

BRAVE NEW WORLD

2012 EMERGING MARKET INDEX

SKOLKOVO Business School – Ernst & Young Institute
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Contents

I. Introduction	2
II. Climbing the Emerging Market Pyramid – The Four Stages	4
III. 2012 Emerging Market Rankings	6
IV. Highlights from the 2012 Index of Emerging Market Economies	10
V. Conclusions	20
Appendix	22



I. Introduction

In our second annual installment of the SKOLKOVO-Ernst & Young Emerging Market Index¹, we found two overriding themes impacting emerging market conditions throughout the developing world last year. First, although most of the emerging market economies (EMEs) have been impacted in some respects by the ongoing global economic crisis, the significant growth advantage they have been enjoying against the developed world over the past decade has largely remained intact. While economic growth throughout the emerging world dropped from 7% in 2010 to an estimated 6% in 2011 (still more than twice the rate in the developed world, which dropped from 2.8% to 2.4%)², there was a marked deterioration in budgetary balances in many EMEs and inflation remains uncomfortably high in a majority of countries.

The second major theme throughout the developing world last year was the political revolutions and widespread turmoil engulfing much of the Middle East. While the grass-root democratic movements could very well change the region for the better in the long-run, they have caused deterioration in short-term economic conditions and prospects. As a consequence, of the 112 countries in our index³, only ten improved their overall scores from 2010, while 101 experienced declines (one registered no change). Most of the declines, however, were modest. In terms of regions, Latin America was the big winner in 2011 (as was Asia in 2010), with 16 countries moving up in their respective rankings. Sub-Saharan Africa was the second fastest growing region in the world but it has, at least until now, failed to improve many of its underlying economic and social indicators. The MENA (Middle East – North Africa) region was the biggest loser, with 7 more countries dropping in the rankings than ascending.

The next section provides a brief refresher of our emerging market classifications.⁴ The remainder of the paper presents the results of our 2012 index with adjoining commentary. **EMI**

1/ Please find our inaugural release of the index, "Brave New World, Categorizing the Emerging Market Economies – A New Methodology, SKOLKOVO Emerging Market Index" for free on our website.

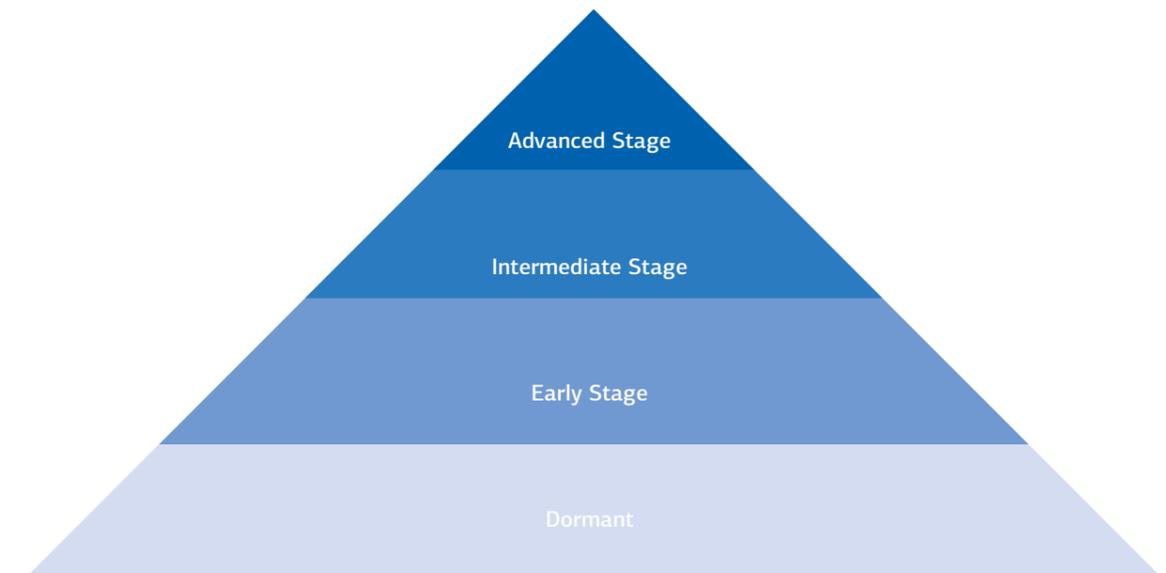
2/ World Bank estimates.

3/ Sudan, which became two countries in 2011, dropped out of this year's index due to insufficient information.

4/ A detailed description of the major components and 15 variables are provided in appendix.

II. Climbing the Emerging Market Pyramid – The Four Stages⁵

While there exists no agreed-upon level or dividing line between the developed and developing worlds, we defined any nation with a per capita income in excess of \$20,000 in 2009 as developed (valued in purchasing power parity).⁶ Any countries with 2009 per capita incomes below \$20,000 were classified as EMEs (Emerging Market Economies). The EMEs were then placed into one of four distinct stages of development based upon their score from a weighted average of five primary components that comprise a total of 15 variables. The four stages of development, starting from bottom to top, are: Dormant, Early Stage Emerging, Intermediate Stage Emerging, and Advanced Stage Emerging.⁷ Countries with populations below two million were automatically removed, reducing the final sample size to 112 countries. In 2010, these countries accounted for approximately 50% and 85% of world GDP (measure in Purchasing Power Parity) and population, respectively. **EMI**



5/ SKOLKOVO-Ernst & Young's inaugural index was released for the first time last year. It is available for free on our website.

6/ 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.
7/ See the Appendix for a detailed description of the four stages of development.

