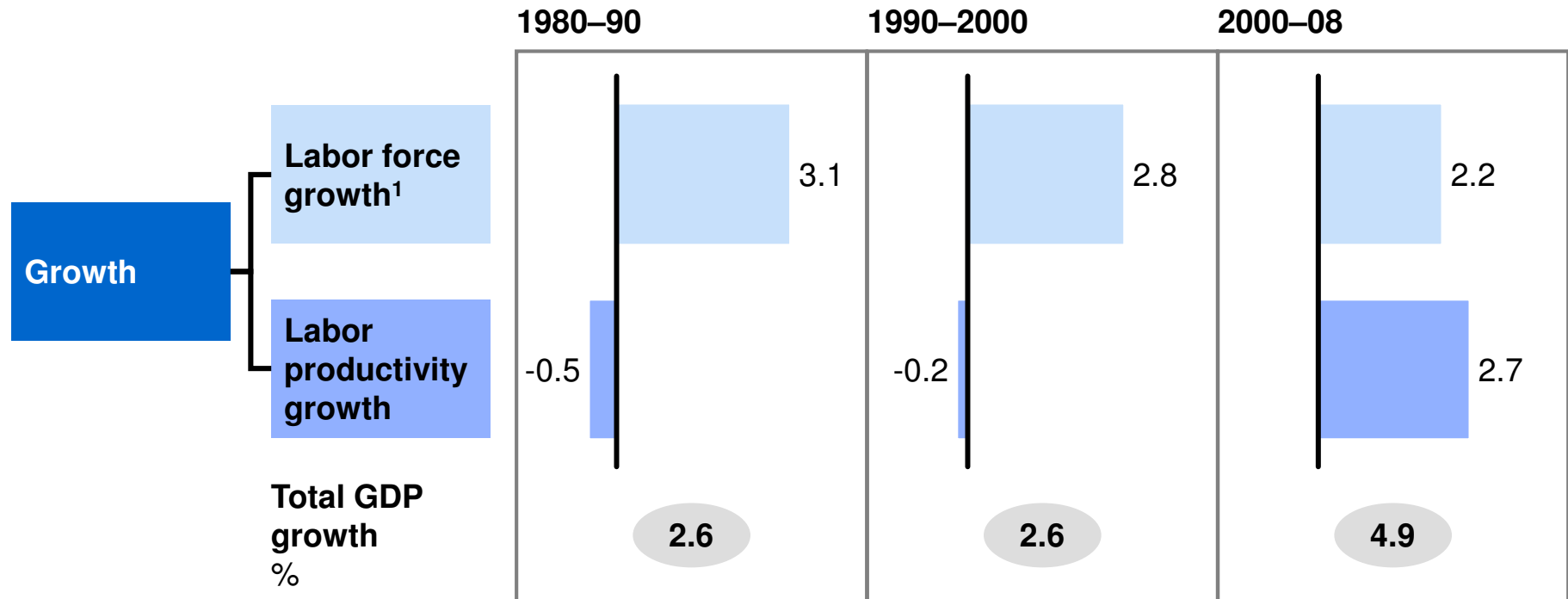
# Africa's economic growth accelerated after 2000, making it the world's third-fastest growing region



