

Tales From the Emerging World

## Where the Digital Future Will Unfold

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Chances are good you are reading this on a slim device in your hand. And occasionally, you may still marvel at how this gizmo opens worlds to all of us. Over the last decade, the number of people who own a smartphone has risen from 150 million to more than 4.5 billion, in a global adult population of 5.7 billion.<sup>1</sup> Now if you are not an investor working out of Singapore or New York but a farmer in Indonesia, a restaurateur in Russia, or a doctor in Nigeria, you have the same world of possibilities at your fingertips. And those possibilities are growing fastest in emerging markets.

Over the last decade, the number of internet users doubled in G20 countries, and the biggest gains by far came in 10 big emerging markets. For example, Russia, Indonesia, Brazil and India all saw the share of the adult population with internet access double, in Russia's case to around 80 percent of the total.<sup>2</sup>

Much of this boom was driven by the fact that digital technology, including smartphones, is increasingly affordable, within reach for emerging market customers. Of the G20 nations which added the most new mobile subscriptions last decade, four of the top five are emerging markets. China and India both added more new subscriptions than there are people in the United States or Europe. The quality of those connections is also improving rapidly. Of the 10 countries where internet bandwidth is growing fastest, according to the OECD, eight are in the emerging world.<sup>3</sup>

The real digital action is moving away from the acknowledged tech superpowers—the United States and China—to other emerging markets, driven in large part by youth.

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<sup>1</sup> Ben Evans, Haver, UN Population Database.

<sup>2</sup> ITU World Telecommunications Database/ICT Indicators Database, OECD

<sup>3</sup> ITU World Telecommunications Database/ICT Indicators Database, OECD.



Millennials recently became the world's most numerous generation. A disproportionately large majority of them live in emerging countries, representing two thirds or more of the population in young countries like India and Nigeria, compared to just a third in older ones like Germany and Italy, and half in the United States.<sup>4</sup> Moreover, while younger generations are shrinking as a share of the population in older societies, they are still growing in many emerging markets. Raised on the internet, they will shape its future, and will continue to find innovative ways to meet everyday needs through digital technology.

In richer countries, many consumers young or old have ready access to an elaborate and reliable infrastructure of bricks and mortar service industries, such as banking, retail, health care and education, with which they are familiar and comfortable. They need a reason to switch. In emerging countries, where many people have limited or no access to such services, they are rushing to the first digital offerings that come their way.

Thus the absence of legacy infrastructure is one of the most powerful drivers of rapid digital change in the emerging world. The European Center for Digital Competitiveness scores G20 nations by pace of progress in digital ecosystems and mindset, and scores four emerging nations in the top five.<sup>5</sup>

One intriguing aspect of the digital revolution is that it has the potential to lift up a broad swathe of emerging markets simultaneously. In the past, the hopes of emerging economies rested largely on exports. Commodity exports were a live option for those rich in raw materials. Manufactured exports brought prosperity only to a disciplined few who managed to mobilize their societies to build competitive factories.

Digital technology is a very different model. It is not an export competition, with few winners. It has the capacity to transform for the better any large domestic economy, including the many that have been forgotten by global investors. Consider just these seven: Indonesia, Pakistan, Nigeria, Bangladesh, Philippines, Egypt and Vietnam. Each has a population greater than 100 million. Together, they are three times more populous than Europe. Of the billion-plus people who live in these seven countries more than half are still not connected to the internet.<sup>6</sup> The upside potential remains huge.

For decades, these markets were ignored, owing in good part to lack of trust in their governments and financial institutions, problems that transparent and secure digital services have the potential to solve, quickly. In emerging countries, including Indonesia,

the Philippines, Egypt and Vietnam, virtually everyone has a mobile phone, but only a quarter to half have a bank account.<sup>7</sup> Many, if not most, don't have a credit card. It's both a lack of legacy infrastructure, and a lack of trust in existing institutions, that sets these countries up for explosive growth in digital banking, cash and other services.

