Doubling every decade – The 7% club

- **Countries growing at 7% double the size of their economy every ten years**
- **We expect seven countries to do this in the 2020s: India, Bangladesh, Vietnam, the Philippines, Myanmar, Ethiopia and Côte d'Ivoire**
- **China, India and Ethiopia were 7% club members (with growth at or above 7%) in the 2010s**

7 candidates for the 7% club in the 2020s

We highlight the economies around the world that are likely to grow the fastest in the 2020s, following on from our recently updated *Long-term forecasts – Asia powers global growth*. Our threshold for this list is 7%, the approximate growth rate at which an economy can double in size every 10 years. China was a member of the 7% club for nearly 40 years but has recently exited as its growth naturally slows. Ethiopia and India joined the club over the last decade, while countries such as Vietnam and Bangladesh came close.

We expect India and Bangladesh to be the dominant members of the club in the 2020s. Together, they are projected to account for a fifth of the world's population by 2030. ASEAN countries like Vietnam and the Philippines could sustain growth rates of more than 7% for an extended period with the right mix of reforms and investment, especially in infrastructure. We now expect fewer Sub-Saharan African (SSA) economies to join the 7% club in the 2020s than in the current decade. Waning reform momentum, despite a slowdown in commodity prices, is largely to blame. This is not irreversible, however, and renewed reform impetus could still boost the region's potential. For now, within SSA, we expect Ethiopia and Côte d'Ivoire to join the club in the next decade.

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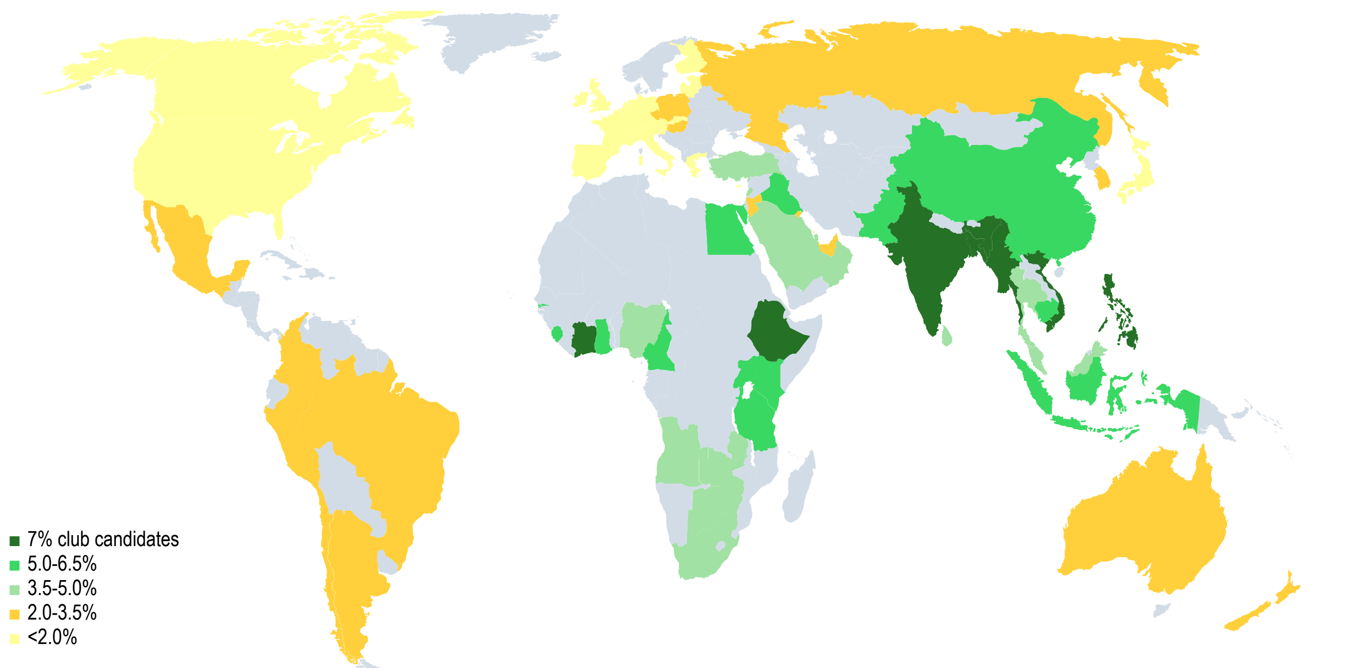
Figure 1: Asia dominates potential 7% club members; some SSA countries also look promising



Source: Standard Chartered Research forecasts

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Why the 7% club?