# Africa's labor productivity grew for the first time in decades

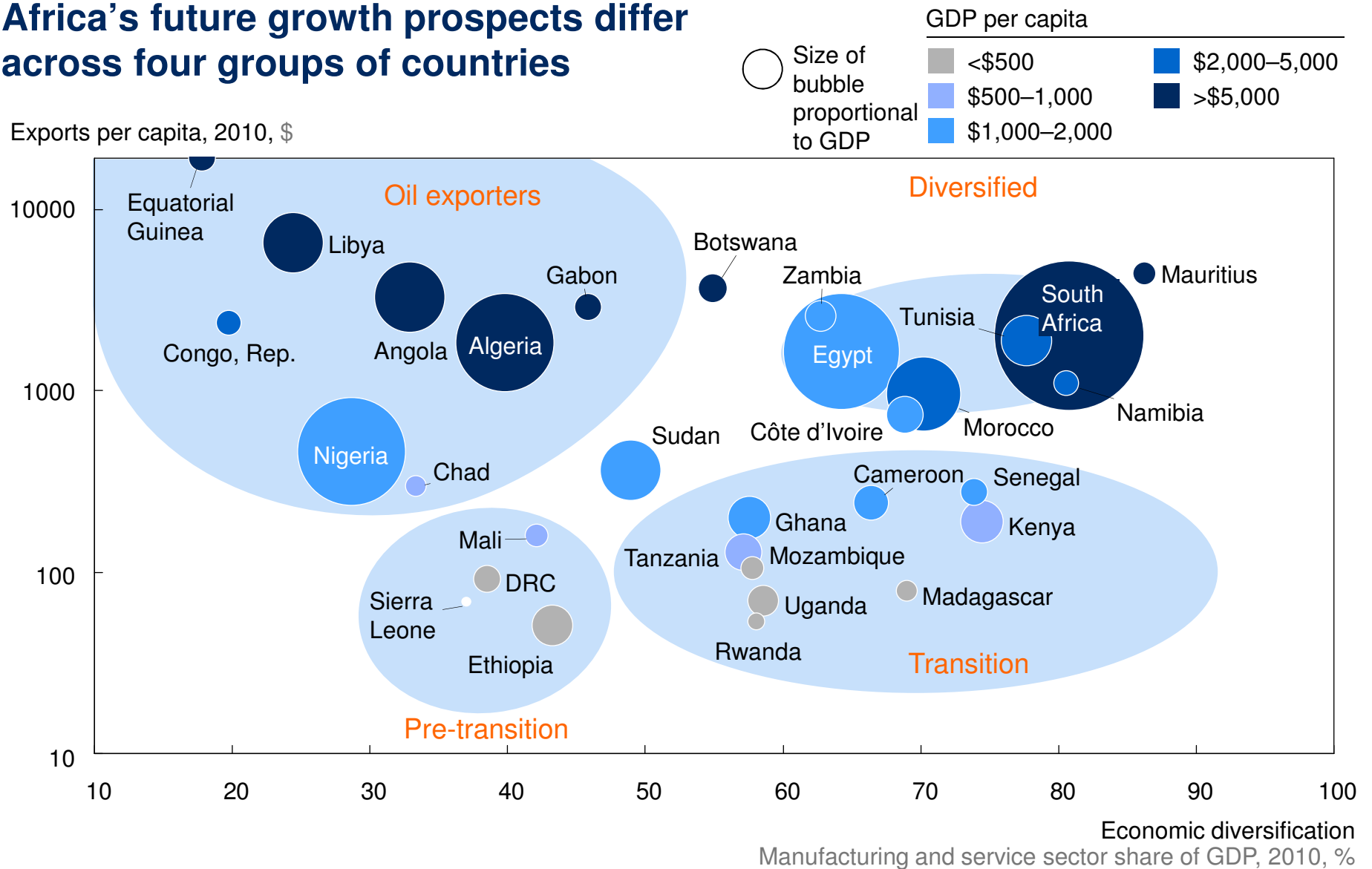
Real GDP growth, Africa

%



<sup>1</sup> Used working-age population (15–64) as a proxy for labor force.

# Africa's future growth prospects differ across four groups of countries



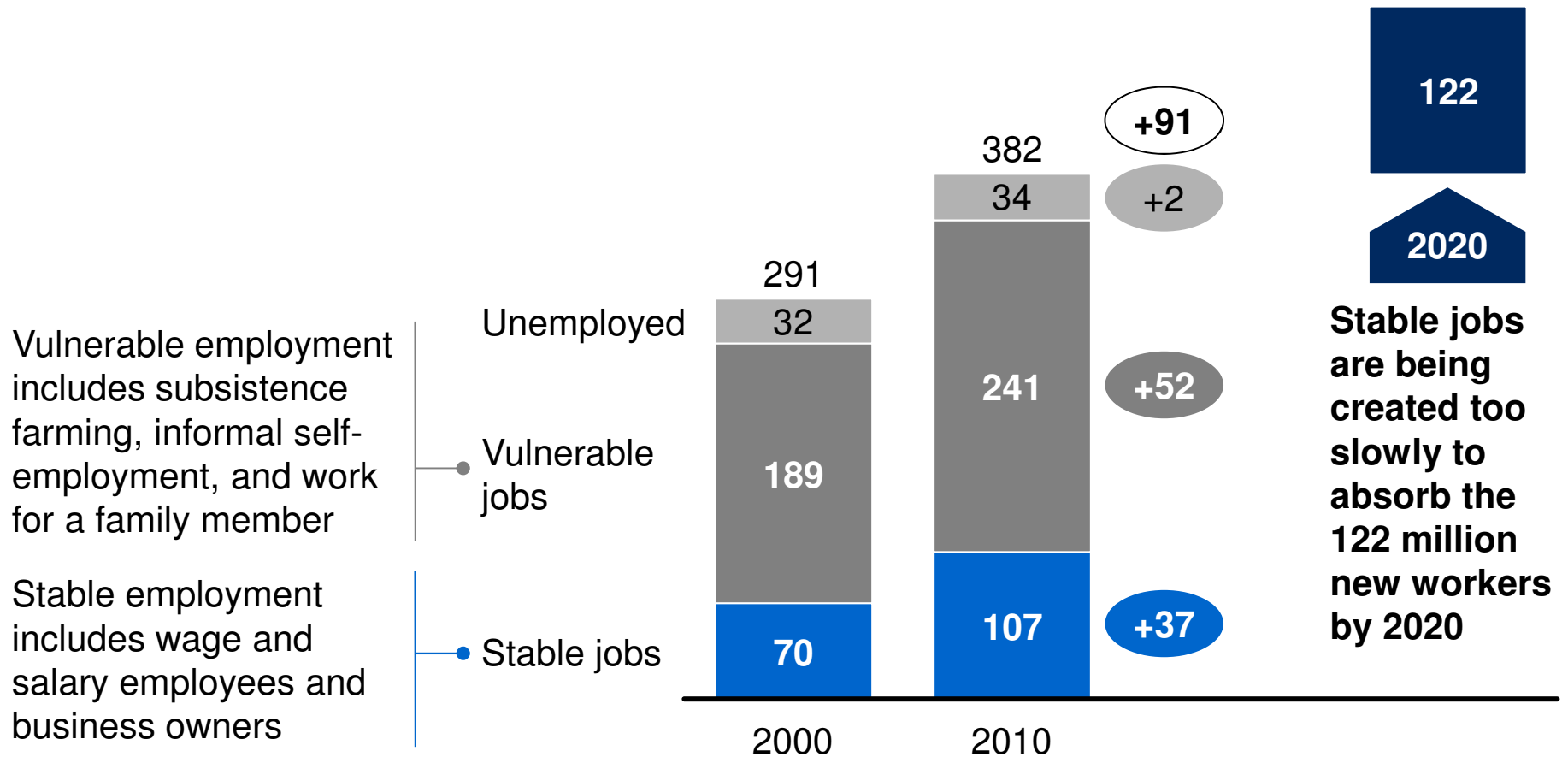
NOTE: We include countries whose 2008 GDP is approximately \$10 billion or greater, or whose real GDP growth rate exceeds 7% over 2000–08. We exclude 22 countries that account for 3% of African GDP in 2008.