Despite the widespread perception that American and Chinese giants are colonizing the digital world, the reality is that many local contenders are more than holding their own, also for simple reasons. Superior knowledge of local and regional languages and tastes, and a talent pool of software designers and engineers who are more than up to the basic task. They do not necessarily need to lead in innovation, they just need to rapidly adapt technologies to local conditions.

And they are. Since 2014, more than 10,000 tech firms have been launched in emerging markets, nearly half outside China. Many have grown beyond the risky startup phase.<sup>8</sup>

Alibaba has been called the Amazon of China, but there are now also Amazons of Russia, Poland, Latin America and Southeast Asia. Local firms dominate the markets for search in Russia, ride hailing in Indonesia, and digital payments in Kenya. Nairobi and Lagos are rising as the fintech hubs of Africa, with some leading executives declaring their commitment to raise the region's digital GDP by expanding access to internet financing.

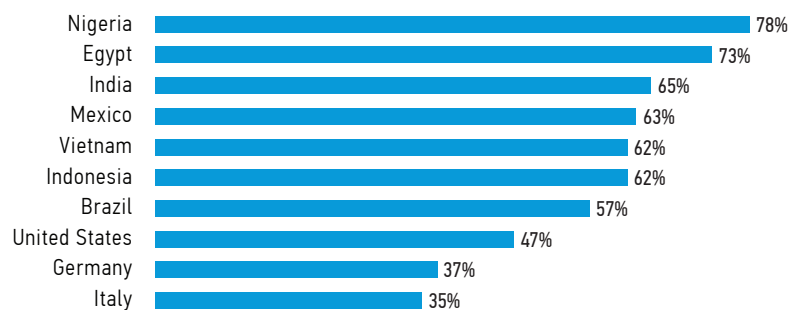
There are at least four emerging market tech companies that are more than a decade old, with a market cap of at least \$2 billion (and up to \$135 billion), which over the last three years have posted average annual stock market returns higher than the Chinese e-commerce giant.<sup>9</sup> They include the leading e-commerce service in Southeast Asia, the leading fintechs in Russia and Egypt, and the top mobile money service in Africa.

The next step: EM adopters and adapters are becoming the new innovators, pushed by their younger, less patient, more demanding and needy online populations.

## DISPLAY 1

### A Critical Mass of Millennials

Digital natives are concentrated in emerging countries



% of Population represented by Millennials and Gen-Z, i.e., born between 1981 and present

Source: Financial Times, BAML, Kleiner Perkins.

<sup>4</sup> Financial Times, BAML, Kleiner Perkins. Millennials are defined as those born between 1981 and present.

<sup>5</sup> ESCP Business School's European Center for Digital Competitiveness.

<sup>6</sup> Haver, UN Population Database.

<sup>7</sup> WDI, UN. Data as of December 2020.

<sup>8</sup> BCG, MSIM.

<sup>9</sup> Bloomberg, MSIM.

From e-commerce to social media, fintech and ride sharing, there are already numerous examples of American giants copying from rivals in China, Indonesia and beyond. Arguably the world's most innovative e-commerce sites now operate in Asia, where they are driving sales by "gamifying" the buying process, providing platforms for group buying, and otherwise embellishing on the Amazon model. The big risk of course is that as these companies

grow, they become a bigger target for politicians and regulators.

It's early days. The internet era took off in earnest around three decades ago in developed countries, only a decade ago in emerging countries. Now, with a smartphone in most adult pockets, and rising demand from tech-savvy youth, the revolution is unfolding fastest in emerging markets. Even outside the well-known

internet boom in China, thousands of startups are rising, targeting a virtually endless list of unsatisfied needs, underserved populations.<sup>10</sup> Some have already become national or regional market leaders. A few are already teaching new tricks to the American incumbents. To an extent still widely unrecognized, the most ingenious uses of digital technology are likely to be shaped in the emerging world.

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<sup>10</sup> MSIM.

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