McKinsey Global Institute




September 2012

The archipelago economy: Unleashing Indonesia's potential

The McKinsey Global Institute

The McKinsey Global Institute (MGI), the business and economics research arm of McKinsey & Company, was established in 1990 to develop a deeper understanding of the evolving global economy. Our goal is to provide leaders in the commercial, public, and social sectors with the facts and insights on which to base management and policy decisions. MGI research combines the disciplines of economics and management, employing the analytical tools of economics with the insights of business leaders. Our micro-to-macro methodology examines microeconomic industry trends to better understand the broad macroeconomic forces affecting business strategy and public policy. MGI's in-depth reports have covered more than 20 countries and 30 industries. Current research focuses on six themes: productivity and growth, financial markets, technology and innovation, urbanisation, labour markets, and natural resources. Recent research has assessed the diminishing role of equities, progress on debt and deleveraging, resource productivity, cities of the future, the future of work in advanced economies, the economic impact of the Internet, and the role of social technology.

MGI is led by three McKinsey & Company directors: Richard Dobbs, James Manyika, and Charles Roxburgh. Susan Lund serves as director of research. Project teams are led by a group of senior fellows and include consultants from McKinsey's offices around the world. These teams draw on McKinsey's global network of partners and industry and management experts. In addition, leading economists, including Nobel laureates, act as research advisers.

The partners of McKinsey & Company fund MGI's research; it is not commissioned by any business, government, or other institution.
For further information about MGI and to download reports, please visit www.mckinsey.com/mgi.

McKinsey & Company in Indonesia

McKinsey & Company is a global management consulting firm that helps many of the world's leading organisations address their strategic challenges, from reorganising for long-term growth to improving business performance and maximising revenue. With consultants deployed in more than 50 countries across the globe, McKinsey advises on strategic, operational, organisational, and technological issues. For more than eight decades, the firm's primary objective has been to serve as an organisation's most trusted external adviser on critical issues facing senior management.

McKinsey started serving clients in Indonesia in 1988 and established an office in Jakarta in 1995 with a team of global and local professionals. Today, the office employs more than 60 Indonesian staff and serves private local companies, state-owned enterprises, and the public sector in Indonesia, as well as multinational corporations across industries interested in building their presence in the country.

McKinsey Global Institute

September 2012

The archipelago economy: Unleashing Indonesia's potential

Raoul Oberman
Richard Dobbs
Arief Budiman
Fraser Thompson
Morten Rossé

Indonesia today ...