SOURCE: Organisation for Economic Co-operation and Development; World Bank World Development Indicators; McKinsey Global Institute analysis

# African economies have added 37 million wage-paying jobs over the past decade—but the labour force grew by 91 million

## African labour force by employment status

Million people



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Productivity – the engine of growth

**Competitiveness – a sector story**

Innovation – the opportunity

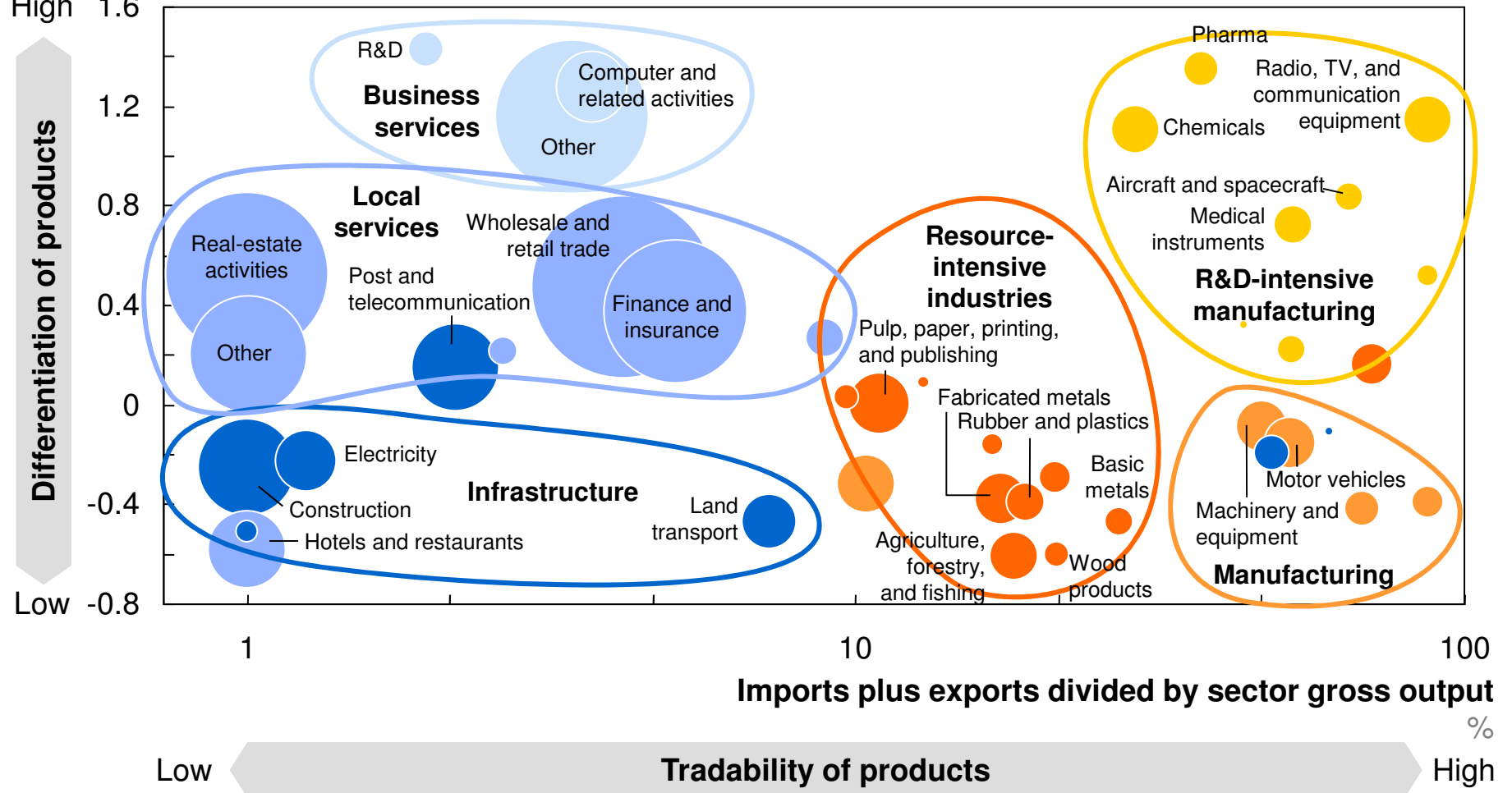
# Effective competitiveness policies need to target levers that matter in each sector

## Differentiation index

0 = average

High 1.6

○ Size of circle = relative amount of sector value added in 2005



# The majority of recent attempts to establish local semiconductor industries or clusters have failed

ROUGH ESTIMATES

\$ Estimated cumulative country-wide government incentives (USD billion)

