

Emerging Markets

Balancing Risk & Reward

The PricewaterhouseCoopers EM20 Index
June 2008



Introduction

Attractive investment locations are determined by more than GDP per capita levels

PwC EM20 Manufacturing and Services Indices

Rank	Manufacturing		Services	
	Index Value	Country	Index Value	Country
1	95	Egypt	95	Poland
2	93	Bulgaria	95	Chile
3	88	Serbia	93	Russia
4	86	India	93	Romania
5	85	Vietnam	93	Bulgaria
6	85	Peru	91	Slovakia
7	85	Romania	89	Serbia
8	84	Ukraine	87	Brazil
9	83	Chile	87	Malaysia
10	83	Turkey	87	Turkey
11	82	Thailand	86	Mexico
12	82	Brazil	86	Kazakhstan
13	81	Malaysia	84	South Africa
14	81	China	84	Egypt
15	81	Poland	83	Thailand
16	80	Philippines	83	China
17	80	Indonesia	83	Ukraine
18	79	Russia	83	Iran
19	78	South Africa	82	Peru
20	78	Mexico	80	India

Note: Rankings reflect unrounded index values

Taking into account the very positive reaction and feedback we received following our introduction of the PwC EM20 Index last year, we have refined and improved our underlying Model to give what we believe is an even more useful starting point for your deliberations. This has resulted in, amongst other things, some countries no longer meeting the Model's criteria of an 'emerging market' and thus falling out of the rankings, whilst other markets are included for consideration for the first time.

As a result of this and other underlying dynamics in the Model, there are a number of new entrants in the PwC EM20 Index this year.

This is the second year that we are publishing the PricewaterhouseCoopers¹ EM20 Index ('the PwC EM20 Index') – a ranking of attractive emerging markets generated by PwC's innovative Risk & Reward Model ('the Model'). Our initial desire to develop this model recognised the strong interest shown by UK companies in finding appropriate emerging markets for investment. That interest shows no sign of abating and the PwC EM20 Index continues to provide companies with a starting point for consideration of potential investment locations. In fact, our analysis indicates that all of the countries qualified to be included in the PwC EM20 Index offer good opportunities worthy of further investigation.

Headline findings

The PwC EM20 Index shows that the BRIC countries (Brazil, Russia, India and China) continue to offer interesting opportunities for investment – all four appear in both the PwC EM20 Manufacturing Index ('the Manufacturing Index') and PwC EM20 Services Index ('the Services Index'). However, the results of our modelling also indicate a range of other locations that can offer attractive alternatives.

This year Egypt tops the Manufacturing Index, and Poland takes first place in the Services Index. Low labour costs, a strategic geographic location and its falling country risk premium have helped to drive Egypt's Manufacturing Index ranking, while Poland's high position in the Services Index reflects its middle income status (compared to other countries in the Model) and relatively low country risk premium.

Competition for these top spots was tight. Bulgaria comes a close second in the Manufacturing Index, while India and Vietnam also rank highly. Chile is an even closer runner-up to Poland in the Services Index, achieving the same index value on a 'round number' basis. Russia scores well in third place in the Services Index.

This year, for the first time, we have also run our Model using historical data for all the countries we have looked at to give a five-year 'track record' which we will refer to at various points. This allows you to consider the direction – and speed – of movement of various countries within the PwC EM20 Index over time and spot rising (or waning) stars.

This also illustrates the sensitivity of rankings to short-term impacts and highlights the relatively high volatility of emerging markets in general.

Risk factors

Political risk has emerged as a factor which has a major impact on countries ascending or descending in both indices. This is illustrated particularly strongly by Serbia, which has dramatically improved its performance in the Manufacturing Index largely due to improving political stability since 2000. In 2008 Serbia is ranked third in the Manufacturing Index, compared to 25th in 2004. Although Serbia's country risk premium remains high compared to nearby countries such as Bulgaria, its dramatic improvement in recent years has made it a significantly more attractive investment destination than before.

The impact of political risk is also evident across Central and South East European member states of the European Union. Slovakia joined the EU in 2004. The political and economic stability both leading up to and since accession has made it a 'rising star' in the Services Index (sixth in 2008, 16th in 2004). The trend is also reflected in the experience of Romania and Bulgaria, which joined the EU in 2007.

This is not simply an EU effect; Argentina provides further evidence of the impact that falling country risk premium can have on a country's performance in the Model. Its continuing recovery from upheavals at the start of the decade has significantly reduced its country risk premium and, as a result, increased the relative attractiveness of Argentina as an investment destination. Although still outside the top 20 countries, Argentina looks like an investment location to watch for the future.

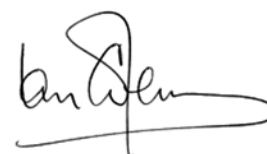
A golden triangle?