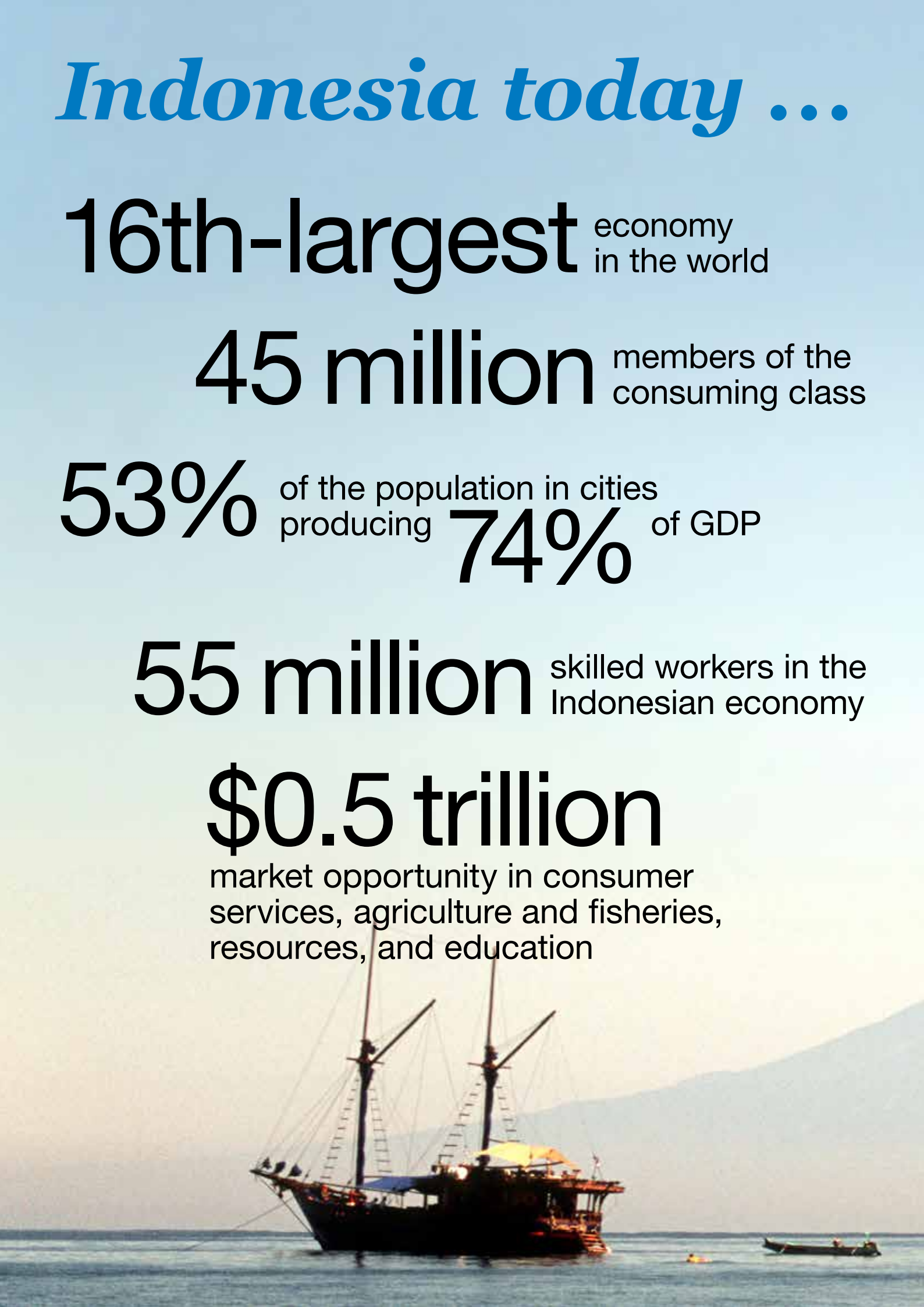
16th-largest economy in the world

45 million members of the consuming class

53% of the population in cities producing **74%** of GDP

55 million skilled workers in the Indonesian economy

$0.5 trillion
market opportunity in consumer services, agriculture and fisheries, resources, and education



... and in 2030

7th-largest economy in the world

135 million members of the consuming class

71% of the population in cities producing **86%** of GDP

113 million skilled workers needed

$1.8 trillion
market opportunity in consumer services, agriculture and fisheries, resources, and education

Executive summary

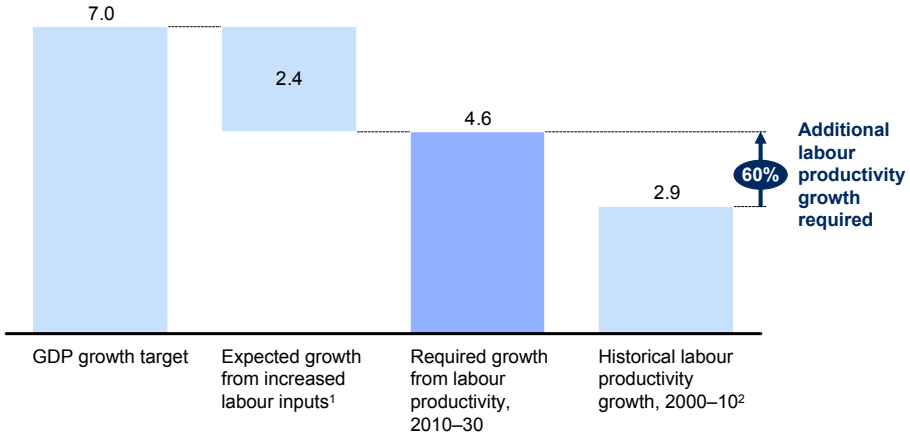
Indonesia's economy has enormous promise. Already the 16th-largest economy in the world, this dynamic archipelago has the potential to be the seventh biggest by 2030. It is a much more stable and diversified economy than many outside observers assume. In recent years, Indonesia has made enormous strides in its macroeconomic management. Inflation has fallen from double into single figures, and government debt as a share of GDP is now lower than in the vast majority of advanced economies. The economy, part of a resurgent Asia, is transforming rapidly. Indonesia has a young population and is quickly urbanising, powering growth in incomes. Between now and 2030, Indonesia will be home to an estimated 90 million additional consumers with considerable spending power. This growth in Indonesia's consuming class[1] is stronger than in any economy of the world apart from China and India, a signal to international businesses and investors of considerable new opportunities.

But Indonesia is at a critical juncture. The archipelago economy is confronted by three major challenges in the period to 2030. First, Indonesia faces a productivity imperative. The economy has performed relatively well on labour productivity, which has accounted for more than 60 percent of economic growth over the past two decades, the rest being delivered by growth in the labour force. But our analysis suggests that Indonesia needs to boost productivity growth by 60 percent from the rate achieved from 2000 to 2010 if the economy is to meet the government's target of 7 percent annual GDP growth, above current trend growth of between 5 and 6 percent (Exhibit E1).

