SKOLKOVO
Moscow School of Management

Brave New World

Categorizing the Emerging Market Economies – A New Methodology, SKOLKOVO Emerging Market Index

SIEMS Issue Report
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Ernst & Young
Quality In Everything We Do

Content

Introduction

Over the course of just the past decade, the emerging market economies have quickly captured the attention and respect of global investors, multinationals and Western policymakers. From 1980 through 2000, their economies, collectively, grew no faster than those of the rich, developed world. Last decade, however, they broke free with a vengeance, outgrowing the developed world by an annual average rate of 6 percent. The recent global economic crisis and recovery has only further widened this performance gap, as most of the emerging market economies' output levels have quickly soared past their pre-crisis levels. With relatively low household, corporate and government debt burdens, their economic fundamentals look solid going forward. By 2017, we project the emerging market economies' collective GDPs will exceed those of the developed world for the first time (as measured in Purchasing Power Parity) and over the current decade 700 million people throughout the emerging world will enter the middle class.

The "old" emerging BRIC (Brazil, Russia, India and China) economies have received an enormous share of attention in recent years (in most respects entirely justified) but increasingly multinationals and investors will want to seek out the new emerging markets, whether they are in Asia, South America or even Africa. The question they want answered now is "which emerging market?" This report presents a new methodology for categorizing all the emerging market economies, showing which ones are emerging the fastest (and why they are) and which ones remain dormant for now.

LITERATURE REVIEW – "WHAT IS AN EMERGING MARKET ECONOMY?"

1

Even though the word "emerging market" is an often used phrase in the international business literature, most authors do not give a formal definition. Today there is simply no commonly accepted definition of what constitutes an emerging market. Sunje and Civi (2000) believe that emerging market economies (EMEs) must have the following characteristics:

a) A lower level of economic development which could be expressed in GDP per capita

b) A transitional economy (and society): government does attempt to create a framework of a market economy and democratic society through economic and political reforms.

c) A high rate of growth, which is typically expressed through GDP growth rate (is should be at least 5% per year), that is caused by the government's attempt to create a market economy.

d) A huge potential for future growth.

Lorraine Eden (2008) states that the most common definition of EMEs in the management literature is "emerging economies are low-income, rapid-growth countries using economic liberalization as their primary engine of growth." Wei-Xin Huang (2007) emphasizes that emerging markets are those less developed countries which have started to grow but have yet to reach a mature stage of development and where there is a significant potential for economic and political instability.

Turun Khanna et al (2010) present a structural definition of EMEs. They define emerging markets as those where critical institutions required in product, labor and capital markets to support simple or complex transactions between buyers and sellers of goods and services are absent or poorly functioning. They find the most predictable feature of an emerging market is the persistence of institutional gaps over the short and medium term.

Vladimir Kvint (2004) defines emerging markets based on the level of development of capitalistic institutions, such as insurance companies, commercial and investment banks, international law firms, and security exchanges. Additionally, a market needs a transportation and telecommunications infrastructure that can support business activities of international corporations. If these factors are in place, then it does not matter what the GDP per capita is, the presence of capitalistic institutions implies that there are business interests in these markets.

Grzegorz W. Kołodko (2003) states that the notion 'emerging markets' is viewed entirely differently by developed and developing nations. From the point of view of (institutionally) developed and (materially) rich countries, the 'emerging markets' are simply a new field of economic opportunity. Thanks to its 'emergence', a new region of the world opens up for penetration by creating an opportunity to invest profitably surplus capital, sell products and acquire

resources, including relatively cheap labor. Such an approach emphasizes not so much a commitment to the socio-economic development of an 'emerging' market, as the opportunity to increase one's own capacity for expansion and to multiply the wealth of already rich countries. On the other hand, the 'emerging markets' point of view is not the additional outlet created in their territory for the capital and goods from the more advanced countries, but the rapid maturation of their own economic systems, leading to the emergence of full-fledged market economies.

Das (2004) identified respect of property and human rights as the basic prerequisites for becoming an EME. An indispensable condition for an EME is its sustained ability to attract global capital inflows and only an assurance of a protection of property rights is a fundamental, non-negotiable condition that an economy must meet before embarking on the road to becoming an EME.