III. 2012 Emerging Market Rankings

Advanced Emerging Stage	
Chile	1
Poland	2
Estonia	3
Uruguay	4
Lithuania	5
Hungary	6
Puerto Rico	7
Panama	8
Croatia	9
Latvia	10
Intermediate Emerging Stage	
China	1
Malaysia	2
Bulgaria	3
Argentina	4
Brazil	5
Peru	6
Costa Rica	7
Mexico	8
Macedonia, FYR	9
Serbia	10
Colombia	11
Turkey	12
Romania	13
Russian Federation	14
South Africa	15
Indonesia	16
Thailand	17
Lebanon	18
Bosnia and Herzegovina	19
Philippines	20
Jamaica	21
El Salvador	22
Mongolia	23
Kazakhstan	24
Georgia	25
Ukraine	26
Azerbaijan	27

Botswana	28
Early Emerging Stage	
Paraguay	1
India	2
Albania	3
Dominican Republic	4
Libya	5
Ecuador	6
Bolivia	7
Belarus	8
Moldova	9
Jordan	10
Namibia	11
Gabon	12
Iran, Islamic Rep.	13
Sri Lanka	14
Nicaragua	15
Guatemala	16
Vietnam	17
Tunisia	18
Honduras	19
Armenia	20
Kyrgyz Republic	21
Tajikistan	22
Algeria	23
Morocco	24
Ghana	25
Uzbekistan	26
Papua New Guinea	27
Kenya	28
Malawi	29
Egypt, Arab Rep.	30
Tanzania	31
Congo, Rep.	32
Benin	33
Bangladesh	34
Liberia	35
Uganda	36
Iraq	37

Lao PDR	38
Cambodia	39
Senegal	40
Togo	41
Zambia	42
Pakistan	43
Nigeria	44
Rwanda	45
Mozambique	46
Guinea	47
Angola	48
Dormant	
Cuba	1
Syrian Arab Republic	2
Turkmenistan	3
Venezuela, RB	4
Nepal	5
Madagascar	6
Myanmar	7
Cameroon	8
Cote d'Ivoire	9
Haiti	10
Yemen, Rep.	11
Mali	12
Burkina Faso	13
Zimbabwe	14
Mauritania	15
Niger	16
Burundi	17
Central African Republic	18
Korea, Dem. Rep.	19
Ethiopia	20
Sierra Leone	21
Congo, Dem. Rep.	22
Chad	23
Eritrea	24
Afghanistan	25
Somalia	26

IV. Highlights from the 2012 Index of Emerging Market Economies

Contrary to conventional thinking, the emerging markets, by and large, have not been immune to the ongoing economic crisis. Of the 112 emerging market economies (EMEs), only 11 improved their 2011 aggregate scores over 2010. The major culprit was a drop in the Macroeconomic Performance component.

Despite Chile's devastating earthquake in January 2011 and the ongoing global economic crisis, the Chilean economy has proven extremely resilient to external shocks

2011 Winner: Chile

Chile surpassed both Poland and Estonia to leap to the number one position for 2011. Despite Chile's devastating earthquake in January 2011 and the ongoing global economic crisis, the Chilean economy has proven extremely resilient to external shocks.

- The economy grew 5% in 2010 and is forecasted to have grown 6% in 2011.
- A large sovereign wealth fund (approximately \$20 billion) and very prudent fiscal management has helped the South American nation develop a strong counter-cyclical fiscal policy in recent years.
- Its per capita income (PPP) is expected to exceed \$15,000 for the first time in 2011.⁸
- Chile has the best environment for doing business in the Americas with the lowest levels of corruption and historically high levels of investment (\$14 billion in FDI in 2011). It possesses strong financial institutions and it has the strongest sovereign bond rating in South America.
- Chile has more bilateral and regional trade agreements than any other country.⁹ Chile also has the highest political and economic freedom ratings of any EME. Life expectancy is the second highest in our 112-country index (only Costa Rica is higher).

Unlike most EMEs, Chile has increasingly assumed regional and international leadership roles befitting its status as a stable, democratic nation. While Chile's copper dependency (tax revenue from copper exports makes up approximately one-third of government revenue) makes it vulnerable to price fluctuations, its fis-

cal management of a commodity-driven economy has given the emerging world (of whom many are commodity dependent) a successful economic model.

The Worst Place on Earth (Ranked 112)

Somalia is still lacking any semblance of a central government, and civil war and anarchy dominate everyday life in this east African catastrophe. Kenya recently decided to invade the country. If things were not bad enough, Somalia has simultaneously experienced one of the worst droughts in recent history, leading to widespread famine, crop failure, and the death of livestock.¹⁰ Moreover, Al Qaeda has become the newest member of the international community, sought out by a Somali faction for partnership and assistance. The beaches are beautiful, though; too bad their surrounding waters are infested with killer sharks and host some of the most poisonous fish in the world.

- 'Small Arms' remains one of the leading currencies widely circulated in the country.¹¹
- Racking in up to \$100 million a year, piracy is the most lucrative industry in Somalia, and is even marketed as an investment opportunity for small businesses.
- Somalia was recently ranked fourth in the world for highest infant mortality rate.¹²

8/ Estimate from CIA World Factbook.
9/ According to Chilean sources.

10/ Economist Intelligence Unit Country Report
11/ Mwangi Kimenyi. US and Somalia: Dealing with the Crisis. The GovMonitor. Feb 2010
12/ CIA World Factbook

The BRICs

China retained its position as the top-performing country in the Intermediate Emerging category. Not surprisingly, it scored first in the Macroeconomic Performance (although there are signs top-line growth is beginning to slow) and Economic Scale (50% of China's population is now urban for the first time) categories. It also scores high in Health and Human Conditions (it scores much higher than Russia and Brazil, despite being much poorer). Unfortunately China ranked near the bottom for its Institutional rankings, precluding the world's second largest economy from entering the coveted Advanced Emerging Stage.

India climbed three spots, bringing it close to nabbing the top category in Early Emerging Stage. Its Connectivity & Infrastructure (such as the quantity of paved roads and cell phone usage) continues to improve. Strong GDP growth amid a sluggish global economy, rapid urbanization, and an improvement in political freedom also elevated India. Persistent high inflation and record budget deficits still hamper India, however, one-third of the adult population remains illiterate, and life expectancy is ten years lower than China's. Recently slowing GDP growth (not captured in our current survey) will likely take their toll in the 2012 survey.

Russia retained its middle ranking (14 out of 28) in the Intermediate Stage category. Its Connectivity is improving (Internet and mobile phone usage), along with an unexpected increase in life expectancy (possibly the reversal of a long-term deterioration) and financial deepening (at year-end 2011, the stock market was 70% of GDP) were all positive indicators. Moreover, Russia's economy has eclipsed the elite \$2 trillion mark (an estimated \$2.3 trillion in 2011, the world's 7th largest economy) and its per capita income is one of the highest of all the emerging markets outside the exclusive Advanced Emerging stage club (an

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estimated \$16,700 in 2011).¹³ Those positives were offset by large core budget deficits and continued low Institutional scores (where the rest of the world is largely improving).