Exhibit E1

Achieving Indonesia's 7 percent annual GDP growth target will require labour productivity to grow 60 percent faster than in 2000–10

Annual real GDP growth rates
%



1 Driven by additional workers joining the workforce due to demographics and increased participation in workforce; productivity assumed to be the average in 2010–30 based on a business-as-usual growth rate of 5 to 6 percent.
2 Based on an average among national and international data sources.
SOURCE: CEIC Data; Indonesia's Central Bureau of Statistics; Conference Board Total Economy Database; International Monetary Fund (IMF); United Nations Population Division; McKinsey Global Institute analysis

1 We define the consuming class as those individuals with net income of more than $3,600 per annum in purchasing power parity (PPP), at 2005 exchange rates.

Second, an uneven distribution of growth across the archipelago and rising inequality are concerns. Indonesia might want to consider how to ensure that economic growth is as inclusive as possible. The third challenge is to ensure that Indonesia does not suffer from infrastructure and resource constraints as its expanding consuming class delivers a welcome injection of growth—and that this demand creates potentially lucrative new markets. In the years ahead, this once-in-a-generation economic transformation will need careful management.

This report highlights action that Indonesia could take in three key sectors—consumer services, agriculture and fisheries, and resources—to boost productivity and remove constraints on growth. In addition, we highlight ways to tackle an impending shortage of skills across all sectors. If Indonesia embraces these four priority areas, it has the opportunity to build on recent successes and create a platform for a productive, inclusive, and resilient economy in the long term.

INDONESIA'S RECENT IMPRESSIVE ECONOMIC PERFORMANCE IS NOT WIDELY UNDERSTOOD

The Indonesian economy, today the 16th largest in the world, has performed strongly over the past decade or more and is more diverse and stable than many observers from beyond its shores realise (Exhibit E2). Over the past decade or so, Indonesia has had the lowest volatility in economic growth among any advanced economy in the Organisation for Economic Co-operation and Development (OECD) or the BRICs (Brazil, Russia, India, and China) plus South Africa.

Exhibit E2

Indonesia has performed impressively over the past decade

Overview of OECD and BRIC[1] plus South Africa

Rank	GDP 2011, current prices $ trillion		Real GDP growth, 2000–10 %		GDP growth standard deviation, annualised, 2000–10 %		Share of debt to GDP, 2009 %		Inflation rate, 2011 %, GDP deflator	
1	United States	15.1	China	11.5	**Indonesia**	**0.86**	Russia	8.7	Japan	-2.0
2	China	7.3	India	7.7	Australia	0.95	Estonia	9.0	Czech Republic	-0.7
3	Japan	5.9	**Indonesia**	**5.2**	Portugal	1.48	Luxembourg	12.8	Ireland	-0.4
4	Germany	3.6	Russia	4.9	Norway	1.56	China	16.5	Germany	0.7
5	France	2.8	Slovakia	4.9	France	1.59	Australia	24.1	Switzerland	0.7
6	Brazil	2.5	South Korea	4.2	New Zealand	1.70	**Indonesia [2]**	**25.0**	Slovenia	0.8
7	United Kingdom	2.4	Turkey	4.0	Belgium	1.74	Czech Republic	32.0	Denmark	0.9
8	Italy	2.2	Poland	3.9	Switzerland	1.78	Norway	35.4	Sweden	0.9
9	Russia	1.9	Estonia	3.8	Canada	1.82	Slovakia	38.2	Portugal	1.0
10	Canada	1.7	Chile	3.7	India	1.85	Denmark	40.8	Italy	1.3
11	India	1.7	Brazil	3.6	South Korea	1.98	Sweden	44.2	Netherlands	1.4
12	Spain	1.5	South Africa	3.5	Poland	2.00	Spain	46.4	Spain	1.4
13	Australia	1.5	Czech Republic	3.4	China	2.02	Germany	47.6	France	1.6
14	Mexico	1.2	Israel	3.1	Netherlands	2.09	Poland	48.1	Greece	1.6
15	South Korea	1.1	Australia	3.1	United States	2.10	Turkey	51.4	Slovak Republic	1.6
16	**Indonesia**	**0.8**	Slovenia	2.8	South Africa	2.14	Canada	53.1	(36) S. Africa	7.8
17	Netherlands	0.8	Luxembourg	2.8	Austria	2.14	India	53.7	**(38) Indonesia**	**8.4**
18	Turkey	0.8	New Zealand	2.6	Italy	2.17	Netherlands	58.2	(39) Turkey	9.0

1 Organisation for Economic Co-operation and Development; Brazil, Russia, India, and China.
2 Based on 2011 debt level.
SOURCE: Conference Board Total Economy Database; IMF; World Bank; McKinsey Global Institute analysis

Government debt as a share of GDP has fallen by 70 percent over the past decade and is now lower than in 85 percent of OECD countries. Inflation has decreased from 20 percent to 8 percent and is now comparable with more mature economies such as South Africa and Turkey. According to the World Economic Forum's competitiveness report on Indonesia, in 2012 the country ranked 25th on macroeconomic stability, a dramatic improvement from its 2007

ranking of 89th place. Indonesia now ranks ahead of Brazil and India, as well as several ASEAN neighbours including Malaysia, Thailand, and the Philippines.[2]

Another misperception is that Indonesia's economic growth centres almost exclusively on Jakarta; in fact, many other Indonesian cities are growing more rapidly, albeit from a lower base. The fastest-growing urban centres are large and mid-sized middleweight cities with more than two million inhabitants (excluding Jakarta), which have posted annual average growth of 6.4 percent since 2002, compared with Jakarta's 5.8 percent. These cities include Medan, Bandung, and Surabaya as well as parts of Greater Jakarta such as Bogor, Tangerang, and Bekasi.