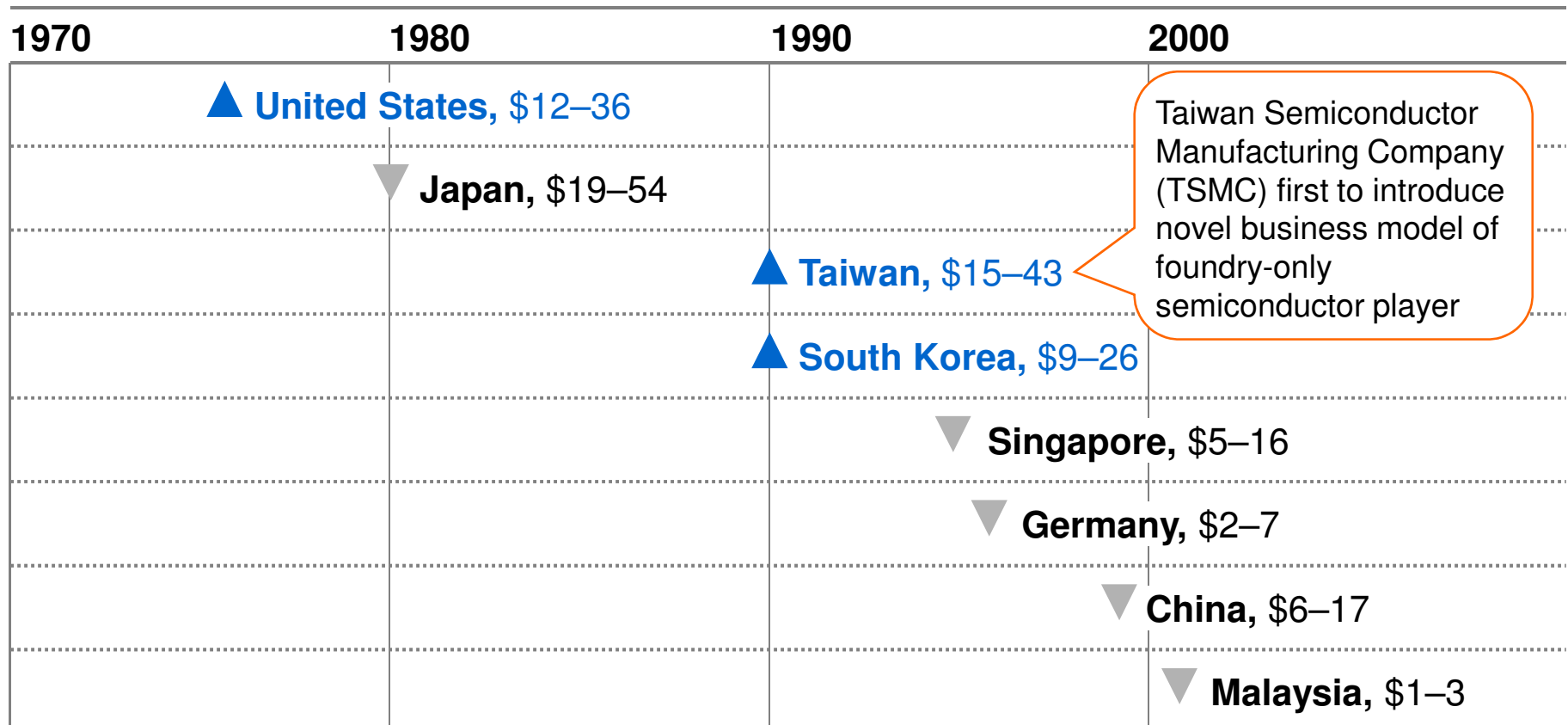
**Sustainable competitive edge**

▲ Present

▼ Currently not present

## Successes and failures of semiconductor clusters

### Estimated date of industry reaching significant size





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Productivity – the engine of growth