We introduced the 7% club – a select group of countries achieving growth of 7% p.a. or more over an extended period – in 2010. Sustained growth of around 7% (7.18%, to be exact) leads to a doubling in GDP every 10 years. If two countries start at the same level of GDP and one grows at 7% while the other grows at 5%, in 30 years, the faster-growing economy will be almost twice as large as the slower-growing one.

Newly industrialised economies grew at 7% for at least 25 years

In the period after 1945, many newly industrialised economies – such as Japan, Korea, Singapore and Taiwan – achieved 7% growth for 25 years or more (Figure 3). These economies were the basis for the 'Asian model' of growth. More recently, countries in other regions have also seen growth strong 7%-plus growth. They include Azerbaijan, Côte d'Ivoire, Ghana, Iraq, Uzbekistan, Uganda and Botswana.

Faster growth not only helps to lift people more quickly out of absolute poverty, but is also usually accompanied by better health and education, as well as a wider range of – and better access to – goods and services. Higher incomes resulting from faster growth also usually reduce socio-political instability and make it easier to introduce structural reforms, creating a virtuous cycle.

It is easier to address challenges such as environmental issues at higher incomes brought about by faster growth

Of course, the quality of growth matters as well. Faster growth can bring rising income inequality, crime, pollution and environmental challenges. We focus here on the quantity of growth, as rapid income growth also makes it easier to tackle problems like climate change and income inequality.

How do countries achieve 7% growth?

Periods of rapid economic growth generally occur in one or more of four circumstances:

1. **Commodity booms:** A commodity export boom caused by higher prices and/or the rapid development of new discoveries. This usually provides significant business opportunities, but the economic boom is difficult to sustain beyond a decade or so, giving rise to unbalanced growth (e.g., Dutch disease). Countries that have seen rapid growth led by commodity booms include Angola, Azerbaijan and Uzbekistan.

Economies can grow fast under four broad circumstances; not all are sustainable

2. **Recovery bounces:** A recovery period after major economic or political dislocations. The economy will grow at a faster pace until it reaches prior levels of development, but may slow thereafter. Maintaining strong growth beyond the initial recovery period depends on structural reforms. Some of the former Soviet Union countries fall into this category, as do Ethiopia, Rwanda and Iraq (which also benefits from being resource-rich). In Asia, Myanmar falls into this category.

Most Asian economies have grown by industrialising and integrating with global export chains

3. **Overheating booms:** A temporary boom period characterised by rapid monetary expansion, rising debt levels, and often a real-estate boom. Such periods can often be succeeded by painful busts and typically last only a few years. Kazakhstan was an example of such an expansion.

4. **Export-oriented industrialisation:** Fast growth via high mobilisation of savings, channelled into productive investments, usually in export-oriented manufacturing. This is the essence of the Asian growth model that has worked well for many countries. China, Vietnam and Cambodia have followed in the footsteps of the earlier 'Asian tiger' economies.

The fourth category has been the most reliable way to achieve sustained development since WWII. The success of this model has usually been based on a couple of additional factors. Governments have delivered broad macroeconomic stability, including low inflation and sustainable public finances. They have also introduced structural reforms to promote sustained growth. These include deregulating the economy, particularly the labour market and international trade, while also focusing on deepening the financial sector.

All economies with sustained strong growth have been able to mobilise high national savings

A key component of the success of economies that have seen extended periods of 7%-plus growth has been their ability to mobilise high national savings rates – 20-25% of GDP is not unusual (Figure 2). This is channelled into productive investment, helping to make growth sustainable.