Nor is Indonesia, as many assume, a typical Asian manufacturing exporter driven by its growing workforce or a commodity exporter driven by its rich endowments of natural resources. The reality is that, to a large extent, it is domestic consumption rather than exports, and services rather than manufacturing or resources, which are propelling growth. Indonesia's exports as a share of GDP are roughly half those of Malaysia in 1989, when Malaysian average incomes were at similar levels to those of Indonesia today. The resource sector's share of the economy has actually fallen since 2000 despite booming resource prices. Mining and oil and gas account for only 11 percent of Indonesia's nominal GDP, similar to more advanced economies such as Australia (8.4 percent) and Russia (11 percent). Indeed, Indonesia is a net oil importer. In contrast, services account for roughly half of economic output.

Over the past two decades, labour productivity improvements accounted for more than 60 percent of economic growth with the rest coming from more labour inputs due to an expanding working-age population. Perhaps surprisingly, the majority of Indonesia's productivity gain has come not from a shift of workers from lower-productivity agriculture into more productive sectors, but from productivity improvements within sectors. The three sectors making the largest contributions to this productivity improvement are wholesale and retail trade; transport equipment and apparatus manufacturing; and transport and telecommunications. And contrary to the widespread belief that productivity improves at the expense of employment, both have risen in tandem in Indonesia in 35 of the past 51 years.

THE ECONOMIC OUTLOOK IS PROMISING, SUPPORTED BY FAVOURABLE LOCAL AND INTERNATIONAL TRENDS

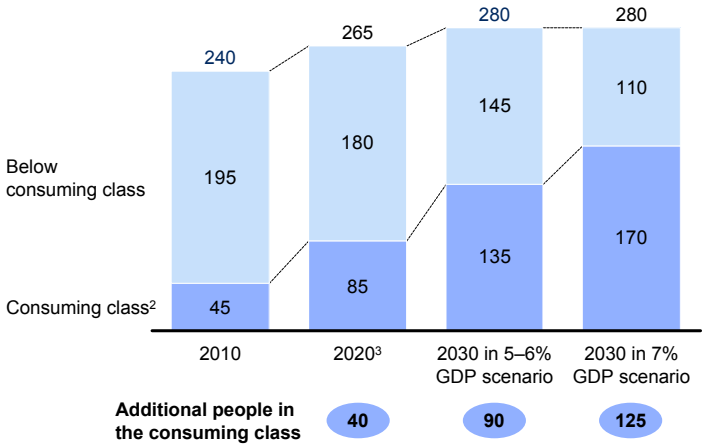
Indonesia's economic growth should benefit from a number of powerful positive trends including the resurgence of Asia, continuing urbanisation that is boosting the number of consumers with the power to spend on discretionary items, and a young population offering the economy a potential demographic dividend. On the current expected trajectory of growth, an additional 90 million Indonesians could join the global consuming class by 2030, powered by the continued rise of urban Indonesia (Exhibit E3). Only China and India are likely to surpass this increase in absolute terms, while Brazil, Egypt, Vietnam, and other fast-growing economies will each bring less than half of Indonesia's number into the consuming class in the same period. By 2030, Indonesia could become the seventh-largest economy in the world after China, the United States, India, Japan, Brazil, and Russia—overtaking Germany and the United Kingdom.

2 Association of South East Asian Nations.

Exhibit E3

An estimated 90 million Indonesians could join the consuming class by 2030

Million people[1]



1 Rounded to the nearest five million.
2 Consuming class defined as individuals with an annual net income of above $3,600 at 2005 purchasing power parity (PPP).
3 Based on annual GDP growth of between 5 and 6 percent.

SOURCE: McKinsey Consumer and Shopper Insight (CSI Indonesia 2011); 2010 Population Census, Indonesia's Central Bureau of Statistics; Canback Global Income Distribution Database (C-GIDD); McKinsey Global Growth Model; McKinsey Global Institute Cityscope 2.0; McKinsey Global Institute analysis

- **The rise of Asia.** The global consuming class will increase its membership by 1.8 billion members over the next 15 years, of whom more than 75 percent are likely to be in Asia. The economic transformation in India and China is happening at a scale and pace unprecedented in history. Average incomes are growing at ten times the pace and on more than 200 times the scale of their increase during England's Industrial Revolution. This will fuel demand for a range of resources and commodities supplied by Indonesia. Exports to other Asian economies, particularly those of China and India, have already accelerated strongly in recent years at annual growth rates of 15 to 20 percent. In 2010, Indonesia exported $3.8 billion of palm oil to India and $2.1 billion to China. In the same year, China was Indonesia's largest export market for coal, receiving $3.6 billion, and India was the destination for $2.0 billion of coal exports.