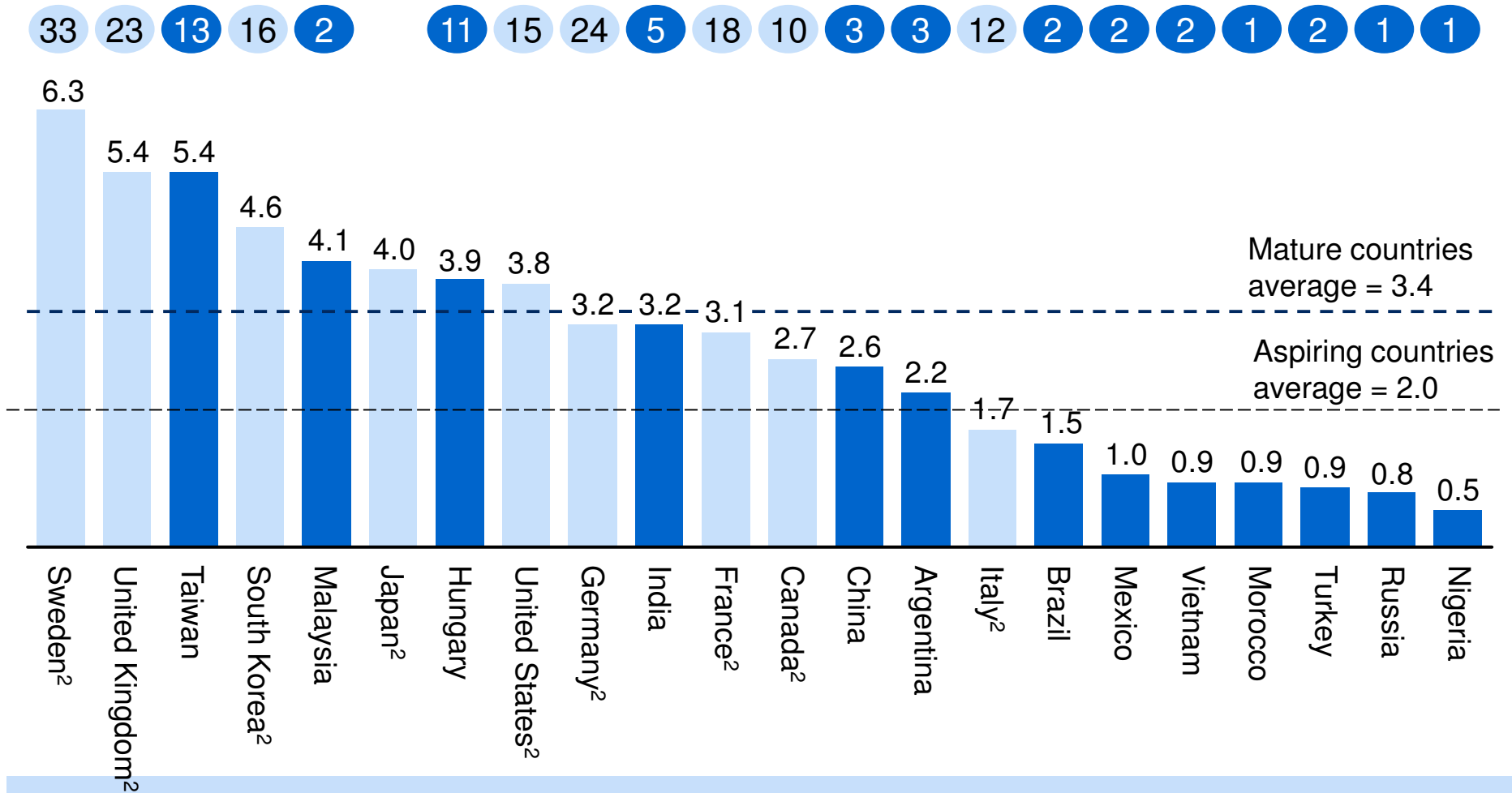
Competitiveness – a sector story

**Innovation – the opportunity**

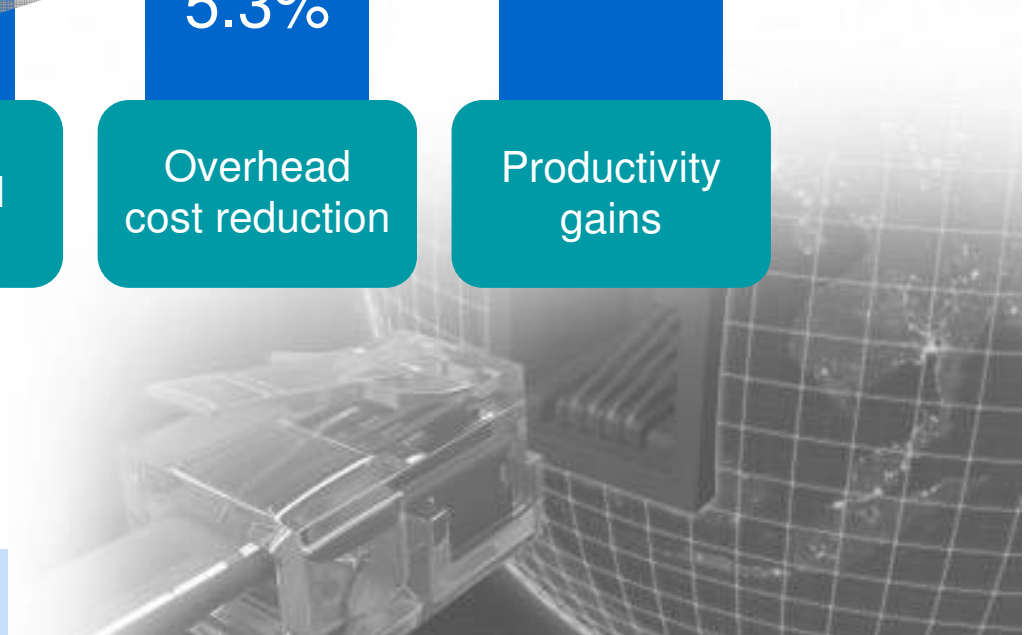
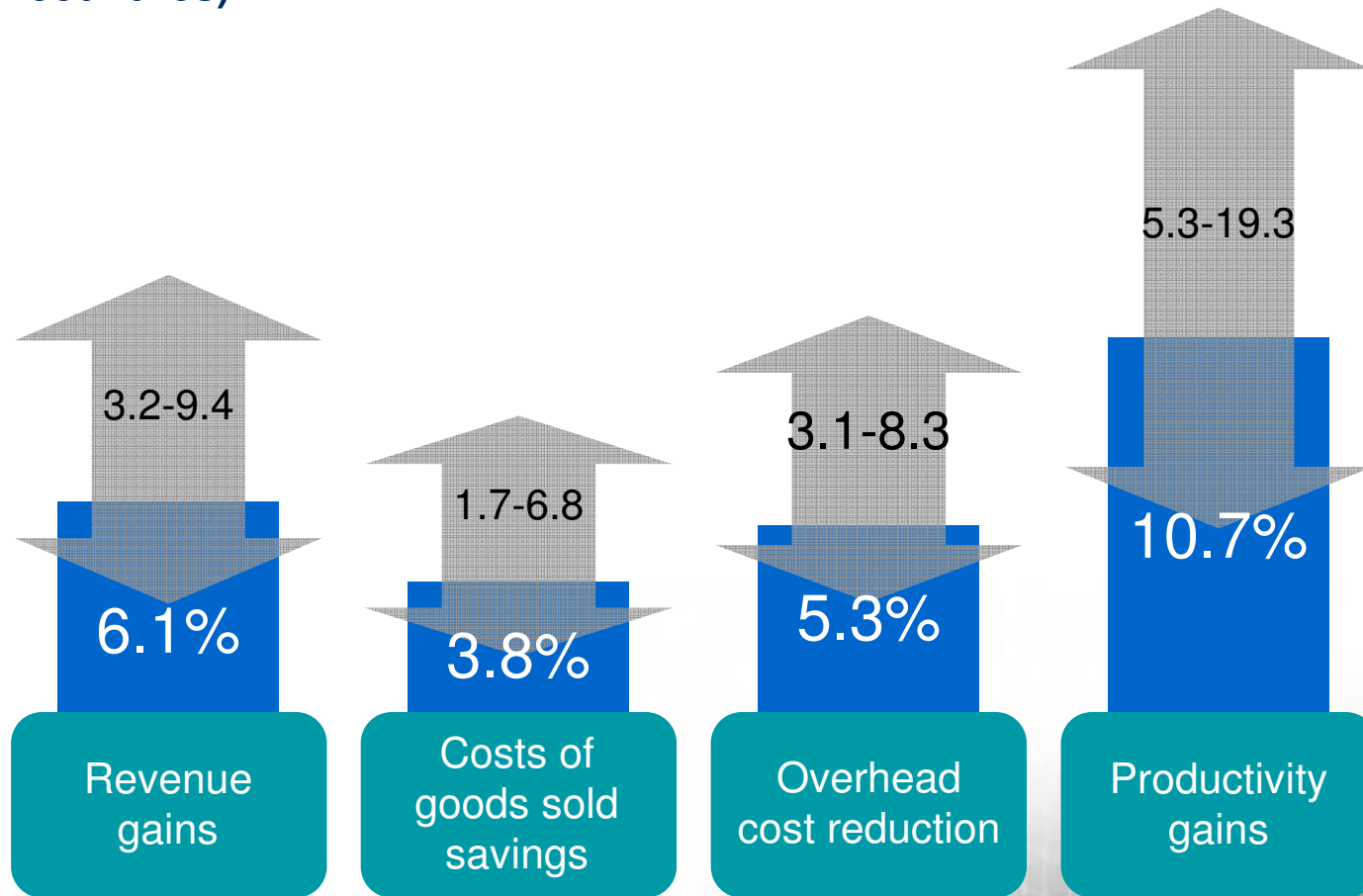
# Internet's contribution to GDP and GDP growth