THE NEED TO DIFFERENTIATE

2

The term "emerging markets" is now about a quarter century old and but by some counts well over one hundred countries currently fall under this label even though they are at distinctly different stages of development and are emerging at greatly different levels of speed. The emerging lexicon was first widely referenced to the Newly Industrialized Economies of East Asia during the 1980s but then went on to include China and India as they progressively opened up their economies. After the fall of Communism in the late 1980s and early 1990s, the "transition" economies of Eastern Europe and the former Soviet Union were thrown into the fold. In reality, the term did not become a commonly used name until last decade, when economic growth throughout much of the developing world accelerated, particularly among the large BRIC economies. Equity market returns during this period were also quite spectacular among many of the developing economies, heightening investors' attention there. Today, many analysts believe there are scores of new EMEs in Asia, South America and Africa. With a disproportionate share of the world's mineral wealth at a time when mineral prices are soaring and a disproportionate share of the world's young people (by 2040 it will be home to one in four of them), some analysts believe Africa is currently home to the youngest members of the emerging markets club.

The EMEs are now too numerous and heterogeneous to be associated into just one group. Only a decade ago there were essentially two dominant per capita income peaks globally (the twin peaks), one centered on approximately $25,000 (the rich, developed economies) and the other centered on $3,000 - $5,000 (a majority of the EMEs). These twin peaks are rapidly disappearing and the income distribution below $20,000 is becoming considerably "flatter". While a decent number of EMEs have been experiencing exceptional economic growth in recent years, a significant number of them have remained stagnate, unable to realize their economic potential.

The EMEs, moreover, are increasingly being differentiated by more than just per capita income. They are becoming much more diverse in many other respects. Some, for example, are exploiting their mineral resources or large populations while others have been relying on foreign capital and technology to ignite growth. Some have recently liberalized their capital markets while others have kept a tight reign. Some allow enormous economic freedom but stifle basic political rights; for others it is the reverse. In the past few years, some of the poorest nations have "leap-frogged" and become quickly well connected through wireless technology. Of the two fastest growing big emerging markets, one has first-world transportation infrastructure throughout all of its large cities while the other relies on dirt roads for much of its vehicle transportation. In short, the attributes that make these developing economies "emerging" are multidimensional and a sizeable number of variables will be needed to differentiate them and track how each country is progressing or regressing relative to its peer group over time.

THE INDEX

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Our index is composed of five primary components, with each consisting of anywhere between two and five variables (the appendix gives the exact definition of each variable and its source):

1. Macroeconomic Performance – (inflation rate, real GDP growth, fiscal condition)
2. Macroeconomic Conditions – (internet usage, amount of paved roads, mobile phone usage, stock market capitalization, FDI intensity)
3. Health & Human Capital – (life expectancy, adult literacy rate)
4. Degrees of Freedom – (economic and political freedom)
5. Market Size and Intensity – (GDP, urban population, GDP per capita)

The inclusion of Macroeconomic Performance is obvious and straight forward. The most common characteristic of EMEs is their ability to grow faster than most developed economies. We take into account the inflation rate and fiscal balance conditions because strong economic growth can only be sustained over the long-run through relatively low and stable inflation and fiscal austerity.

Macroeconomic Conditions give us a generalized snapshot of important indicators across a wide scope of activities. Internet and mobile phone usage is an indication of a nation's "connectivity". The quantity of paved roads is a measure of physical transportation infrastructure. Stock market capitalization is a proxy for financial development. Foreign Direct Investment (FDI) intensity is the quantity of FDI inflows as a share of GDP. FDI provide EMEs with critical capital to boost domestic investment and is often accompanied with some technological and managerial transfer of knowledge.

Improvements in Health and Human Capital are necessary conditions for EMEs that wish to see rising standards of living. We find life expectancy the best single indicator of a nation's health and the adult literacy rate the most important educational factor for EMEs.

Perhaps no attribute is more important in differentiating stages of emergence than the degree of openness in a nation's political and economic institutions (Degrees of Freedom). The fastest emerging economies have generally been ones in places that are changing from a system based on informal relationships to a more formal system with rules that are transparent and apply equally to all participants. We differentiate freedom by economic and political because in some parts of Asia, political freedom did not seem critical in the early stages of economic development.

Holding everything else constant, Market Size by itself is important. EMEs nations with larger GDPs simply exert more influence on the global stage and countries with relatively larger urban populations are more industrialized with higher rates of multifactor productivity. GDP per capita is a proxy for a country's standard of living, adjusted for purchasing power.

CLIMBING THE EMERGING MARKET PYRAMID – THE FOUR STAGES

4

While there exists no agreed upon level or dividing line between the developed and developing worlds, we defined any nation with a per capital income in excess of $20,000 in 2009 as developed.[1] Any countries with 2009 per capita incomes below $20,000 were classified as EMEs. The EMEs were then placed into one of four distinct stages of development based upon their score from a weighted average composite of the index's 15 variables.[2] The four stages of development, starting from bottom to top are: Dormant, Early Stage Emerging, Intermediate Stage Emerging and Later Stage Emerging. Countries with population below two million were automatically removed reducing the final sample size to 113 countries. In 2009, these countries accounted for 45% and 84% of world GDP (PPP) and population in 2009, respectively.