Countries that are unable to mobilise such savings domestically are likely to be at the mercy of foreign investment, which can be volatile and reverse abruptly. In addition, historically, countries that have used savings and investment to integrate with global supply chains have enjoyed extended periods of high growth. This is related to their ability to be internationally competitive in specialised sectors, implying high productivity in those sectors.

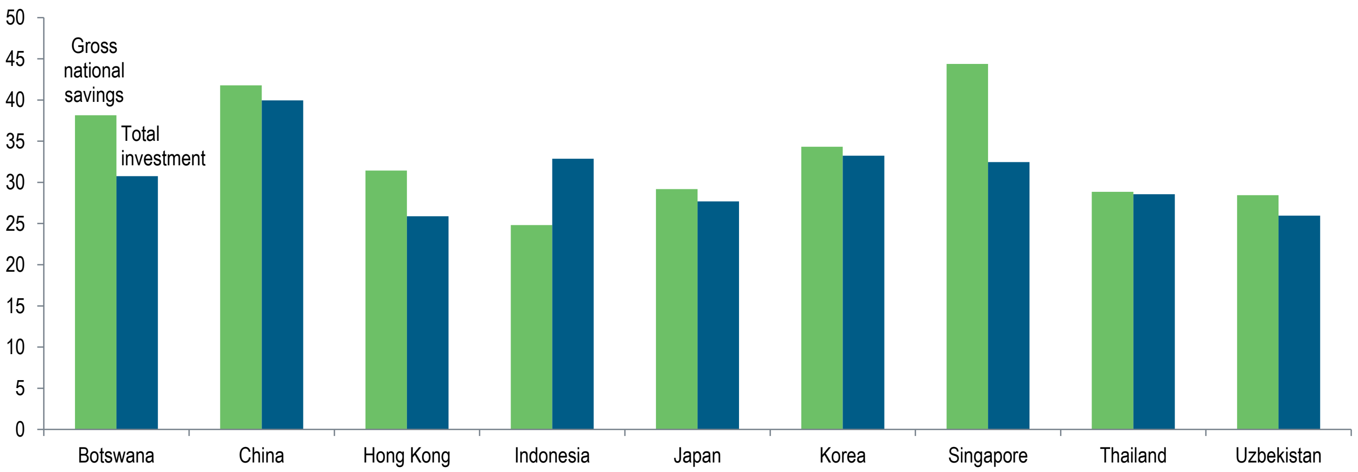
Emerging markets too dependent on domestic demand will be constrained by the small size of their markets

Countries with high investment rates that are unable to integrate with global supply chains and focus instead on domestic demand might enjoy brief spells of strong growth. However, domestic markets are usually too small to sustain growth for an extended period. Globalisation and integration with world trade, with access to deep foreign markets, has been a crucial source of growth for emerging economies.

Analysis done in the Harvard Atlas of Economic Complexity, as well as recent work by the World Bank, suggests that countries with greater economic complexity – i.e., more diversified and sophisticated exports – are likely to achieve more sustainable growth. This supports our view that countries that can channel savings into more export-oriented and industrialised sectors will enjoy longer growth periods; this has also been the case historically.

Figure 2: Historically, 7% club members have seen savings and investment rates of at least 20-25% of GDP

% of GDP



Source: IMF WEO, Standard Chartered Research

Figure 3: The 7% club from 1960-2018

Blue shading denotes periods in which growth exceeded 7% for 5 years or more

Note: Bangladesh is shaded light blue as it has not yet completed a 5-year streak of 7%+ growth; Source: World Bank, IMF, Standard Chartered Research

7% club in the 2010s – Expectations versus reality

In 2010, we identified 10 countries as potential 7% club members: China, India, Indonesia, Bangladesh, Vietnam, Nigeria, Ethiopia, Tanzania, Uganda and Mozambique. Some smaller countries also had the potential to grow rapidly, but we excluded them from our list given their small populations. The combined population of the 10 countries on our 2010 list was 3.3bn, just under half the world's total population.