Brazil's economic growth has slipped significantly recently, taking some of the gleam off this South American powerhouse. It, however, improved its ranking in the Intermediate stage, with improvements in the quality of its Institutions (its political freedom ranking is now 12 out of 14, according to Freedom House). It is now ranked third in the Intermediate category in Economic Scale (at \$2.3 trillion, its economy is roughly the same size as Russia's and its per capita GDP exceeds \$10,000 for the first time).

Latin America and the Caribbean

This region showed the greatest improved score for 2011, with 16 countries advancing in the rankings and with only 6 declines. The continent as a whole grew by 6.1% in 2010 and an estimated 4.6% in 2011.¹⁴ In short, the region has been growing at its fastest pace in three decades in recent years. Strong growth, in turn, helped improve much of the Connectivity & Infrastructure in most countries in the region. The region outpaced the EM average on all five primary components.

While Chile vaulted to the top spot this year, **Uruguay** rose in the Advanced Emerg-

^{13/} According to the CIA World Factbook.

^{14/} According to the IMF.

ing Stage thanks to strong economic growth and sound fiscal management along with near-perfect economic and political freedom scores.

Economic growth of 7.5% during 2010-11 made **Panama** shine while **Peru** climbed three spots up the Intermediate Stage ladder with improvements in almost all 15 categories.

Paraguay rose to take the top spot in the Early Emerging Stage, riding the wave of an overall well-performing Latin America. Economic growth of 15% and 7% in 2010 and 2011, respectively, has lifted this relatively poor nation's per capita income above \$5,000 for the first time.

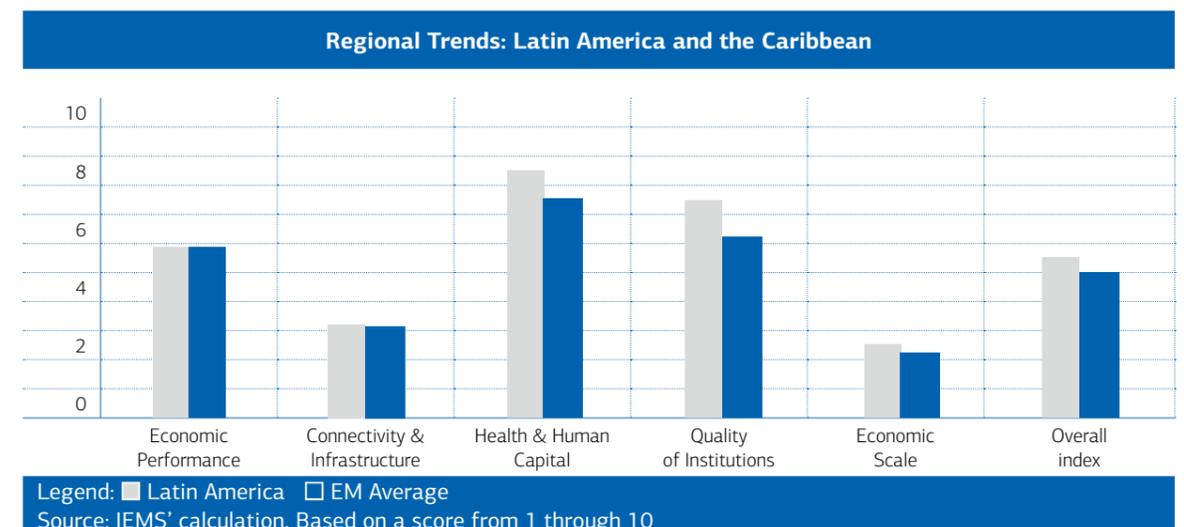
Mexico's decline (falling four spots in the Intermediate Stage) can be attributed to the increasing drug-related violence that continues to plague Mexico's borders (impacting the level of tourism and FDI), as well as Mexico's overexposure to a protractedly weakened U.S. economy. Despite these problems, Mexico's long-term outlook remains largely positive. It possesses a largely free market economy with a per capita income of \$15,000 (2011 estimate) and has free trade agreements with 50 nations.

Argentina and **Venezuela** were the continent's only losers. Argentina may still be

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exhibiting strong economic growth, but it is largely being generated by printing money (inflation is not properly measured and is believed to be running around in the double digits). Venezuela's problems are well known. It is easily the largest and most affluent country in the Dormant category, but all 15 indicators have been in decline.

Cuba rose to the top of the Dormant Category. Although still scoring abysmally low on its institutional ratings, Cuba appears to have begun a very slow process of economic reform. It continues scoring high (the highest in the Dormant category) in Health/Human Conditions and possesses a relatively high per capita income of approximately \$10,000.



Emerging Europe

Relatively speaking, Emerging Europe had a difficult year, with 11 countries slipping in the index versus 6 rising (2 did not move). Real GDP growth dipped modestly from 4.5% in 2010 to an estimated 4.3% in 2011. While economic growth is strong, considering the problems in developed Europe, unemployment is running at double-digit rates throughout the region and budget deficits are generally large. The emerging markets of Eastern Europe still dominate our emerging market rankings, however, comprising six of the ten in the Advanced Stage category.

The drop in emerging scores was extensive, with **Hungary**, **Croatia**, and **Bulgaria** experiencing the largest declines. While Institutional rankings, Connectivity & Infrastructure and Health and Human Conditions remained strong, they have been hit hard by Euro-area contagion and have been slow to recover and have experienced deterioration in their budgets.

Latvia finally appears to be recovering (estimated GDP growth of 4% in 2011), although the 18% collapse in growth in 2009 threatened its Advanced Emerging status.

While **Poland** ceded the top spot to Chile this year, it remained a top performer in the

index (number 2), having weathered the crisis relatively well. It has grown almost 4% over the past two years and, according to Freedom House, has a perfect score on Political Freedom. Its per capita income exceeded an estimated \$20,000 in 2011 for the first time, which will remove Poland from our emerging market status in 2012.

Estonia was a standout, too, as one of the few countries in the entire sample to have improved in every category with the exception of Connectivity & Infrastructure, where it is still ranked number one in the entire index.

CIS

Economic recovery is still taking hold (economic growth has been recently pacing at 5.5%, excluding Russia) in the region despite the ongoing household and financial sector deleveraging. While growth has been supported by strong commodity prices (particularly oil), major structural reforms are still badly needed in the region.