iGDP,<sup>1</sup> 2010  
Percent of GDP

- Aspiring countries
- Developed countries
- Internet's contribution to GDP growth



## Small and medium-sized enterprise benefits (Surveys in countries)



## Consumer surplus

From country case studies

Nine  
ASPIRING  
countries:

Four  
DEVELOPED  
countries:

Total Consumer  
surplus

\$25  
billion

\$105  
billion

Average consumer  
surplus per user/month

\$14

\$24

Average consumer  
surplus as percentage of  
the Internet economy

35%

12%



## Key messages

- **Productivity growth** requires addressing sector specific barriers to improvements that jumpstart a virtual circle of performance improvement, income growth, and investment.
- **Effective competitiveness policies** are tailored to the levers that matter in each sector. Policy largely determines sector performance in local sectors, but cannot guarantee success in globally traded industries
- **Innovation** offers opportunities to not just catch-up but also to leap frog, yet building sustainable innovative capability depends critically on broad based access to infrastructure and education

Thank you

All MGI research is available at

**[www.mckinsey.com/MGI](http://www.mckinsey.com/MGI)**

## Sample of MGI's published country productivity reports (1/2)

Country	Date of publication	Title and link to report
Australia	2012	<i>Beyond the boom: Australia's productivity imperative</i> <a href="http://www.mckinsey.com/insights/mgi/research/asia/australia_productivity_imperative">http://www.mckinsey.com/insights/mgi/research/asia/australia_productivity_imperative</a>
Indonesia	2012	<i>The archipelago economy: Unleashing Indonesia's potential</i> <a href="http://www.mckinsey.com/insights/mgi/research/asia/the_archipelago_economy">http://www.mckinsey.com/insights/mgi/research/asia/the_archipelago_economy</a>
Vietnam	2012	<i>Sustaining Vietnam's growth: The productivity challenge</i> <a href="http://www.mckinsey.com/Insights/MGI/Research/Asia/Sustaining_growth_in_Vietnam">http://www.mckinsey.com/Insights/MGI/Research/Asia/Sustaining_growth_in_Vietnam</a>
United States	2011	<i>Growth and renewal in the United States: Retooling America's economic engine</i> <a href="http://www.mckinsey.com/mgi/publications/growth_and_renewal_in_the_us/index.asp">http://www.mckinsey.com/mgi/publications/growth_and_renewal_in_the_us/index.asp</a>
UK	2010	<i>From austerity to prosperity: Seven priorities for the long term in the United Kingdom</i> <a href="http://www.mckinsey.com/mgi/publications/UK_report/index.asp">http://www.mckinsey.com/mgi/publications/UK_report/index.asp</a>
Europe	2010	<i>Beyond austerity: A path to economic growth and renewal in Europe</i> <a href="http://www.mckinsey.com/mgi/publications/beyond_austerity_europe/index.asp">http://www.mckinsey.com/mgi/publications/beyond_austerity_europe/index.asp</a>
Africa	2010	<i>Lions on the move: the progress and potential of Africa's economies:</i> <a href="http://www.mckinsey.com/mgi/publications/progress_and_potential_of_african_economies/index.asp">http://www.mckinsey.com/mgi/publications/progress_and_potential_of_african_economies/index.asp</a>
Russia	2009	<i>Lean Russia: Sustaining economic growth through improved productivity</i> <a href="http://www.mckinsey.com/mgi/reports/pdfs/lean_russia/MGI_lean_russia_chapter_1.pdf">http://www.mckinsey.com/mgi/reports/pdfs/lean_russia/MGI_lean_russia_chapter_1.pdf</a>
Sweden	2006	<i>Sweden's Economic Performance: Recent Developments, Current Priorities</i> <a href="http://www.mckinsey.com/mgi/reports/pdfs/sweden/sep_current_priorities_processed_food.pdf">http://www.mckinsey.com/mgi/reports/pdfs/sweden/sep_current_priorities_processed_food.pdf</a>
Brazil	2006	<i>How Brazil can grow</i> <a href="http://www.mckinsey.com/mgi/publications/brazil_grow.asp">http://www.mckinsey.com/mgi/publications/brazil_grow.asp</a>
Turkey	2003	<i>Turkey's quest for stable growth:</i> <a href="http://www.mckinsey.com/mgi/publications/turkey/index.asp">http://www.mckinsey.com/mgi/publications/turkey/index.asp</a>
France and Germany (II)	2002	<i>France and Germany: Productivity and profitability</i> <a href="http://www.mckinsey.com/mgi/publications/europe/profitability.asp">http://www.mckinsey.com/mgi/publications/europe/profitability.asp</a>