Club members

Ethiopia has been the star growth performer over the past decade

Ethiopia has been the star performer among these countries, expanding at an average rate of 10.2% p.a. from 2010-18. Reforms allowing greater foreign participation in previously state-owned sectors and greater domestic political openness should drive stronger sentiment and foreign investment, enabling Ethiopia to remain one of SSA's fastest-growing economies. However, the pace of political and economic reform will need to be maintained to avoid the risk of a resurgence of discontent and protests. Ethiopia's GDP per capita is amongst the lowest in the region. External imbalances and rising external debt remain concerns.

China has also maintained its membership in the club since 2010, extending its streak of 7%-plus growth to a phenomenal four decades. In the initial stages, China's expansion was led by rapid export growth, but it has increasingly turned into a domestic story, with little contribution from net exports over the past decade. Higher domestic investment, led by government infrastructure spending and consumption (supported by strong labour markets), has underpinned growth, while the authorities have increasingly focused on deleveraging the economy.

India has also joined the 7% club as expected, though policy paralysis due to a weak coalition government briefly interrupted its 7%-plus growth streak. Simultaneous fast expansion in India and China has meant a significant improvement in income levels for 2.6bn people, or one-third of world population.

A foot in the door

Bangladesh, Tanzania and Vietnam have seen strong, but below-7%, growth since 2010

A few countries have come close to meeting the 7.0%-plus growth average over the last decade. **Tanzania** grew just below 7% for an extended period after the early 2000s, driven by mining, agriculture, tourism and an expanding private sector as the country emerged from its socialist past. Strong donor support and robust public-sector infrastructure investment also helped. More recently, however, a less supportive policy environment may create new growth risks. **Bangladesh** has also seen a growth acceleration since 2010, to an average of 6.4%, as a stable government, infrastructure investment and improved energy supply have boosted productivity gains.

Vietnam has sustained growth above 6.0% over the past few years. It has become a preferred destination for setting up low-cost manufacturing units as the authorities have opened the economy and encouraged integration with global supply chains.

Mozambique saw strong 7%-plus growth up to 2014. With the discovery of vast gas reserves, Mozambique was expected to remain among the top performers in the SSA region, potentially emerging as a new Qatar. However, after excessive borrowing, and following the discovery of 'hidden debt' that contributed to an unsustainable debt burden, Mozambique's prospects are now less bright. This serves as a reminder of how poor governance can compromise the ability of a resource-rich economy to reach its potential.

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A weaker commodity price environment has constrained Nigeria's growth performance

Nigeria's growth performance since 2010 has disappointed relative to its potential as the pace of reform has slowed. Weaker commodity prices following the late-2014 collapse in oil prices further weakened growth. Although counter-cyclical policy has focused on increased external borrowing to drive public infrastructure spending, domestic savings mobilisation has not kept up. This will likely have to change in order to support a sustained investment boom.

Uganda's growth has also been weaker than we projected. While the country has been a strong reformer since it emerged from civil conflict in the mid-1980s, growth momentum has slowed in recent years as investment rates have plateaued. Compared with SSA peers such as Ghana, Uganda has been slow to build on its potential as an oil producer.

In Asia**, Indonesia** was formerly in the 7% club but fell out after the Asian crisis in 1997. It has been unable to recapture those growth rates, though we expect ongoing reforms to push growth back to the 6% range.

Countries to watch in the 2020s

The 7% club is becoming smaller as China leaves

We expect the 7% club to become smaller in the 2020s (we only include countries with populations of at least 10mn). This partly reflects the success of many emerging markets in transforming themselves into middle-income economies as per-capita incomes rise. Achieving 7% growth becomes more difficult as per-capita incomes approach Western standards. This is most evident in the case of China.

China exits the club – Moving into a different league

China's membership in the 7% club has been one of the longest in the post-WWII era. This has helped to catapult China into the position of the world's largest economy (in PPP terms), and the second-largest when measured in market exchange rates. A slowdown is natural given the size of the economy and structural challenges such as an ageing population. China has exited the 7% club in the last few years, and we expect its growth to continue to moderate from here. Despite the slowdown, growth is likely to remain robust at close to 5.5% during the 2020s.