While there is no formal definition of an emerging market, the differences in development among them are enormous.[3] Below we attempt to define each stage of emergence, providing the major attributes and characteristics that dominate each one. The descriptions are not meant to be entirely inclusive nor exclusive to each stage (there is obviously considerable overlap in some characteristics).

ADVANCED STAGE EMEs

These economies have chosen to converge their institutions to the standards of the developed world and have achieved visible results. Economic growth may now be slower than those in other stages but standards of living and health indicators are considerably much higher. At this stage they are close to developed nation status in most respects. Under this stage, the middle class is typically a majority of the population. Economic and political freedom is almost always consistently high.

INTERMEDIATE STAGE EMEs

Countries that are now generally open to trade and investment with developed economies which mean a higher probability of lifting their economic institu-

1/ The World Bank currently classifies a country as "high income" at $12,196 or higher. This translates into roughly $17,000 - $18,000 at PPP.

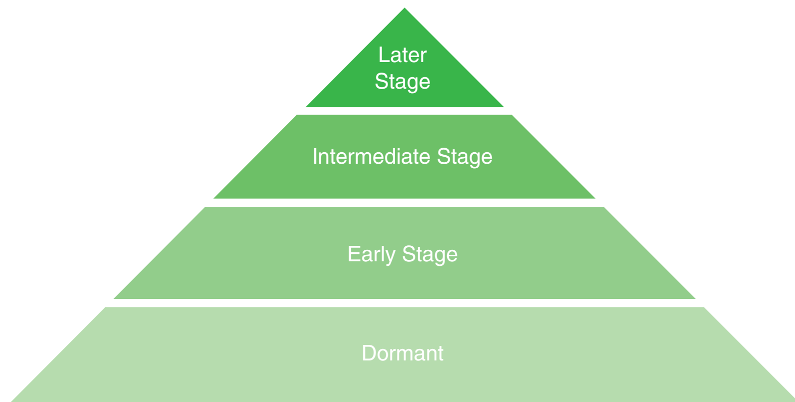
2/ The 15 variable weights are adjusted at the beginning of each year, based upon statistical analysis and authors' opinions.

3/ For example, within our 113 country sample, Croatia and Zimbabwe had the highest and lowest per capita incomes of $19,800 and $150, respectively.

tions and development in short periods and thus passing on to the advanced emerging stage of development. Middle class has been growing rapidly and generally abject poverty is limited to a minority of the population. Often demographically beginning to "mature", with birth rates declining. Past economic reforms now appear more permanent. Unlike the advanced stage EMEs, corruption is prevalent in many countries.

EARLY STAGE EMEs

Often countries well endowed with abundant labor and/or natural resources but insufficient cooperation through trade and foreign direct investment with developed countries. Also these countries are often characterized by low levels of infrastructure development and widespread poverty. Some governments, however, may be attempting to create a market economy (improvement in economic freedom). Corruption is palpable to the point of retarding economic growth. Possess poorer health standards but higher fertility and population growth rates than intermediate stage. Unlike intermediate state emerging, many countries in this stage are by their very nature unpredictable. Because of their relative underdevelopment, however, they offer western businesses a chance to get in on the ground floor and enjoy first mover advantages in many instances.



DORMANT

Often countries well endowed with natural resources but choose to be largely closed off to the rest of the world in terms of trade and foreign direct investment. Civil war or ethnic strife is common. Corruption is always widespread and rampant. Little indication the quality of their institutions will improve anytime soon. Poverty is widespread and health indicators very poor by global standards. Unlike the early stage EMEs, nations at this stage are actually quite predictable. Predictable in underperforming anywhere near their economic potential. There are no current expectations of the status quo changing anytime soon.

TABLE I – CATEGORIES AND RANKINGS

Advanced Stage EMEs	**Overall index**
Poland	1
Estonia	2
Uruguay	3
Puerto Rico	4
Chile	5
Hungary	6
Croatia	7
Panama	8
Lithuania	9
Latvia	10

Intermediate Stage EMEs	**Overall index**
China	1
Argentina	2
Bulgaria	3
Serbia	4
Brazil	5
Costa Rica	6
Mexico	7
Romania	8
Macedonia, FYR	9
Peru	10
Malaysia	11
Turkey	12
Colombia	13
Russian Federation	14
Jamaica	15
Indonesia	16
Lebanon	17
Bosnia and Herzegovina	18
South Africa	19
El Salvador	20
Thailand	21
Kazakhstan	22
Georgia	23
Libya	24
Ukraine	25
Iran, Islamic Rep.	26
Tunisia	27
Armenia	28
Azerbaijan	29
Egypt, Arab Rep.	30
Botswana	31
Algeria	32
Gabon	33

