Advanced Economies’ Competitive Advantage Under Threat: Are Emerging Economies Catching Up or Forging Ahead?

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EXECUTIVE SUMMARY

In the first decade of the 21st century, China, India, and a few other emerging economies have been recording unprecedented growth rates. Both their gross domestic product (GDP) and their per capita income are increasing very rapidly. A key question that arises is whether these economies and their companies are closing the gap that exists with advanced economies, or are they poised to become the next economic powerhouses of the world? Using the catch-up hypothesis, the paper attempts to examine the competitive implications of the rise of emerging economies.

Keywords: Emerging economies, Advanced economies, Catch-Up Hypothesis, BRIC Thesis, Competitive Advantage.

INTRODUCTION

This paper examines the new trends in the global competitive landscape. In particular, it analyzes the impact of the growing economic power of emerging economies on the ability of advanced economies and their companies to sustain their current competitive dominance in the next few decades. Increasingly, an argument is being made that global competitive advantage may be shifting from advanced economies to emerging economies. This argument has been advanced by researchers from the Brookings Institution (e.g. Kharas, 2010; Lieberthal, 2010), and economists from Goldman Sachs (O’Neill, 2001; O’Neill & Stupnytska, 2009; Wilson & Purushothaman, 2003; Wilson, Kelston, & Ahmed, 2010). Also, business publications such as the Financial Times (Pilling, November 22, 2010), Morgan Stanley Capital International (Morgan Stanley, 2011), and Investopedia (2011), have been highlighting the considerable rise of emerging markets and the investment opportunities they offer. As a result, emerging nations are expected to become major economies that will rival today’s developed nations.

The purpose of this research is to discuss the growing importance of emerging economies. In particular, the paper will evaluate whether emerging economies are simply catching up by closing the income gap that exists between them and the current major economic powers, or if they are slowly but steadily forging ahead as the most competitive nations of the next few decades.

QUEST FOR GLOBAL COMPETITIVE: ADVANCED VS. EMERGING ECONOMIES

Using The World Bank classification based on per capita income (The World Bank, 2011), this study will group countries into two categories: advanced economies, and emerging economies. Advanced economies are countries with a per capita income of US$12,275 or more (high income countries), and emerging economies are countries with a per capita income of US$12,275 or less (low to middle income countries). For both groups of economies, the discussion of the quest for competitive advantage can be done at the macro level (countries) and the micro level (companies).