Watching the two South Asian behemoths

South Asian economies should see growth above 7%

In the 2020s, the 7% club is likely to be dominated by two large, populous South Asian countries: India and Bangladesh. Young labour forces and accelerating structural reforms are likely to help both countries achieve growth well over 7.0% in the coming decade.

With half of its population aged under 25, **India** has a unique opportunity to reap a demographic dividend. Of 100 new entrants to the global workforce in 2020, 28 will come from India. In addition, a growing middle class will encourage greater demand for investment, goods and services. Recent structural reforms – including the implementation of GST and the bankruptcy law – are also likely to bring benefits over the medium term. Further reforms to increase economic liberalisation and productivity growth are pre-requisites for tapping India's potential. An increased focus on skills development, healthcare and education for the young population is urgently needed.

Bangladesh has borne the fruits of infrastructure investment, improved energy supply and a stable government. Its demographic profile is favourable, and investments in education and health have paid off. All of this has helped to improve productivity. Low levels of public and external debt give the government room for counter-cyclical fiscal stimulus to support growth if needed.

By 2030, we expect India to become the world's fourth-largest economy (measured by market exchange rates) and Bangladesh to become the 23rd-largest. The two countries together will account for c.20% of the global population by 2030, according to the UN.

Some bright spots in ASEAN too

Other countries to watch are from the ASEAN region, led by Vietnam and the Philippines. **Vietnam's** growth is likely to continue to be driven by FDI-led manufacturing and export growth. While its role in China's supply chain for exports to the US could hurt exports amid the US-China trade war, Vietnam also stands to benefit if it can absorb demand diverted to other locations as China reduces exports to the US. Rising tourism inflows and stronger domestic demand (supported by higher wages) are also likely to sustain strong growth for an extended period.

With greater infrastructure spending, the Philippines could see 7%-plus growth

Potential growth for the **Philippines** is likely to be in the 6.5-7.0% range over the coming decade. It has the potential to move into the 7.0% club with greater infrastructure investment and an increased focus on developing the under-tapped tourism sector.

Another potential candidate is **Myanmar**. Its economy has lost momentum in the past couple of years; we see risks of a further slowdown, as the weak political and business environment could hinder investment growth. Over the longer term, however, improved infrastructure and connectivity, financial deepening, further integration with regional and global supply chains, and continued reforms could help the economy grow 7% or more a year. The ongoing development of three special economic zones (SEZs) in the country should boost long-term growth prospects.

Cambodia has seen strong 7% growth over the past decade, fuelled largely by foreign direct investment. The country's savings and investment rates were very low until recently, indicating that this growth might be hard to sustain. Over the past couple of years, however, Cambodia's savings rate has moved into the 20-25% of GDP range; if sustained, this would support a more favourable growth outlook.

Figure 4: Potential 7% club members in the 2020s

	2018 – Pop. Mn	**2018 – Per-capita GDP** USD	**National savings rate** % of GDP	**Total investment rate** % of GDP	**2030 – Pop.** Mn	**2030 – Nominal per-capita GDP*** USD
Bangladesh	166.4	1,599.8	28.7	31.6	185.6	5,734.6
India	1,354.1	1,913.2	29.1	31.6	1,513.0	5,423.4
Vietnam	96.5	2,469.3	29.6	26.6	106.3	10,407.9
Côte d'Ivoire	24.9	1,812.1	18.2	21.6	33.3	4,427.7
Ethiopia	107.5	852.7	32.1	39.0	139.6	2,770.2
Philippines	106.5	3,122.0	24.5	27.0	125.4	6,905.6
Myanmar	53.9	1,297.7	28.6	32.9	58.9	4,782.6

*Based on our FX forecast; Source: Standard Chartered Research forecasts, WB, IMF WEO, UN population statistics

SSA countries need to do more to enter the club

Fewer SSA countries look likely to join the 7% club now

Fewer Sub-Saharan African economies now look like potential 7% club members than in 2010. In some instances, previous rapid growth was strongly associated with more favourable commodity prices (Nigeria, Sierra Leone). When commodity prices receded, their dependence on this growth driver left them vulnerable. Nigeria is still grappling with the after-effects of the late-2014 collapse in oil prices.