## Sample of MGI's published country productivity reports (2/2)

Country	Date of publication	Title and link to report
Thailand	2002	<i>Thailand: Prosperity through productivity:</i> <a href="http://www.mckinsey.com/mgi/publications/thailand.asp">http://www.mckinsey.com/mgi/publications/thailand.asp</a>
India	2001	<i>India the growth imperative</i> <a href="http://www.mckinsey.com/mgi/publications/india.asp">http://www.mckinsey.com/mgi/publications/india.asp</a>
Japan	2000	<i>Why the Japanese economy is not growing</i> <a href="http://www.mckinsey.com/mgi/publications/japan/index.asp">http://www.mckinsey.com/mgi/publications/japan/index.asp</a>
Poland	2000	<i>Sustaining Poland's hard-won prosperity:</i> <a href="http://www.mckinsey.com/mgi/publications/poland.asp">http://www.mckinsey.com/mgi/publications/poland.asp</a>
Russia	1999	<i>Unlocking Russia's economic growth:</i> <a href="http://www.mckinsey.com/mgi/publications/russia.asp">http://www.mckinsey.com/mgi/publications/russia.asp</a>
U.K.	1998	<i>Driving productivity and growth in the UK economy</i> <a href="http://www.mckinsey.com/mgi/reports/pdfs/ukprod/UKProd.pdf">http://www.mckinsey.com/mgi/reports/pdfs/ukprod/UKProd.pdf</a>
Korea	1998	<i>Productivity led growth for Korea</i> <a href="http://www.mckinsey.com/mgi/reports/pdfs/korea/Korea.pdf">http://www.mckinsey.com/mgi/reports/pdfs/korea/Korea.pdf</a>
Brazil	1998	<i>How Brazil can grow</i> <a href="http://www.mckinsey.com/mgi/publications/brazil_grow.asp">http://www.mckinsey.com/mgi/publications/brazil_grow.asp</a>
Netherlands	1997	<i>Boosting Dutch performance</i> <a href="http://www.mckinsey.com/mgi/publications/dutch.asp">http://www.mckinsey.com/mgi/publications/dutch.asp</a>
France and Germany (I)	1997	<i>Removing Barriers to Growth and Employment in France and Germany:</i>
Australia	1995	<i>Australia's economic performance:</i> <a href="http://www.mckinsey.com/mgi/reports/pdfs/australia/australia.pdf">tp://www.mckinsey.com/mgi/reports/pdfs/australia/australia.pdf</a>
Sweden	1995	<i>Sweden's economic performance</i> <a href="http://www.mckinsey.com/mgi/reports/pdfs/sweden/sweden.pdf">http://www.mckinsey.com/mgi/reports/pdfs/sweden/sweden.pdf</a>



## Other McKinsey Global Institute publications, 2008–present

### Productivity and growth

The McKinsey Global Institute's research has examined the drivers of productivity and competitiveness in nearly 20 countries around the world across more than 30 industry sectors.

- **Infrastructure productivity: How to save \$1 trillion a year**, January 2013
- **Growth and renewal in the Swedish Economy**, January 2013
- **Manufacturing the future: The next era of global growth and innovation**, November, 2012
- **The archipelago economy: Unleashing Indonesia's potential**, September 2012
- **Beyond the boom: Australia's productivity imperative**, August 2012
- **Trading myths: Addressing misconceptions about trade, jobs, and competitiveness**, May 2012
- **Sustaining Vietnam's growth: The productivity challenge**, February 2012
- **European growth and renewal: From crisis to recovery**, August 2011
- **US growth and renewal: Retooling America's economic engine**, February 2011
- **United Kingdom: From Austerity to Prosperity: Seven Priorities for the Long Term**, November 2010
- **Beyond austerity: A path to economic growth and renewal in Europe**, October 2010
- **Lions on the move: The progress and potential of African economies**, June 2010
- **Growth and competitiveness in the United States: The role of its multinational companies**, June 2010
- **How to compete and grow: A sector guide to policy**, March 2010
- **If you've got it, spend it: Unleashing the Chinese Consumer**, August 2009
- **Lean Russia: Sustaining Economic Growth through Improved Productivity**, April 2009
- **US health care: A new look at why Americans spend more**, December 2008
- **Talkin' Bout My Generation: The Economic Impact Of Aging US Baby Boomers**, June 2008

## Other McKinsey Global Institute publications, 2008–present (CONTINUED)

### Labor markets

MGI research offers a fact base for decision makers on long-term structural shifts in labor markets.