- **Urbanisation.** The proportion of Indonesians living in urban areas could reach 71 percent in 2030, up from 53 percent today, as an estimated 32 million people move from rural to urban areas. New cities will be created, helping to increase the overall share of Indonesian GDP generated by urban areas from an estimated 74 percent today to 86 percent in 2030. Other urban areas will continue to outpace Jakarta's growth. Small middleweight cities, defined as having between 150,000 and two million inhabitants, will continue to contribute the majority of growth and increase their share of GDP to 37 percent (from 31 percent today) with annual growth of more than 6 percent. We expect that cities including Pekanbaru, Pontianak, Karawang, Makassar, and Balikpapan will lead growth among small middleweight cities, each having annual growth rates of more than 7 percent. Growing even faster in relative terms at rates of around 7 percent are 20 mid-sized and large middleweight cities with between two million and ten million inhabitants. Together, these cities will contribute roughly one-quarter of GDP in 2030. In contrast, Jakarta's contribution to GDP is expected to remain relatively constant, at around 20 percent.

- **Growing working-age population.** Indonesia's young and expanding population could total 280 million by 2030, up from 240 million today. Unlike demographic trends in the many economies that are aging—including some in Asia—we expect those in Indonesia to remain positive until 2025 and contribute an annual 2.4 percent to overall economic growth until 2030.

- **An emerging digital and technology-driven nation.** Over the next decade, Indonesia will become a mobile and digital nation. Today there are 220 million mobile subscriptions in Indonesia. The Internet is becoming mainstream. Growing at an annual rate of more than 20 percent, Internet access is expected to reach 100 million users by 2016, dramatically improving connectivity. Green technologies could also dramatically change the resource market in coming years. For instance, Indonesia is home to 40 percent of the world's potential geothermal energy sources. If fully exploited, these could generate up to 24 terawatt hours a year—roughly equivalent to 70 percent of Jakarta's annual energy consumption today.

INDONESIA'S ECONOMY FACES SEVERAL CHALLENGES—AND ACTION IN FOUR AREAS WILL BE CRITICAL TO ADDRESSING THEM

To meet its triple challenge of boosting productivity, ensuring inclusive growth, and meeting the challenge of soaring demand from its expanding consumer class, Indonesia needs to tackle problems relating to excessive bureaucracy and corruption, access to capital, and infrastructure bottlenecks. However, we believe that beyond these widely discussed issues, Indonesia could usefully prioritise tackling barriers in four key areas of the economy that have significant potential if current constraints on growth are removed. Three of these four areas relate to transformation within three key sectors: consumer services, agriculture and fisheries, and resources. The fourth area is building worker skills to enable further diversification of the economy.

1. Transform consumer services

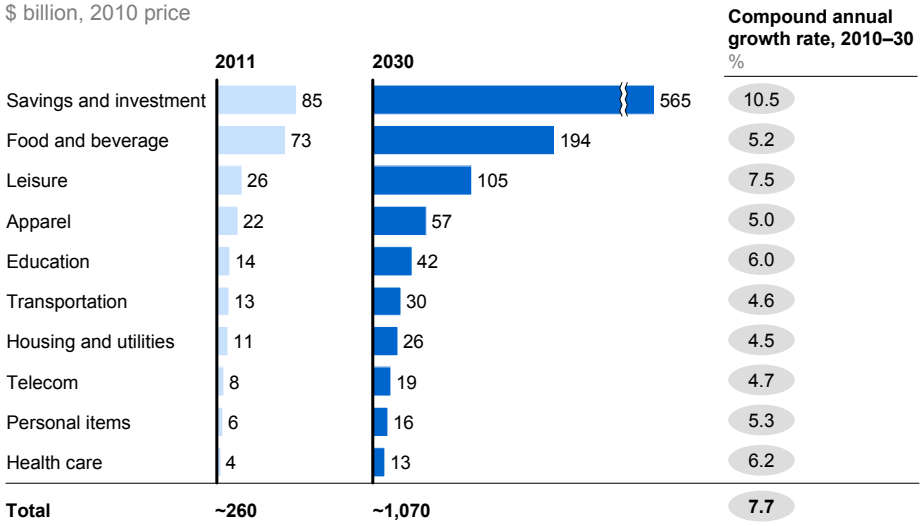
The burgeoning consuming class will give rise to large new markets, notably in financial services and various retail services such as food and beverages (Exhibit E4). The new wave of consuming class in Indonesia is a huge opportunity, but to capture the full economic potential, the sector needs to boost its productivity and ensure that consumer services are widely available across the Indonesian archipelago. Telecommunications and broadband Internet can be one way to ensure a boost to productivity and improved access to consumer products services as it offers a means to overcome physical barriers.