Kazakhstan remained stationary in the Intermediate Stage in 2011. Rising commodity prices have helped revive Kazakhstan's economy, which registered growth of 7% over 2010-2011. The country possesses enormous fossil fuel re-

serves and large endowments of other metals and minerals. Despite Kazakhstan's improving Connectivity, it is overly reliant on natural resources and its decaying infrastructure, sorely needed to export its livelihood, is a liability. With a Political Freedom rating of just 5, the political system may be too rigid to advance Kazakhstan over the short term, despite its rich commodity endowment.

With the only positive increase in Economic Performance amongst the CIS countries, **Georgia** was a standout for the region in 2011, with GDP growth running a strong 5.5%. Within the CIS, Georgia's quality of institutions is second only to Ukraine. Georgia is also not nearly as dependent upon commodity exports as its CIS neighbors (services comprise 60% of GDP). Nonetheless, Georgia aims to reap the gains of the region's resource endowment as a future hub for pipelines heading west from the CIS states into energy-dependent Europe.

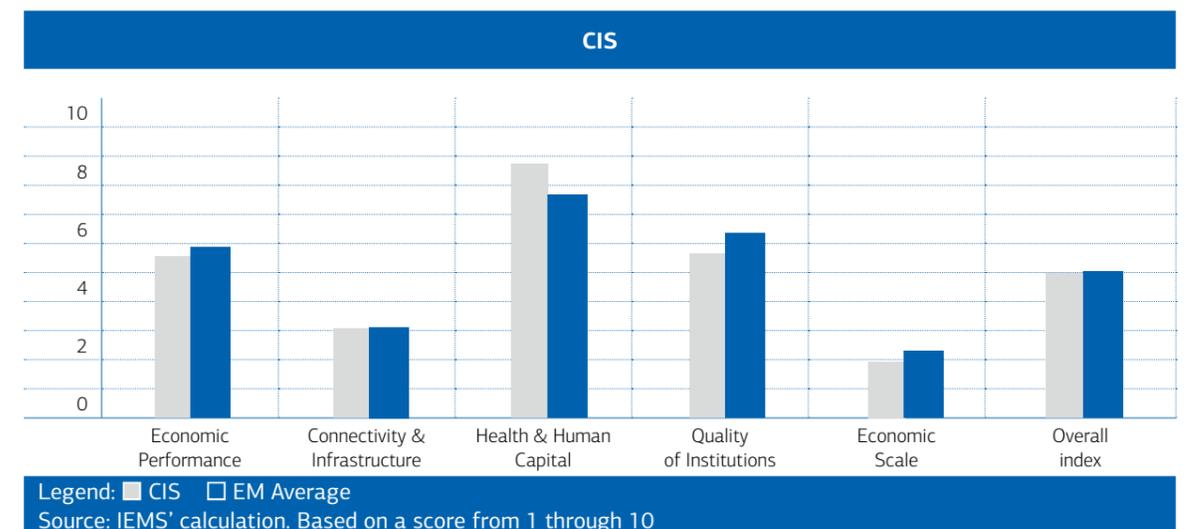
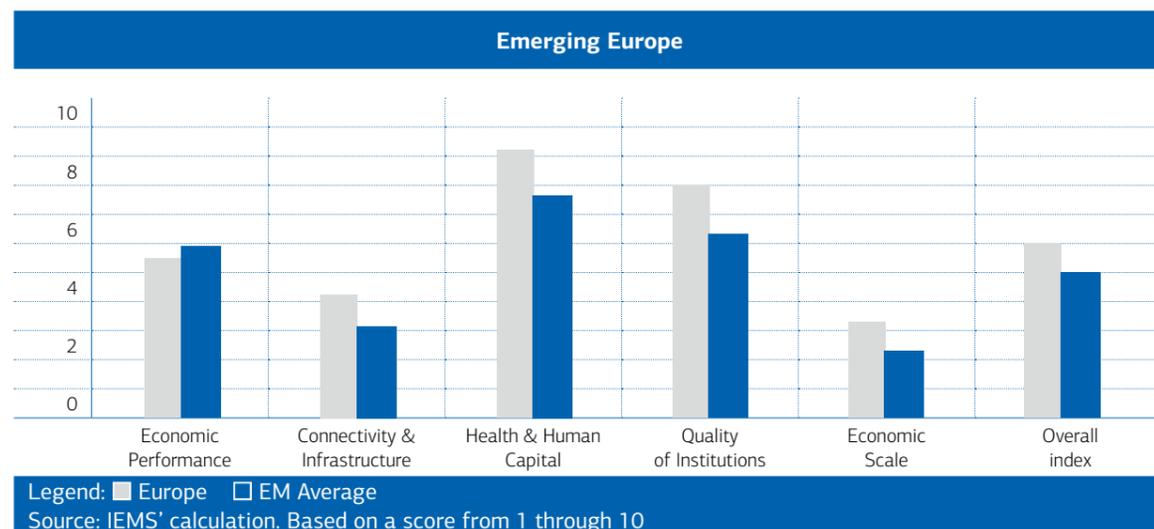
Azerbaijan has also been a rising star in the CIS ever since it bucked the regional trend of negative growth in 2009 with a blistering GDP growth rate of 9% (growth in 2011, however, was barely positive). The country is ex-

Economic recovery is still taking hold in the region despite the ongoing household and financial sector deleveraging

ceptionally well endowed with oil, which has buoyed its GDP per capita to around \$10,000, twice the level of the Ukraine. Petroleum products, unfortunately, account for 94% of total exports, making the country essentially a petro-state. Surprisingly, Azerbaijan also boasts the worst budget deficit in the world as measured by the CIA World Factbook, with its estimated deficit growing to 19% of GDP in 2011. As this EM looks to the future, its two major themes are economic diversification and a shift in trade towards Turkey and the EU.

MENA (Middle East – North Africa)

Commodity price movements and social unrest continue to dominate the region's prospects. Economic growth was an estimated 3.1% in



2011, down from 4.3% in 2010. In terms of index rank changes, MENA was the worst performing, with 9 countries slipping and only 2 climbing.