The policy environment matters for the growth outlook

The policy environment also matters. Significant changes in Tanzania – large fines on foreign investors, measures that have had a demonstrably adverse impact on market liquidity, a more constrained environment for the private sector, and rapid policy changes with little predictability – have also weakened the growth outlook. The IMF now estimates a 4% growth rate for the economy in 2019, below government projections. In Nigeria, too, perceptions of a more adverse business environment have not helped growth.

Previously high growth rates in some SSA economies reflected a heavy dependence on foreign aid and a low base for growth. As more of the region's economies update their national statistics and rebase GDP, growth rates in the 7% region have become less common. Savings and investment rates in SSA are too low to sustain 7% growth.

Ethiopia and Côte d'Ivoire hold promise

Ethiopia is likely to remain one of the fastest-growing economies in the world

Ethiopia was a key member of the 7% club in the 2010s and has the potential to stay in the club in the 2020s. Reforms allowing greater foreign participation in previously state-owned sectors and the opening up of the domestic political space should drive stronger sentiment and foreign investment. This should enable Ethiopia to remain one of the world's fastest-growing economies. Its national savings rate is also higher than most of its SSA peers'.

Côte d'Ivoire has outperformed our expectations in the last decade as political stability boosted growth momentum. We are optimistic that it can extend its 7.0% growth over the coming decade, aided by narrowing twin deficits and moderate indebtedness. Côte d'Ivoire's economic base is well diversified and the country is less susceptible than SSA peers to external shocks. However, improving institutional strength will be needed to sustain growth.

For Uganda, the resumption of significant public infrastructure investment could cause a sharp pick-up in growth

While **Uganda's** growth has disappointed over the past decade, we see a possibility that it could re-join the 7% club in the future. The resumption of significant public infrastructure investment, a strong demographic profile, and hydrocarbon potential could play a greater role in driving future growth. Uganda stands out as the SSA economy that has lifted the greatest proportion of its population out of poverty. However, many Ugandans remain in a vulnerable income bracket and could fall back below the poverty line in the event of an external shock.

Compared with other potential 7% club members, however, both Uganda and Côte d'Ivoire have relatively low national savings and investment rates, which raises questions about their ability to sustain this growth beyond the 2020s (Figure 1).

Conclusion

Strong reforms could push more emerging markets into the high-growth category

Faster growth brings many benefits, including pulling large swathes of the population out of abject poverty. All countries that have seen rapid economic development since WWII have grown by more than 7% for an extended period. China, which has dominated the 7% club for the past four decades, has now exited. We think seven countries have the potential to be members of this club in the 2020s. Of these, Bangladesh and India hold the most promise. In ASEAN, faster reforms and infrastructure spending could propel Vietnam, the Philippines and Myanmar into the club. The SSA region has disappointed given the recent waning of reform momentum across a large number of economies. While the region's savings and investment rates remain too low to support sustained growth, this could change in the future. A more sustained reform commitment could see other SSA economies re-join the 7% club; we see potential for Ghana and Senegal.

Faster growth does not make economies immune to periodic major downturns. Almost all of the countries that have been members of the 7% club since the 1960s have seen one or more major recession at some point. Some emerged from recession and re-joined the club (like South Korea in the 1970s), while others dropped out and struggled to find their way back (like Thailand since 1997). The quality of growth matters as well as the quantity.

Most 7% club members have benefited from globalisation and integration with world trade

The ability to tap external market demand and import skills, know-how and technology from the rest of the world has formed the basis of growth for all countries that have industrialised since WWII. Increasing globalisation and trade integration have been critical in this process. The recent rise of anti-globalisation sentiment and nationalist policies, especially in developed countries, poses a threat to sustained gains for both emerging markets and the global economy.

Increasing worries about climate change and sustainability could also curb emerging markets' growth potential. The urgency of addressing climate change concerns could usher in policy reforms across the globe, constraining the ability of some emerging markets to pursue fast-growth strategies. However, support from multilateral institutions and technology transfers from advanced economies could help to achieve the opposite outcome – with infrastructure upgrades resulting in cutting-edge and environmentally sustainable capital stock.

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