Early Stage EMEs	**Overall index**
Dominican Republic	1
Albania	2
India	3
Paraguay	4
Mongolia	5
Ecuador	6
Belarus	7
Jordan	8
Kyrgyz Republic	9
Philippines	10

Bolivia	11
Namibia	12
Moldova	13
Morocco	14
Guatemala	15
Ghana	16
Sri Lanka	17
Uzbekistan	18
Honduras	19
Nicaragua	20
Papua New Guinea	21
Vietnam	22
Malawi	23
Pakistan	24
Liberia	25
Bangladesh	26
Zambia	27
Tanzania	28
Uganda	29
Madagascar	30
Kenya	31
Syrian Arab Republic	32
Nigeria	33
Rwanda	34
Benin	35
Lao PDR	36
Senegal	37
Cambodia	38
Iraq	39
Angola	40
Togo	41
Cameroon	42
Yemen, Rep.	43
Mozambique	44

Mali	45
Mauritania	46
Guinea	47
Dormant	**Overall index**
Venezuela, RB	1
Congo, Rep.	2
Turkmenistan	3
Congo, Dem. Rep.	4
Tajikistan	5
Nepal	6
Cuba	7
Sierra Leone	8
Burundi	9
Ethiopia	10
Cote d'Ivoire	11
Korea, Dem. Rep.	12
Myanmar	13
Burkina Faso	14
Central African Republic	15
Niger	16
Haiti	17
Sudan	18
Eritrea	19
Zimbabwe	20
Chad	21
Somalia	22
Afghanistan	23

Source: SIEMS's calculations

OBSERVATIONS

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The following are some of the key observations from the rankings:

- Of the 10 advanced emerging economies, six are from Eastern Europe and four from Latin America. The intermediate and early-stage EMEs have large contingents of Asian, South American and African countries. Of the 23 Dormant EMEs, 14 are from Sub-Sahara Africa. Africa also represents 17 of the bottom 20 early-stage EMEs.
- By far the easiest way for a dormant nation to become early-stage emerging is to improve its institutional qualities, particularly its degree of economic freedom.
- Improving institutional qualities was also the most common way for an intermediate stage EME to become an advanced stage EME.
- The greatest advances in life expectancy and adult literacy were made by nations going from the early-stage to intermediate stage emerging.
- Interestingly, the dormant and early-stage EMEs outperformed the intermediate and advanced EMEs in the macroeconomic performance category. This was primarily a function of the recent financial crisis and great recession, which negatively impacted the economic growth and fiscal positions of the relatively more "open" intermediate and advanced stage EMEs.
- China's enormous population and its health and human capital (life expectancy and literacy are very high by EME standards) and superior economic performance gave it a top ranking in the intermediate emerging category. Despite its enormous influence on the global economy, China's next to last ranking in political freedom (just above Libya in the intermediate category) has kept it from advanced emerging status for now.
- Despite some real improvement in economic performance the past decade, India is ranked early stage emerging (although it is ranked 3/47 in this category and should enter intermediate status next year if economic growth remains robust). Poor macroeconomic conditions (i.e., - infrastructure) and health and human capital (unusually high adult illiteracy) held India back from intermediate emerging status in 2010.
- Brazil's recent improved economic performance has lifted it from a mediocre intermediate stage ranking in recent years to a fifth place ranking. Brazil's weakest component is its health and human capital and its strongest is its market size and intensity. Russia's (ranked 14th in the intermediate category) macroeconomic conditions and market size and intensity indicators resemble that of an advanced EME but its abysmal institutional ranking is averaged somewhere between a bottom ranked early stage EME and/or higher ranked dormant EME. It also has a poor health ranking (26 out of 33).
- Vietnam may be well placed to steal outsourcing jobs from China. It is adding one million people a year to its workforce and has a literacy rate of more than 90%. Mobile phone penetration has gone from one of the lowest in the emerging world to one of the highest. Unfortunately it is ranked toward the bottom in institutional quality (little political freedom and corruption is rampant).

- Mexico has healthy rankings in health and human capital, institutions and market size but it will need faster economic growth and improvements in macroeconomic conditions to reach advanced-stage status.
- There are several noteworthy things about the dormant category. First, the worse countries in this collection are generally plagued by some form of civil war. The only standout in this category would be Venezuela, which has a very high per capita income ($12,300 in 2009) and commercial development compared to all the dormant countries and even the early-stage EMEs. The problem for Venezuela is that every other indicator had been rapidly deteriorating in recent years.
- Africa's star emerging performers are South Africa, Egypt, Algeria, Botswana, Libya, Tunisia and Gabon (the only African countries ranked in the Intermediate stage category). Collectively these countries match the average GDP per head of the BRICs.
- Nigeria is home to the tenth-largest oil reserves in the world and has produced reasonably good rates of economic growth but abysmal health and human capital rankings (41/47 in the early-stage) and poor institutions (30/47) are holding it back.
- Being well endowed with mineral resources may not be a blessing (there are no advanced emerging nations well endowed) but it does not necessary have to be a curse either. There is a fairly even distribution of these countries across the remaining three categories.