The Arab Spring might eventually usher in a more democratic and prosper Arab world, but a number of countries in the region did not fare well according to our index. In index rankings, political turmoil took its toll on **Libya, Tunisia, and Egypt**, which were all downgraded from Intermediate Emerging to Early Stage Emerging. Egypt's revolution might have modestly increased its political freedom (4 to 5 out of 14 according to Freedom House) but the turmoil, as least for now, has adversely impacted tourism, FDI, and in turn economic growth and fiscal balance. Internet and mobile phone use, however, sharply increased. Looking longer term, a return to political stability combined with an enormous and energetic young population keeps Egypt one EME to watch carefully.

Iran also experienced a serious decline, dropping from Intermediate to Early Stage Emerging as its increased political isolation and economic sanctions began to bite. It is ranked 44 out of 48 at this stage in Institutional quality. Macroeconomic Performance is expected to continue deteriorating.

Turkey's per capita income has surpassed \$15,000 for the first time

Both **Yemen** and **Syria** drop a full category, too, falling from Early Emerging to Dormant. There was a broad-based deterioration in most indicators and with the ongoing political turmoil, expectations for further declines in 2012.

Turkey and **Lebanon** were the only two standouts in the region (only countries in the MENA region both rising in rank but remaining in the Intermediate Emerging Stage). Lebanon saw improvements in both the quality of its Institutions (political freedom has risen from 6 to 8 in recent years) and Economic Scale (its per capita income has passed \$15,000 for the first time). Turkey has improved its Macroeconomic Performance and its Economic Scale in recent years (Turkey's per capita income has surpassed \$15,000 for the first time). Both life expectancy and the adult literacy rate improved, rising from 72 to 74 years and 89% to 91% over 2009–2011. Moreover, Turkey saw improved ratings in Economic and Political Freedom over the same period.

Emerging Asia

Growth in the region has tapered somewhat – because of falling external demand for their exports – but remains very robust in the fastest growing region in the world (9.5% growth in 2010 versus an estimated 7.9% in 2011). 12 Asian countries advanced in the index for 2011 while 8 fell.

There is one important standout about Asia that bodes well for the continent's emerging economies. Asia continues improving its Institutional rankings (both economic and political freedom).

Malaysia climbed six spots in the Intermediate Category, driven by strong Macroeconomic Performance and low inflation. Malaysia also took the top rank in this category for Connectivity & Infrastructure (its stock market has exceeded 100% of GDP in recent years). It has also improved its Institutional rankings in recent years and its per capita GDP is now approximately \$15,000.

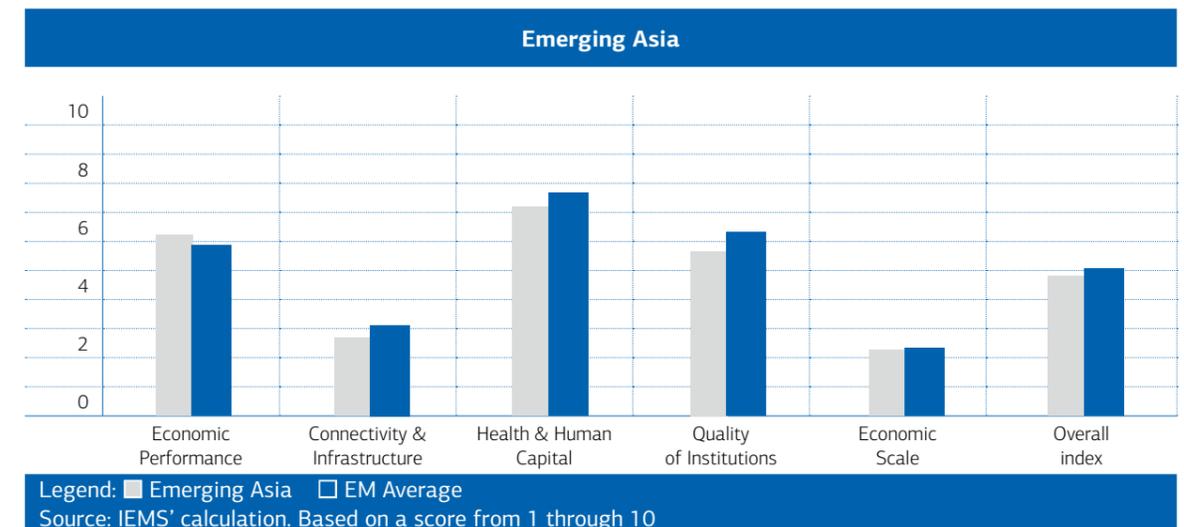
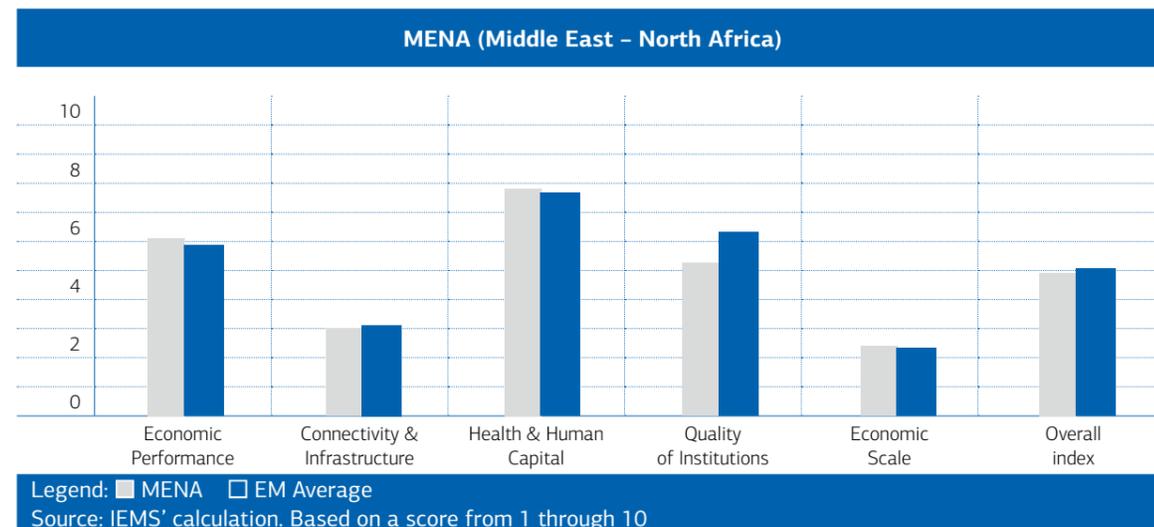
The Philippines weathered the global economic crisis better than its regional neighbors, managing to grow 7.6% in 2010 and an estimated 4% in 2011. Remittances from 4–5 million citizens working abroad and a growing business process outsourcing industry is help-

ing the economy. The economy still has many structural problems, although the public debt has been reduced to below 50% of GDP and the island nation has received some sovereign rating upgrades. Political Freedom rose from 8 to 10 from 2008 through 2010.