- **The world at work: Jobs, pay, and skills for 3.5 billion people**, June 2012. Explores the global labor market, where supply and demand imbalances plague skilled and unskilled workers alike
- **Africa at work: Job creation and inclusive growth**, August 2012
- **French employment 2020: Five priorities for action**, May 2012. Emphasizes the imperative to reduce unemployment in order to sustain the beleaguered social safety net.
- **Help wanted: The future of work in advanced economies**, March 2012. Details how the employment problem is more than the effects of a cyclical downturn.
- **An Economy That Works: Job Creation and America's Future**, June 2011. Explains the need to address growing gaps in skill and education to regain full employment.
- **Changing America's Fortunes: A Human Capital Challenge**, June 2009. Examines the drivers of rising income dispersion and the need to upgrade the productivity, skills, and rewards in the service sector

### Resources

Drawing on McKinsey's expertise in sustainability and resource productivity, MGI has examined the drivers of resource demand and assessed other commodity market developments.

- **Resource revolution: Meeting with world's energy, materials, food, and water needs**, November 2011. Argues that a complete rethink of resource management is needed to keep pace with soaring demand.
- **Averting the Next Energy Crisis: The Demand Challenge**, March 2009. Determines that demand for energy will return, and oil prices could spike as the world economy recovers.
- **The Carbon Productivity Challenge: Curbing Climate Change And Sustaining Economic Growth**, June 2008. Concludes that meeting commonly discussed greenhouse gas abatement paths by 2025 while maintaining economic growth will require an eightfold increase in "carbon productivity," the amount of GDP produced per unit of carbon equivalents emitted.

## Other McKinsey Global Institute publications, 2008–present (CONTINUED)

### Technology and innovation

MGI research examines the role IT plays in driving growth, and other knowledge, technology, and infrastructure-related trends reshaping the economy and society.

### Urbanization

The McKinsey Global Institute has developed a proprietary database that maps the incomes and growth projections for more than 2,000 cities around the world. Our research examines urbanization, including the growing urban middle class in developing countries, the policy implications of rural-urban migration, and the cities of the future.

- **The Social Economy: Unlocking Value and Productivity Through Social Technologies**, July 2012. Looks at how the most powerful applications of social technologies in the global economy are largely untapped.
- **Internet matters: The Net's sweeping impact on growth, jobs, and prosperity**, May 2011. Measures the Internet's growing share of global GDP.
- **Big data: The next frontier for innovation, competition, and productivity**, May 2011. Examines the policies and enablers needed to exploit the ability to analyze large data sets.
  
- **Urban world: Cities and the rise of the consuming class**, June 2012. Explores the phenomenon of urban growth, the one billion people in rapidly growing cities who will become consumers by 2025, and how these consumers will impact demand not only for individual products but also for infrastructure.
- **Urban America: US cities in the global economy**, April 2012. Sheds new light on the role cities play in the US economy and gauges how large they loom in the urban world overall.
- **Building globally competitive cities: The key to Latin American growth**, August 2011. Draws on tried and tested success stories to identify tangible actions that the region's city leaders could take to address the highest-priority issues they face.
- **Urban world: Mapping the economic power of cities**, March 2011. Leverages a database of more than 2,000 metropolitan areas around the world to help companies looking for growth opportunities and policy makers to manage the increasing complexity of larger cities.
- **India's urban awakening: Building inclusive cities, sustaining economic growth**, April 2010. Offers a range of recommendations to increase annual GDP growth, bringing the economy near to the double-digit growth to which the government aspires.
- **Preparing For China's Urban Billion**, February 2009. Considers ways to manage urbanization in the next 20 years.

## Other McKinsey Global Institute publications, 2008–present (CONTINUED)

### Global capital markets

Understanding how the global capital market is evolving is essential for businesses, financial institutions, policy makers, and investors. Our proprietary capital markets databases allow us to map the world's financial assets and analyze capital flows between nations and other trends, including the growth of sovereign wealth funds and other "new power brokers" and the rise in debt and potential for deleveraging.

- **Financial globalization: Retreat or reset?**, March 28, 2013  
Despite the recent rebound in some major equity indices, growth in global financial assets remains anemic.. Similarly, after three decades of increasing financial globalization, cross-border capital flows have collapsed and remain 60 percent below their pre-crisis peak.
- **Debt and deleveraging: Uneven progress on the path to growth**, January 2012.  
Examines the relevant lessons from history about how governments can support economic recovery amid deleveraging. Gauges the world's progress in recovering from the 2008 financial crisis.
- **The emerging equity gap: Growth and stability in the new investor landscape**, December 2011. Looks at the decisive action that can ensure that equity markets continue to provide capital for growth.
- **Mapping global capital markets**, August 2011. Analysis finds that the recovery of financial markets remains uneven across geographies and asset classes and significant risks remain.
- **Farewell to cheap capital? The implications of long-term shifts in global investment and saving**, December 2010. Analyzes the future saving and investment that will take place in emerging markets, and finds a substantial gap that will put upward pressure on real interest rates.
- **Debt and deleveraging: The global credit bubble and its economic consequences**, January 2010. Explores the impact of rising debt on economic growth and draws lessons from history about the impact of deleveraging.
- **An exorbitant privilege: Implications of reserve currencies for competitiveness**, December 2010. Finds the net benefits to the United States due to the dollar's reserve currency status to be modest.
- **Global capital markets: Entering a new era**, September 2009
- **The New Power Brokers: How Oil, Asia, Hedge Funds, and Private Equity are Faring in the Financial Crisis**, July 2009. Reveals that Asian sovereigns and petrodollar investors emerged as more influential than ever, while hedge funds and private equity saw their previously rapid growth interrupted.
- **Mapping global capital markets: Fifth annual report**, October 2008
- **The New Power Brokers: Gaining Clout In Turbulent Markets**, July 2008
- **Mapping Global Capital Markets: Fourth Annual Report**, January 2008