2010 RANKINGS VERSUS 2009 RANKINGS

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Table 2 summarizes the change in ordering among the 113 countries from 2009 to 2010. Interestingly, while there was considerable movement for some countries, there were no changes in stages for any of nations in 2010. Of all the regions, Asia fared by far the best, seeing nine more EMEs rise in ranking than fall.[4] Eastern Europe, having performed relatively poorly in the recession, fared the worst, with five more EMEs falling in ranking than rising

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TABLE 2: RANK CHANGES IN 2010 OVER 2009

Advanced Stage EMEs	**2010-2009**
Poland	+4
Estonia	–1
Uruguay	+6
Puerto Rico	+2
Chile	–1
Hungary	–4
Croatia	+1
Panama	+2
Lithuania	–6
Latvia	–3
Intermediate Stage EMEs	**2010-2009**
China	+1
Argentina	+2
Bulgaria	–2
Serbia	+4
Brazil	+2
Costa Rica	–3
Mexico	–2
Romania	–2
Macedonia, FYR	+3
Peru	+1
Malaysia	–2
Turkey	+1
Colombia	+1
Russian Federation	–4
Jamaica	0
Indonesia	+3
Lebanon	+8
Bosnia and Herzegovina	+1
South Africa	–1
El Salvador	–4
Thailand	+1
Kazakhstan	+2
Georgia	–2
Libya	–4
Ukraine	–2
Iran, Islamic Rep.	+6
Tunisia	+1
Armenia	–11
Azerbaijan	+2
Egypt, Arab Rep.	+3
Botswana	–5
Algeria	–2
Gabon	–6
Early Stage EMEs	**2010-2009**
Dominican Republic	+1
Albania	–1
India	+4
Paraguay	0
Mongolia	+1
Ecuador	–3
Belarus	+4
Jordan	–3
Kyrgyz Republic	+5
Philippines	–2
Bolivia	+2
Namibia	–3
Moldova	–1

4/ All net changes sum to zero.

Morocco	+2
Guatemala	0
Ghana	+8
Sri Lanka	0
Uzbekistan	+3
Honduras	–9
Nicaragua	–2
Papua New Guinea	+4
Vietnam	–3
Malawi	+8
Pakistan	+8
Liberia	+4
Bangladesh	+9
Zambia	+9
Tanzania	–5
Uganda	+1
Madagascar	–10
Kenya	+3
Syrian Arab Republic	–10
Nigeria	0
Rwanda	+9
Benin	–8
Lao PDR	+1
Senegal	+2
Cambodia	0
Iraq	–13
Angola	–12
Togo	0
Cameroon	0
Yemen, Rep.	–3
Mozambique	0
Mali	1
Mauritania	–1
Guinea	0

Dormant	**2010-2009**
Venezuela, RB	0
Congo, Rep.	+2
Turkmenistan	+2
Congo, Dem. Rep.	+5
Tajikistan	–3
Nepal	0
Cuba	–4
Sierra Leone	+7
Burundi	+1
Ethiopia	+7
Cote d'Ivoire	–3
Korea, Dem. Rep.	+4
Myanmar	–2
Burkina Faso	–1
Central African Republic	–1
Niger	–4
Haiti	–10
Sudan	0
Eritrea	+1
Zimbabwe	+2
Chad	–2
Somalia	+1
Afghanistan	–2

Source: SIEMS's calculations

ADVANCED STAGE -

Poland overtook Estonia to become the number one ranked EME in 2010. This was almost exclusively a result of the sharp deterioration in macroeconomic conditions (economic growth and fiscal deficits) in Estonia. The Baltic economies fared relatively poorly while Poland's economy was relatively resilient. Uruguay rose the most in the advanced category, ranking number one in economic performance and health and human capital. Puerto Rico's close political association with the United States gives it top billing in institutions.

INTERMEDIATE STAGE -

China is just too big (ranked one in market size and intensity) and growing too fast (ranked two in economic performance) not to take the top spot in 2010 (it was ranked two in 2009).

Despite a slowdown in the region, Lebanon had the largest gain, jumping 8 notches, mostly the result of stronger macroeconomic performance. Political stability has helped boost tourism and together with a strong banking sector, enabled real GDP growth of 7% in 2009. Armenia had the biggest slide (sliding from 18th to 29th place). This was purely a result of the 15% collapse in economic growth in 2009. Armenia had been enjoying strong growth in prior years.