Strong economic growth, reduced budget deficits (till year 2010), and a large stock market capitalization increased **Thailand** by four spots in the Intermediate category despite devastating floods late last year. Its physical infrastructure, however, needs improvement (there has been no increase in the density of paved roads, one of our 15 indicators) and its political freedom is only rated a 7 (out of 14).

Vietnam rose two spots in the Early Stage category. It ranks number 2 (in Early Stage) for Health and Human Capital (life expectancy is 75 while the literacy rate is 93%). Vietnam has also been attracting more FDI. While Vietnam has had strong GDP growth, it also has the highest inflation rate in Asia (23% in 2011). It also has an undercapitalized banking system. Looking longer run, Vietnam's Achilles' heel remains its Institutions (particularly political freedom).

Pakistan experienced the greatest drop within the Early Stage category, dropping over ten spots to within the bottom six. Pakistan was one of the few countries that worsened in



absolute terms in all five broad indicators. Much of the heady growth from the last decade has dissipated and so has the much-needed foreign direct investment.

Mongolia was one of two countries to advance from Early Emerging to Intermediate Emerging (the other was the Philippines). Mongolia experienced significant improvements in Connectivity & Infrastructure and Macroeconomic Performance (it quickly brought its budget into surplus). It also had the highest rate of FDI (as a share of GDP) of any nation in the index. Mobile phone use is quickly on the rise and its institutional qualities are relatively high (12 out of 14 on Political Freedom). It has benefited greatly with trade to China in recent years. It remains highly dependent upon the price of raw materials, especially coal.

While **Myanmar** clearly remains in the Dormant Stage, it finally seems to be on the move. It was ranked 7 out of 26 in 2011 versus 14 out of 23 the year before. The government has started a process of political liberalization, but it is entirely too early to move Myanmar to

While Myanmar clearly remains in the Dormant Stage, it finally seems to be on the move

Early Middle Stage. Nevertheless, Myanmar is one to watch in 2012.

The “Dear Successor” will have a lot on his plate this year as **North Korea** continued its downward spiral in the Dormant Category, falling three ranks. North Korea experienced deteriorations in all five broad categories and the fifth worst change in Macroeconomic Performance (out of all 112 countries). Its economy is definitely dormant; but unfortunately, it remains dangerous.

Sub-Saharan Africa (SSA)

The region is showing solid real GDP growth (at rates close to its pre-crisis averages).¹⁵ In fact, at approximately 5%, it is the second fastest growing region in the world after emerging Asia. SSA has benefited enormously from the rise in

commodity prices in recent years. Inflation, however, is rising (7.5% in 2010 versus 8.4% in 2011). This is a critical time for much-needed structural reform and building better institutions. Disturbingly, despite the improvement in economic performance throughout the region, there have been no significant improvements in Health/Human Conditions.

SSA accounted for 15 of the 25 Dormant countries. While quite a number had healthy rates of economic growth, all remained ravaged by poor Connectivity & Infrastructure, Health and Human Capital, the lowest Institutional rankings, and extreme bouts of poverty (low per capita incomes and high income inequality).

South Africa was the standout this year in SSA, jumping five spots in the Intermediate Stage. It is now just one spot below Russia. Its stock market, as a percent of GDP, is the highest in the world of any sizeable nation. Its literacy rate continues to climb and its per capita income now exceeds \$10,000 for the first time (by some, considered the threshold of a middle-income nation). Its political freedom index, at 12, is one of the highest of any Intermediate Stage nation.

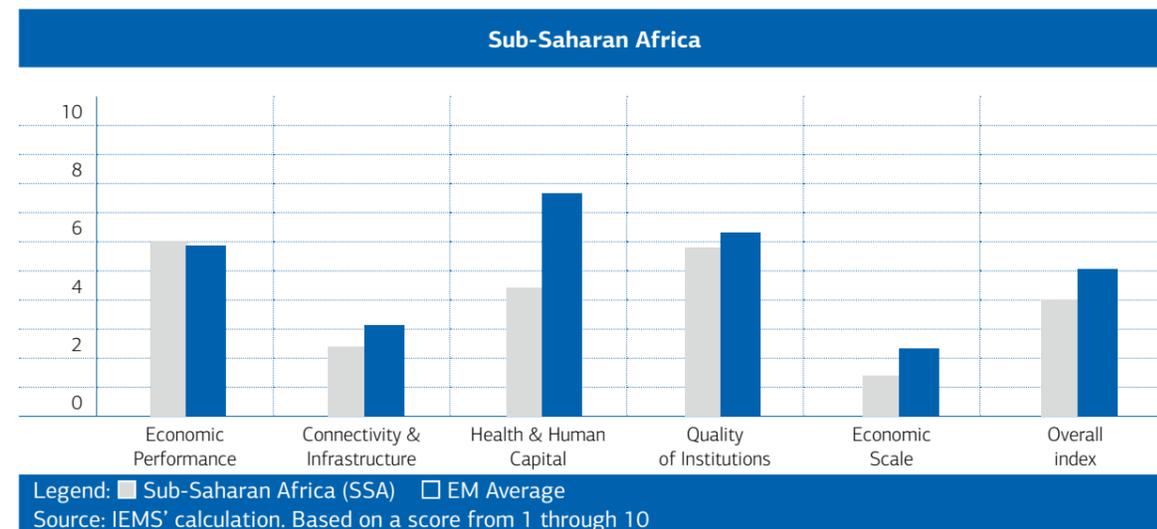
Botswana was another standout, and next to South Africa is the only other SSA nation in the Intermediate category. Botswana saw the second largest improvement in Macroeconomic Performance in this category. It possesses an 85% adult literacy rate, exceptionally high institutional rankings, improving Connectivity & Infrastructure, and a surprising per capita income approaching \$15,000.