Relatively low levels of productivity in local consumer-facing service sectors explain more than 60 percent of Indonesia's overall productivity gap with Malaysia today. There are a number of barriers to higher productivity. In financial services, regulation is often a constraint. In retail trade, protectionism that is preventing companies from adopting more efficient practices and is limiting competition is arguably holding back growth. In transportation, poor or insufficient infrastructure is a hindrance. Past MGI work has found that removing barriers to competition is crucial to promoting higher productivity in consumer services. Governments can play a vital role in this regard.

Exhibit E4

Indonesia's savings and investments and retail sectors are expected to become large consumer markets by 2030

Annual consumer spend
$ billion, 2010 price



SOURCE: CSI Indonesia survey 2011; Indonesia's Central Bureau of Statistics; Canback Global Income Distribution Database (C-GIDD); McKinsey Global Growth Model; McKinsey Global Institute analysis

2. Boost productivity in agriculture and fisheries

Increasing numbers of relatively affluent consumers in India and China and Indonesia itself will raise demand for food and agricultural products significantly. This increased demand comes at a time when more than eight million Indonesians may leave behind farming to migrate out of the countryside into cities; additionally, pressure on land resources is growing partly because cities are expanding. As a consequence, productivity improvements in the agriculture and fisheries sector are a must. For example, to meet domestic demand alone, productivity among Indonesia's farms will need to increase by more than 60 percent from just over three tons of crops per farmer to five tons in 2030. Environmental concerns and urbanisation are both reasons that increases in production need to come from more intensive production systems rather than more extensive land use. Agriculture is responsible for a significant share of the deforestation and peat-land degradation that account for around 75 percent of Indonesia's total greenhouse gas emissions.

In agriculture, if Indonesia pursued three approaches—boosting yields, shifting production into high-value crops, and reducing post-harvest and value-chain waste—Indonesia could become a large net exporter of agriculture products, supplying more than 130 million tons to the international market.

3. Build a resource-smart economy

Indonesia is entering a period of resource-intensive growth during which demand for energy, materials, water, and other key resources is likely to increase rapidly. Annual demand for energy, for instance, could nearly triple from six quadrillion British thermal units (QBTUs) today to 17 QBTUs by 2030, and demand for finished steel could grow by more than 170 percent from nine million tons to 25 million tons, which is equivalent to 40 percent of India's steel demand today. Indonesia also faces a significant challenge in expanding the supply of safe water and basic sanitation to its growing urban population. We project that 55 million of Indonesia's poorest people, accounting for 20 percent of the total population, could have no access to basic sanitation in 2030 and that 25 million could lack access to water of a decent quality.

Given the strong demand for natural resources that we anticipate, it would be advantageous for Indonesia to maximise its energy supply from unconventional sources such as next-generation biofuels, geothermal power, and biomass, and to more productively extract, convert, and use natural resources such as energy, steel, and water. "Game-changing" forms of energy from unconventional sources could meet up to 20 percent of Indonesia's energy needs by 2030, reducing the country's dependence on oil and coal by almost 15 percent as well as lowering greenhouse gas emissions by almost 10 percent, compared with business as usual. The potential to improve Indonesia's energy efficiency is also significant. For instance, using more efficient methods to generate power, improving transportation, and retrofitting and constructing more energy-efficient buildings could together reduce 2030 energy demand by as much as 15 percent.

4. Invest in skill building

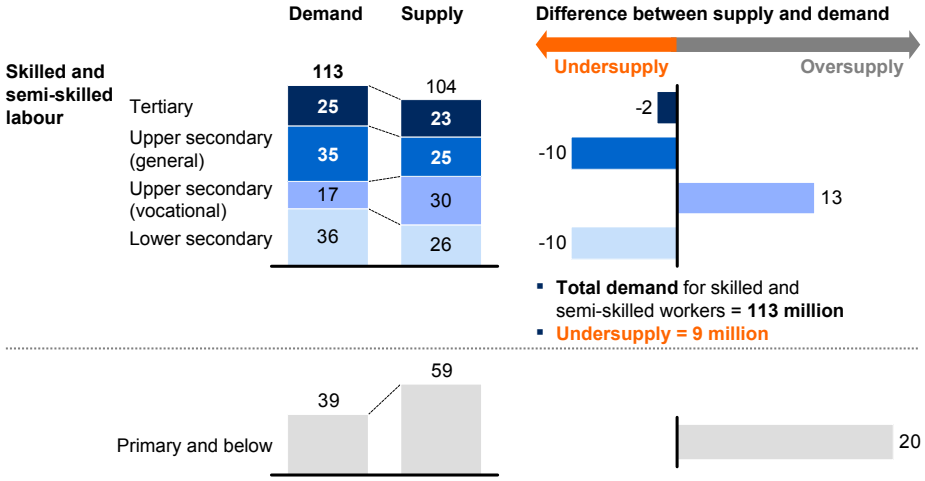
Indonesia's evolving economy will need new skills to support growth. Research by the World Bank suggests that human capital is a major obstacle to the development of a vibrant Indonesian manufacturing sector. The World Bank finds that 84 percent of employers in manufacturing report difficulties in filling management positions and 69 percent report problems in sourcing other skilled workers.[3] In addition, strict regulations related to the termination of a job create a difficult environment for corporations. In order to achieve our base-case projection of between 5 and 6 percent annual GDP growth, we estimate that demand for semi-skilled and skilled workers will increase from today's level of 55 million to 113 million by 2030, a rise of almost 60 million workers. Increasing female participation to the level of Thailand today could add 20 million semi-skilled to skilled workers, but this would not be sufficient to meet Indonesia's need for skills to support economic growth. On current trends and policies, and assuming that female participation rises to the levels of Thailand today, we project that, by 2030, Indonesia could face a shortfall of nine million workers educated to the secondary and tertiary levels—nearly the population of Jakarta today (Exhibit E5).