Indonesia has emerged as a star recently, with its large population, innovative companies, growing middle class and relative political stability. Its ranking in macroeconomic performance rose from 16th to 4th place in 2010.

After its economy contracted almost 8 percent in 2009, Russia's rank dropped four places to 14th. Brazil rose two places in 2010, placing it in fifth place, based on relatively faster economic growth and a healthy fiscal position.

Costa Rica may be small, but it takes top billing in institutions. Interestingly, the Islamic Republic of Iran, after a very turbulent few years actually rose six positions. Iran is now ranked next to last in institutions (low political freedom) but past economic performance (which was fleeting) helped it rise in the rankings. With economic growth flagging, look for Iran to be a big loser in the 2011 survey.

EARLY STAGE -

India may have relatively poor macroeconomic conditions, but strong economic growth is quickly lifting these figures which are why India has climbed four spots to number three. The Dominican Republic took the top spot this year, with solid readings in health, institutions and market size.

A real improvement in political stability in Iraq in 2009 boosted their institutional qualities and health conditions a great deal in just one year but this was more than offset by the rapid slide in energy prices and economic growth and Iraq's ranking dropped 13 places, the most for this category (highlighting Iraq's total dependence on oil prices). That said, assuming these other attributes continue improving (or don't deteriorate), Iraq's ranking should get a bounce in next year's ranking from the rebound in energy prices.

The World Bank listed Rwanda as its champion pro-business reformer in 2010. It rose 9 places in the early stage category, the biggest jump in this stage. Zambia, Malawi and Ghana were also big gainers for the year as relative political stability helped these resource rich countries. Interestingly, Ghana took the top spot in institutional freedom.

DORMANT –

There was relatively little movement in 2010 in the dormant category. Sierra Leone and Ethiopia saw the biggest improvements (plus 7) but that was mostly the direct result of large international aid packages from institutions like the IMF. Haiti dropped ten places as that country's economic and health standards rapidly deteriorated as a result of the earthquake.

Afghanistan and Venezuela experienced the largest drops in institutional ratings, the Achilles' heel of the Dormant stage category. Despite the large presence of international troops, Afghanistan replaced Somalia as being dead last in our emerging market index.

CONCLUSION

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It now seems a near certainty that the developed world will suffer from anemic economic growth for some years to come as their private and government sectors are forced to deleverage considerable debt levels. The emerging market economies, which have already far surpassed their pre-crisis levels of output, are the drivers of global economic recovery for the first time. And their outlook is looking pretty sanguine from here. They will likely account for 90 percent of the growth in energy consumption over the next twenty years and for as much as three-quarters of global economic growth. The global rate of poverty is falling rapidly in these markets, being replaced by a middle class that can increasingly afford western goods and services.

So the question for most businesspeople and investors now is not whether to do business or invest in the emerging markets. In 2011 businesses and investors will increasingly ask which emerging markets? As recently as the middle of last decade, it seemed that the BRIC countries were the only major emerging economies worth mentioning. Today, there is much greater interest by multinationals and global investors in just about every corner of the globe, including many parts of Africa. While it is impossible to predict which ones will emerge the fastest over the next decade, is it likely that the rise of so many emerging economies at once is the making of a brave new world.

Appendix

Advanced Stage EMEs

	Macro-economic perfor-mance	Macro-economic condi-tions	Health and Human capital	Institutions	Market size and intensity	Overall index
Poland	3	5	4	7	1	1
Estonia	8	1	9	3	4	2
Uruguay	1	8	1	5	9	3
Puerto Rico	4	10	2	1	5	4
Chile	5	7	3	2	8	5
Hungary	7	6	8	6	2	6
Croatia	6	4	5	10	3	7
Panama	2	9	7	9	10	8
Lithuania	9	3	6	4	6	9
Latvia	10	2	10	8	7	10