Mozambique, also bordering South Africa, is looking better these days. While its ranking remained low in the Early Emerging Stage, it has discovered natural gas and is attracting more FDI and increasing trade links with South Africa.

Botswana was another standout, it is the only other SSA nation in the Intermediate category

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 25 Dormant EMEs, 15 are from Sub-Saharan Africa. Africa also represents 8 of the bottom 9 in early-stage EMEs.
- By far the easiest way for a dormant nation to become early-stage emerging is to improve its Macroeconomic Performance, particularly real GDP growth.
- Improving institutional quality was 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 Early Stage to Intermediate Stage Emerging.
- There are several noteworthy things about the Dormant category. First, the worst countries in this collection have been plagued by some form of civil war and all score abysmally on Economic and Political Freedoms.
- Being well endowed with mineral resources may not be a blessing (there are no well-endowed Advanced Emerging nations) but it does not necessarily have to be a curse either. There is a fairly even distribution of these countries across the remaining three categories. **EMI**



^{15/} SSA scores well below the EM average in all five primary components except Macroeconomic Performance.

Additional Observations about the 4 Stages of Emerging Markets

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

- Of the 10 advanced emerging economies, six

V. Conclusions

2011 marked the fourth consecutive year of global economic turbulence. It also marked another year of stark division between the developed and emerging worlds. While the emerging economies can hardly claim to have “decoupled” from the affluent world, the significant growth advantage they gained at the beginning of the current century seems to be developing some permanence.

Our Index suggests a growing diversity of emerging market leadership and dynamism beyond the BRICs. A host of other countries, including Chile, Poland, Malaysia, Turkey, South Africa, and Indonesia, have been improving their rankings and exhibiting growing regional leadership. Moreover, Asia is no longer dominating the emerging market drama. Latin America looks like it might finally be executing on its long-overdue potential. The hydro-based economies of the MENA region (political turmoil aside) seem to be getting better at managing their fiscal houses while parts of Sub-Saharan Africa appears to be getting some traction in top-line growth. Improvements in institutional quality have been broad based. Most critically, debt levels, both sovereign and private remain significantly lower in the emerging world. Whether the ongoing problems in the developed world eventually “catches up” with the emerging one remains to be seen, but a continuation of current trends over the next decade has the makings of a very different world. **EMI**

Authors:

William T. Wilson, Ph. D. (Senior Research Fellow, IEMS),
Peter Johansson (Research Associate, IEMS)

Editor-in -Chief :

Sam Park, Ph.D. (Executive Director, IEMS)

Contacts:

iems@skolkovo.ru

Appendix

The Index ¹⁶

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. Connectivity & Infrastructure – (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. Economic Scale – (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.

Connectivity & Infrastructure 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, Economic Scale 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.

The Four Stages – A Detailed Description

While there is no formal definition of an emerging market, the differences in development among them are enormous.¹⁷ 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).

^{16/} In the 2011 inaugural edition of the index, Connectivity & Infrastructure and Economic Scale were initially referred to as Macroeconomic Performance and Market Size and Intensity, respectively. The names were altered to better reflect the underlying variables in each component.

^{17/} For example, within our 112 country sample, Croatia and Zimbabwe had the highest and lowest per capita incomes of \$19,800 and \$150, respectively.

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. 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 institutions and development in short periods and thus passing on to the advanced emerging stage of development. The middle class has been growing rapidly and generally abject poverty is limited to a minority of the population. Intermediates are often beginning to “mature” demographically, with birth rates declining and life expectancy increasing. 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 lack 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. **EMI**

Advanced Stage	
Poland	1
Estonia	2
Chile	3
Puerto Rico	4
Uruguay	5
Croatia	6
Hungary	7
Panama	8
Lithuania	9
Latvia	10
Intermediate Stage	
China	1
Bulgaria	2
Costa Rica	3
Mexico	4
Argentina	5
Serbia	6
Brazil	7
Macedonia, FYR	8
Peru	9
Malaysia	10
Romania	11
Colombia	12
Turkey	13
Russian Federation	14
Indonesia	15
Bosnia and Herzegovina	16
El Salvador	17
Lebanon	18
Jamaica	19
South Africa	20
Thailand	21
Libya	22
Kazakhstan	23
Tunisia	24
Azerbaijan	25
Georgia	26

Gabon	27
Ukraine	28
Iran, Islamic Rep.	29
Armenia	30
Algeria	31
Egypt, Arab Rep.	32
Botswana	33
Early Stage	
Albania	1
Dominican Republic	2
Paraguay	3
Ecuador	4
India	5
Philippines	6
Mongolia	7
Belarus	8
Namibia	9
Jordan	10
Bolivia	11
Morocco	12
Guatemala	13
Kyrgyz Republic	14
Sri Lanka	15
Honduras	16
Nicaragua	17
Moldova	18
Vietnam	19
Malawi	20
Syrian Arab Republic	21
Papua New Guinea	22
Liberia	23
Uzbekistan	24
Ghana	25
Bangladesh	26
Uganda	27
Benin	28
Tanzania	29
Pakistan	30
Kenya	31
Madagascar	32

Iraq	33
Togo	34
Lao PDR	35
Cambodia	36
Zambia	37
Senegal	38
Rwanda	39
Cameroon	40
Nigeria	41
Mali	42
Angola	43
Yemen, Rep.	44
Mozambique	45
Mauritania	46
Guinea	47
Dormant	
Tajikistan	1
Venezuela, RB	2
Congo, Rep.	3
Cuba	4
Turkmenistan	5
Nepal	6
Haiti	7
Cote d'Ivoire	8
Burundi	9
Ethiopia	10
Niger	11
Burkina Faso	12
Central African Republic	13
Myanmar	14
Sierra Leone	15
Korea, Dem. Rep.	16
Congo, Dem. Rep.	17
Sudan	18
Chad	19
Eritrea	20
Afghanistan	21
Zimbabwe	22
Somalia	23

Advanced Stage EMEs						
		Macroeconomic performance	Connectivity & Infrastructure	Health and Human capital	Institutions	Economic Scale
1	Chile	2	5	1	1	8
2	Poland	4	4	3	7	1
3	Estonia	7	1	5	3	3
4	Uruguay	3	6	4	5	9
5	Lithuania	9	3	9	4	5
6	Hungary	8	7	7	6	2
7	Puerto Rico	5	10	6	2	6
8	Panama	1	8	10	8	10
9	Croatia	6	9	2	9	4
10	Latvia	10	2	8	10	7