3 *Indonesia skills report: Trends in skills demand, gaps, and supply in Indonesia*, World Bank, May 2010.

Exhibit E5

Indonesia is projected to face challenges in ensuring that workers receive the right level of education

Workforce demand vs. supply, 2030 projections
Million workers



SOURCE: Indonesia's Central Bureau of Statistics; CEIC Data; United Nations Statistics Division; World Bank; The Economist Intelligence Unit; McKinsey Global Growth Model; McKinsey Global Institute analysis

Drawing on McKinsey's global education work, we have identified three measures that could help to close the looming skills gap: (1) raise the standard of teaching significantly, with an emphasis on attracting and developing great teachers; (2) develop a more demand-driven curriculum; and (3) create new, flexible education pathways. Closing the skills gap will require significant investment. Assuming that the government continues to spend about 3 percent of GDP a year on public education, there could be a gap of $8 billion a year by 2030 given expected total demand for education.

CONCERTED ACTION IN THESE FOUR AREAS COULD OFFER BUSINESSES A $1.8 TRILLION OPPORTUNITY BY 2030

If Indonesia acts decisively in these four areas, we estimate that they collectively offer private-sector business an opportunity that could be worth $1.8 trillion by 2030, the lion's share of which would come from consumer services (Exhibit E6).

- **Consumer services.** With an additional 90 million consumers expected in Indonesia, consumer spend in urban areas could increase at 7.7 percent a year to become a $1.1 trillion business opportunity by 2030. The total opportunity could increase to $1.5 trillion if Indonesia were to achieve the government's 7 percent annual GDP growth national target, a growth rate that would result in 125 million new consumers. There will be business opportunities across consumer services, but the largest is expected to be in financial services.

- **Agriculture and fisheries.** Revenue from agriculture and fisheries could increase at a rate of 6 percent per year to reach $450 billion by 2030. Revenue from production could increase to $250 billion, with increasing yields accounting for almost half the total potential increase. The downstream food and beverages industry could develop into a $180 billion opportunity, while upstream activities, such as machinery, fertiliser, and seeds could offer additional annual potential of $10 billion and total potential of $20 billion a year.

We see the largest absolute production potential in the provinces of West, East, and Central Java, while East Nusa Tenggara could be the location for one of the fastest-growing opportunities in this sector.

- **Resources.** In 2030, the Indonesian energy market could be worth about $270 billion, including both the opportunity in new sources of energy and the savings from pursuing energy-efficiency measures. New sources of energy such as geothermal and biofuels could grow rapidly at rates of more than 10 percent a year to become over a $60 billion market. However, the largest potential of an estimated $150 billion is likely to continue to come from oil, gas, and coal. Measures to increase energy efficiency could be worth an additional $60 billion in savings and societal value by 2030.

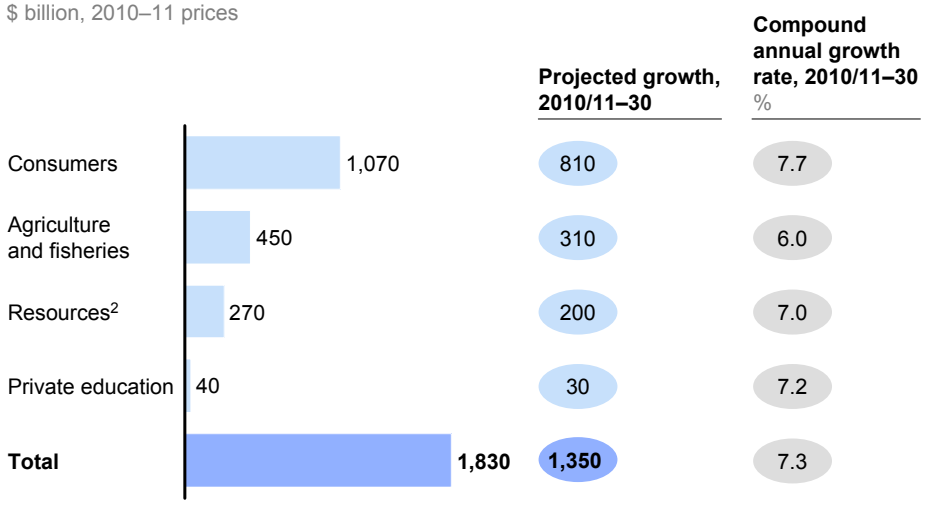
- **Human capital.** There is a large opportunity in private education, demand for which could potentially increase four-fold from $10 billion a year to an estimated $40 billion in 2030. We project that the number of students in private education will nearly double to 27 million by 2030. If this opportunity were realised, Indonesia could expand its labour force by an additional 13 million semi-skilled and skilled workers.