Intermediate Stage EMEs

	Macro-economic perfor-mance	Macro-economic condi-tions	Health and Human capital	Institutions	Market size and intensity	Overall index
China	2	15	12	31	1	1
Argentina	1	11	3	13	6	2
Bulgaria	13	4	9	6	12	3
Serbia	12	1	10	10	17	4
Brazil	11	10	18	11	4	5
Costa Rica	14	23	4	1	18	6
Mexico	25	21	6	7	3	7
Romania	20	14	8	2	9	8
Macedonia, FYR	16	7	5	12	19	9
Peru	7	16	21	8	24	10
Malaysia	29	2	15	19	8	11
Turkey	19	12	23	14	5	12
Colombia	15	8	14	16	20	13
Russian Federation	22	3	26	30	2	14
Jamaica	28	5	24	9	30	15
Indonesia	4	30	22	15	21	16
Lebanon	10	24	16	21	13	17
Bosnia and Herzegovina	26	19	1	20	27	18
South Africa	23	6	33	5	15	19
El Salvador	30	25	20	4	31	20
Thailand	21	13	11	22	23	21
Kazakhstan	9	17	19	24	16	22
Georgia	27	28	2	17	33	23
Libya	3	9	13	33	7	24
Ukraine	32	22	17	18	28	25
Iran, Islamic Rep.	5	20	28	32	10	26
Tunisia	8	18	27	29	26	27
Armenia	31	26	7	23	32	28
Azerbaijan	17	31	25	26	22	29
Egypt, Arab Rep.	6	29	30	25	29	30
Botswana	33	33	31	3	14	31
Algeria	24	32	29	27	25	32
Gabon	18	27	32	28	11	33

Early Stage EMEs

	Macro-economic perfor-mance	Macro-economic condi-tions	Health and Human capital	Institutions	Market size and intensity	Overall index
Dominican Republic	18	9	5	3	3	1
Albania	36	5	3	6	5	2
India	16	19	23	9	1	3
Paraguay	24	6	4	8	17	4
Mongolia	20	12	14	4	21	5
Ecuador	34	8	6	16	4	6
Belarus	5	2	10	45	2	7
Jordan	47	1	2	32	9	8
Kyrgyz Re-public	17	7	1	33	28	9

Philippines	33	14	11	13	8	10
Bolivia	15	15	15	15	16	11
Namibia	30	17	27	2	6	12
Moldova	40	13	9	19	24	13
Morocco	23	3	20	27	12	14
Guatemala	31	10	19	17	14	15
Ghana	19	28	33	1	35	16
Sri Lanka	39	30	7	26	15	17
Uzbekistan	1	16	8	46	23	18
Honduras	45	18	16	22	20	19
Nicaragua	35	24	17	21	26	20
Papua New Guinea	6	20	29	20	30	21
Vietnam	25	11	12	41	19	22
Malawi	2	23	38	18	45	23
Pakistan	13	22	28	31	10	24
Liberia	3	4	40	28	47	25
Bangladesh	14	43	26	24	22	26
Zambia	11	25	39	12	38	27
Tanzania	10	40	37	11	36	28
Uganda	7	26	35	25	39	29
Madagascar	22	42	21	29	41	30
Kenya	42	27	25	23	34	31
Syrian Arab Republic	38	29	13	44	13	32
Nigeria	21	32	41	30	11	33
Rwanda	12	41	30	35	44	34
Benin	44	46	43	5	37	35
Lao PDR	9	31	24	43	29	36
Senegal	46	35	42	10	32	37
Cambodia	43	45	22	36	31	38
Iraq	26	34	18	47	18	39
Angola	4	21	45	39	7	40
Togo	41	37	32	34	46	41
Cameroon	27	33	34	40	27	42

Yemen, Rep.	28	47	31	37	25	43
Mozambique	8	39	47	14	42	44
Mali	29	44	46	7	40	45
Mauritania	37	36	36	38	33	46
Guinea	32	38	44	42	43	47

Dormant Economies

	Macro-economic perfor-mance	Macro-economic condi-tions	Health and Human capital	Institutions	Market size and intensity	Overall index
Venezuela, RB	8	2	2	11	1	1
Congo, Rep.	2	1	8	13	4	2
Turkmenistan	4	3	3	15	3	3
Congo, Dem. Rep.	1	4	11	12	16	4
Tajikistan	12	6	4	10	9	5
Nepal	10	9	10	3	13	6
Cuba	21	13	1	19	2	7
Sierra Leone	11	15	17	1	17	8
Burundi	19	21	7	6	22	9
Ethiopia	5	16	16	7	10	10
Cote d'Ivoire	13	5	14	9	8	11
Korea, Dem. Rep.	3	17	5	21	7	12
Myanmar	15	20	6	16	5	13
Burkina Faso	20	18	18	2	15	14
Central Afri-can Republic	14	14	15	8	18	15
Niger	16	8	20	4	19	16
Haiti	18	10	22	5	14	17
Sudan	7	7	13	22	6	18
Eritrea	17	23	9	17	21	19
Zimbabwe	22	12	12	18	23	20
Chad	23	19	21	14	11	21
Somalia	6	22	19	23	20	22
Afghanistan	9	11	23	20	12	23

Source: SIEMS's calculations.