Advanced Stage EMEs						
		Macroeconomic performance	Connectivity & Infrastructure	Health and Human capital	Institutions	Economic Scale
11	China	1	18	12	28	1
12	Malaysia	10	1	11	20	7
13	Bulgaria	20	6	7	2	10
14	Argentina	9	12	2	14	6
15	Brazil	8	11	25	11	3
16	Peru	2	15	13	7	18
17	Costa Rica	19	24	1	1	15
18	Mexico	15	20	9	12	4
19	Macedonia, FYR	12	8	5	13	17
20	Serbia	22	4	6	10	14
21	Colombia	7	10	15	18	16
22	Turkey	18	17	16	15	5
23	Romania	26	16	8	3	8
24	Russian Federation	25	2	18	27	2
25	South Africa	16	7	28	4	13
26	Indonesia	3	25	21	17	19
27	Thailand	4	9	22	24	20
28	Lebanon	5	21	20	22	9
29	Bosnia and Herzegovina	17	19	3	21	22
30	Philippines	6	26	14	19	26
31	Jamaica	27	5	23	9	24
32	El Salvador	14	22	26	5	25

33	Mongolia	13	3	24	8	28
34	Kazakhstan	11	14	19	25	12
35	Georgia	24	23	10	16	27
36	Ukraine	28	13	17	23	23
37	Azerbaijan	23	27	4	26	21
38	Botswana	21	28	27	6	11

Early Stage EMEs						
		Macroeconomic performance	Connectivity & Infrastructure	Health and Human capital	Institutions	Economic Scale
39	Paraguay	6	12	6	6	20
40	India	30	27	31	7	1
41	Albania	19	2	1	5	9
42	Dominican Republic	18	15	10	3	7
43	Libya	2	4	8	48	2
44	Ecuador	29	26	11	17	10
45	Bolivia	5	17	19	14	21
46	Belarus	27	3	4	45	5
47	Moldova	40	10	9	9	29
48	Jordan	42	5	5	28	14
49	Namibia	38	29	23	2	13
50	Gabon	3	19	24	36	3
51	Iran, Islamic Rep.	22	6	15	44	4
52	Sri Lanka	34	31	7	27	19
53	Nicaragua	25	28	17	20	30
54	Guatemala	32	16	21	16	22
55	Vietnam	35	8	3	41	23
56	Tunisia	28	11	18	39	8
57	Honduras	39	23	16	21	26
58	Armenia	47	25	2	22	18
59	Kyrgyz Republic	45	7	14	30	33
60	Tajikistan	10	18	13	37	35
61	Algeria	17	22	20	38	6
62	Morocco	14	9	27	25	17
63	Ghana	43	34	39	1	37
64	Uzbekistan	24	20	12	46	27
65	Papua New Guinea	9	32	36	19	32
66	Kenya	33	38	29	12	38
67	Malawi	8	37	37	15	47

68	Egypt, Arab Rep.	44	24	28	33	11
69	Tanzania	26	47	34	8	39
70	Congo, Rep.	1	1	30	42	25
71	Benin	15	40	42	4	41
72	Bangladesh	31	43	32	18	28
73	Liberia	16	14	40	26	48
74	Uganda	13	39	38	24	42
75	Iraq	7	30	22	47	24
76	Lao PDR	11	35	25	43	31
77	Cambodia	36	45	26	35	34
78	Senegal	21	41	43	10	36
79	Togo	12	42	35	32	46
80	Zambia	20	33	45	11	40
81	Pakistan	46	36	33	29	16
82	Nigeria	37	21	47	23	15
83	Rwanda	4	46	41	31	44
84	Mozambique	41	44	48	13	43
85	Guinea	48	48	46	34	45
86	Angola	23	13	44	40	12

Early Stage EMEs

		Macroeconomic performance	Connectivity & Infrastructure	Health and Human capital	Institutions	Economic Scale
87	Cuba	13	13	1	23	2
88	Syrian Arab Republic	12	7	3	16	4
89	Turkmenistan	11	3	5	19	3
90	Venezuela, RB	27	2	2	14	1
91	Nepal	10	24	7	4	15
92	Madagascar	22	8	11	5	19
93	Myanmar	18	23	6	20	5
94	Cameroon	5	10	14	12	8
95	Cote d'Ivoire	9	5	15	15	10
96	Haiti	17	9	13	7	17
97	Yemen, Rep.	19	22	8	10	7
98	Mali	4	15	26	1	18
99	Burkina Faso	2	19	20	3	16
100	Zimbabwe	7	1	12	22	27
101	Mauritania	16	12	16	11	11
102	Niger	8	6	24	6	23

103	Burundi	14	20	17	8	26
104	Central African Republic	6	14	19	9	22
105	Korea, Dem. Rep.	23	17	4	25	9
106	Ethiopia	3	18	21	13	12
107	Sierra Leone	24	21	22	2	21
108	Congo, Dem. Rep.	25	4	18	17	20
109	Sudan	20	11	10	26	6
110	Chad	15	16	25	18	13
111	Eritrea	26	27	9	21	25
112	Afghanistan	1	25	27	24	14
113	Somalia	21	26	23	27	24

Source: IEMS' 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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Moscow School of Management SKOLKOVO
Novaya ul. 100, Skolkovo village,
Odintsovsky district,
Moscow region, Russia
tel.: +7 495 580 30 03, fax: +7 495 994 46 68

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SKOLKOVO Business School – Ernst & Young Institute for Emerging Market Studies (IEMS)
Unit 1607-1608, North Star Times Tower
No. 8 Beichendong Road, Chaoyang District
Beijing, 100101, China, tel./fax: +86 10 6498 1634

info@skolkovo.ru

www.skolkovo.ru

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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
Novaya ul. 100, Skolkovo village,
Odintsovsky district,
Moscow region, Russia
tel.: +7 495 580 30 03, fax: +7 495 994 46 68
info@skolkovo.ru
www.skolkovo.ru

SKOLKOVO Business School – Ernst & Young Institute for
Emerging Market Studies (IEMS)
Unit 1607-1608, North Star Times Tower
No. 8 Beichendong Road, Chaoyang District
Beijing, 100101, China
tel./fax: +86 10 6498 1634