To capture these opportunities, businesses will need to rethink their geographical footprint in Indonesia given the shift toward middleweight cities and the rise of new, economically important regional centres. Businesses will also need to consider how they can collaborate most effectively with local governments to tackle some of the barriers impeding regional growth today and how they can best develop local talent, particularly in the ranks of middle management.

Exhibit E6

Four Indonesian sectors offer a potential $1.8 trillion business opportunity by 2030

Estimated annual revenue, 2030[1]
$ billion, 2010–11 prices



1 Rounded to the nearest $10 billion.
2 Only includes upstream energy market, and savings and societal value from increased energy efficiency.
SOURCE: McKinsey Global Institute analysis

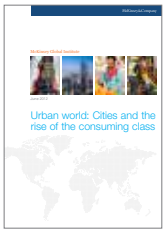
□ □ □

Indonesia could be on the cusp of a new era of sustained growth and rising prosperity with the advantage of a following wind from major domestic and international trends. But there is still much to do if the archipelago economy is to make the most of this opportunity. In chapter 1, we examine five misconceptions common among external observers of Indonesia's economy. In chapter 2, we look at Indonesia in the context of powerful positive trends that should buoy growth. In chapter 3, we discuss some of the barriers to growth that Indonesia faces, highlighting the importance of action in four priority areas. Finally, in chapter 4, we size the potential private-sector opportunity in Indonesia and offer some brief thoughts on how businesses need to react and adapt to prospects in the archipelago economy today.

Related McKinsey Global Institute publications

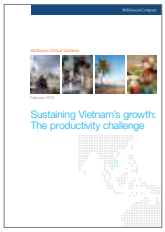
The world at work: Jobs, pay, and skills for 3.5 billion people (June 2012)

Over the past three decades, as developing economies industrialised and began to compete in world markets, a global labour market started taking shape. This report explores the hurdles, based on population, education, and labour demand, which the global economy faces as the global labour force approaches 3.5 billion people in 2030.



Urban world: Cities and the rise of the consuming class (June 2012)

This finds that the 600 cities making the largest contribution to a higher global GDP—the City 600—will generate nearly 65 percent of world economic growth by 2025. However, the most dramatic story within the City 600 involves just over 440 cities in emerging economies; by 2025, the Emerging 440 will account for close to half of overall growth.

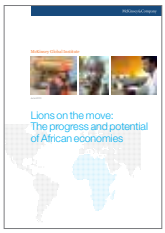


Sustaining Vietnam's growth: The productivity challenge (February 2012)

Vietnam's economy has come an extraordinarily long way in a short time. China is the only Asian economy that has grown faster since 2000. But today Vietnam's economy faces complex challenges that require a transition to a productivity-driven growth trajectory. Vietnam now needs to boost labor productivity growth by more than 50 percent to maintain its rapid growth.

Resource revolution: Meeting the world's energy, materials, food, and water needs (November 2011)

Meeting the world's resource supply and productivity challenges will be far from easy—only 20 percent of the potential is readily achievable and 40 percent will be hard to capture. There are many barriers, including the fact that the capital needed each year to create a resource revolution will rise from roughly $2 trillion today to more than $3 trillion.



Lions on the move: The progress and potential of African economies (June 2010)

Africa's economic growth is creating substantial new business opportunities that are often overlooked by global companies. Consumer-facing industries, resources, agriculture, and infrastructure together could generate as much as $2.6 trillion in revenue annually by 2020, or $1 trillion more than today.

Preparing for China's urban billion (February 2009)

The scale and pace of China's urbanisation continues at an unprecedented rate. If current trends hold, China's urban population will hit the one billion mark by 2030. For companies in China and around the world, the scale of China's urbanisation promises substantial new markets and investment opportunities.

www.mckinsey.com/mgi

eBook versions of selected MGI reports are available at MGI's Web site, Amazon's Kindle bookstore, and Apple's iBookstore.

Download and listen to MGI podcasts on iTunes or at www.mckinsey.com/mgi/publications/multimedia/

McKinsey Global Institute
September 2012

www.mckinsey.com/mgi
@McKinsey_MGI
McKinseyGlobalInstitute