Data description

Variable	Definition	Source
GDP growth, %	Average GDP growth for the last two years available (2008-2009).	World Development Indicators and Global Development Finance, Central Intelligence Agency World Factbook.
CPI growth, %	Latest month available, year-on-year	CEIC database, Economic Intelligence Unit database, Central Intelligence Agency World Factbook.
Fiscal deficit, % GDP	Cash surplus or deficit is revenue (including grants) minus expense, minus net acquisition of nonfinancial assets. In the 1986 GFS manual nonfinancial assets were included under revenue and expenditure in gross terms. This cash surplus or deficit is closest to the earlier overall budget balance (still missing is lending minus repayments, which are now a financing item under net acquisition of financial assets).	Economic Intelligence Unit database, World Development Indicators and Global Development Finance, Central Intelligence Agency World Factbook.
Market capitalization of listed companies, % GDP	Market capitalization (also known as market value) is the share price times the number of shares outstanding. Listed domestic companies are the domestically incorporated companies listed on the country's stock exchanges at the end of the year. Listed companies does not include investment companies, mutual funds, or other collective investment vehicles. For most 2009 data, and 2008 data for some countries.	World Development Indicators and Global Development Finance

Internet users, per 100 people	Internet users are people with access to the worldwide network. 2008 data.	World Development Indicators and Global Development Finance
Mobile cellular subscriptions, per 100 people	Mobile cellular telephone subscriptions are subscriptions to a public mobile telephone service using cellular technology, which provide access to the public switched telephone network. Post-paid and prepaid subscriptions are included. 2008 data.	World Development Indicators and Global Development Finance
Density of paved road, km per 1000 people	Paved roads are those surfaced with crushed stone (macadam) and hydrocarbon binder or bituminized agents, with concrete, or with cobblestones. 2009 data.	Calculated using data of Euromonitor International database and World Development Indicators and Global Development Finance.
FDI inflows, % GDP	Foreign direct investment are the inward inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. 2009 data.	Euromonitor International database
Life expectancy at birth, total (years)	Life expectancy at birth indicates the number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout its life. 2008 data.	World Development Indicators and Global Development Finance
Literacy rate, adult total (% of people ages 15 and above)	Adult literacy rate is the percentage of people ages 15 and above who can, with understanding, read and write a short, simple statement on their everyday life. 2009 data.	Euromonitor International database

Economic Freedom index	Heritage Foundation, 2009 data. Simple average of business, trade, fiscal, gov't spending, monetary, investment, financial, property rights, corruption and labor freedom subindexes. Year covered: 2009. Edition: 2010.	Heritage Foundation
Political Freedom index	Sum of political freedom and civil liberties indexes (inverted). 2009 data. Year covered: 2009. Edition: 2010.	Freedom House
Urban population, people	Urban population refers to people living in urban areas as defined by national statistical offices. It is calculated using World Bank population estimates and urban ratios from the United Nations World Urbanization Prospects. 2009 data.	World Development Indicators and Global Development Finance
GDP, PPP (current international $)	PPP GDP is gross domestic product converted to international dollars using purchasing power parity rates. An international dollar has the same purchasing power over GDP as the U.S. dollar has in the United States. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources. Data are in current international dollars. 2009 data.	World Development Indicators and Global Development Finance
GDP per capita, PPP (current international $)	GDP per capita based on purchasing power parity (PPP). 2009 data.	World Development Indicators and Global Development Finance, Economic Intelligence Unit database

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Authors:
William T. Wilson, Ph.D.
(Senior Research Fellow, SIEMS; WWilson@skolkovo.org),

Nikolay Ushakov
(Macro Economist Researcher for Russian Market, SIEMS;
Nikolay_Ushakov@skolkovo.ru)

Editor-in-Chief: Sam Park, Ph.D.
(spark@skolkovo.org)

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SKOLKOVO Institute for Emerging Market Studies
Unit 1607-1608, North Star Times Tower
No. 8 Beichendong Road, Chaoyang District
Beijing, 100101, China
tel./fax: +86 10 6498 1634

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Moscow School of Management SKOLKOVO
100 Ulitsa Novaya, Skolkovo,
Odintsovsky district, Moscow Region,
Russia 143025
tel.: +7 495 580 30 03
fax: +7 495 994 46 68

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Sadovnicheskaya Nab. 77, bld. 1 | 115035 Moscow | Russia
Phone: +7 (495) 755 9700
Fax: +7 (495) 755 9701
E-mail: moscow@ru.ey.com
Website: www.ey.com

Moscow School of Management SKOLKOVO
100 Ulitsa Novaya, Skolkovo,
Odintsovsky district, Moscow Region,
Russia 143025
tel.: +7 495 580 30 03
fax: +7 495 994 46 68

SKOLKOVO Institute for Emerging Market Studies
Unit 1607-1608, North Star Times Tower
No. 8 Beichendong Road, Chaoyang District
Beijing, 100101, China
tel./fax: +86 10 6498 1634