Three countries – Bulgaria, Serbia and Romania – are ranked in the top seven in both the Manufacturing Index and the Services Index. This might initially appear counterintuitive given that a key driver of a high ranking in the Manufacturing Index is relatively low labour cost, while high placement in the Services Index is linked to household incomes being sufficiently high to create markets for service providers, be they banks or media companies.

However, what this confirms is that attractive investment locations are determined by more than just GDP per capita levels. The high rankings achieved by these three countries in both indices reflect the complex interaction of a number of factors which, in combination, determine the attractiveness of an emerging market for investment.

GDP per capita levels are important, but not paramount. In the case of Bulgaria and Romania, for example, recent accession to the EU has reduced their country risk premia, which has had a positive effect on their rankings in both indices. While Serbia's country risk premium is relatively high, it scores particularly well in the Manufacturing Index as the risk is counterbalanced by its proximity to large West European markets. Although there are still downsides to these three countries in terms of infrastructure and governance, our analysis suggests that South East Europe deserves to be given serious attention as a region with considerable potential. To explore this further, we will be running a series of events in Autumn 2008 which we hope you will join us for and find interesting and informative.

I hope that you find the PwC EM20 Index report an interesting and useful read. I look forward to receiving your comments.



Ian Coleman
UK Emerging Markets Leader

1. Unless otherwise indicated, 'PricewaterhouseCoopers' refers to PricewaterhouseCoopers LLP (www.pwc.com/uk) a limited liability partnership incorporated in England.

Manufacturing in Focus...

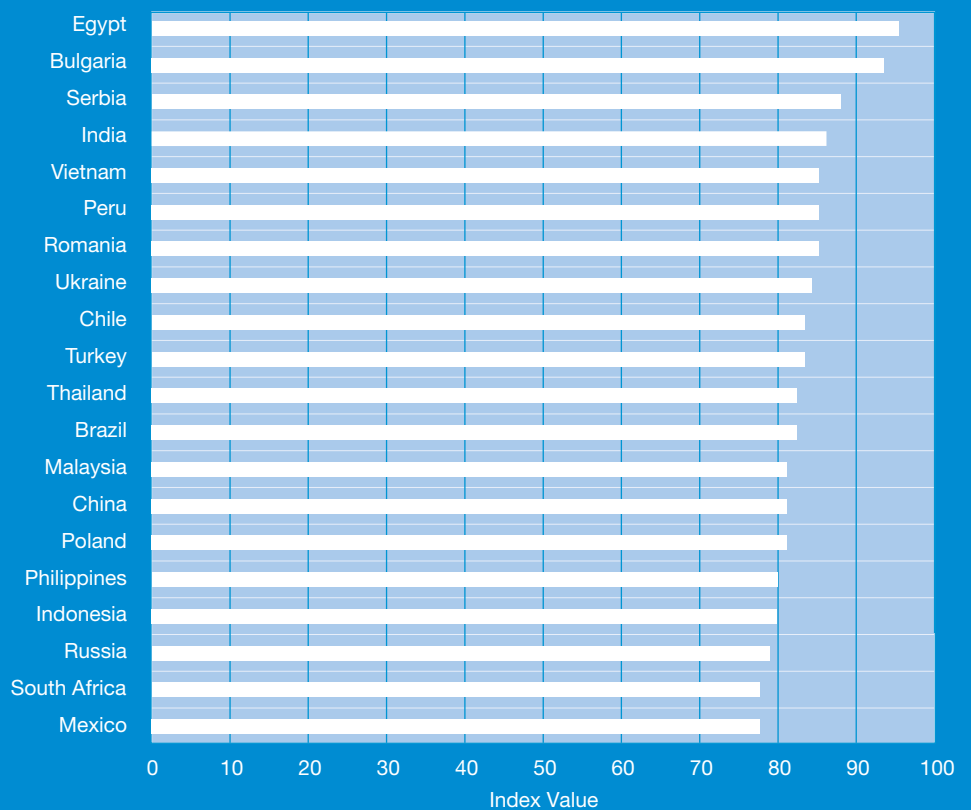
The range of credible manufacturing destinations continues to expand

For manufacturing companies seeking to invest in emerging markets, low production costs are essential. Other factors then come into play, including the location's risk premium, its distance from key export markets (as the Model assumes 50% of production is exported) and the local corporation tax rate.

The rankings of the Manufacturing Index are shown in the figure below.

Egypt and Bulgaria emerge as the leaders in the group in 2008, followed by Serbia, India and Vietnam. Many regions of the world are represented in the top ten: Africa, Eastern Europe, Asia and Latin America.

Manufacturing Index – Summary Rankings

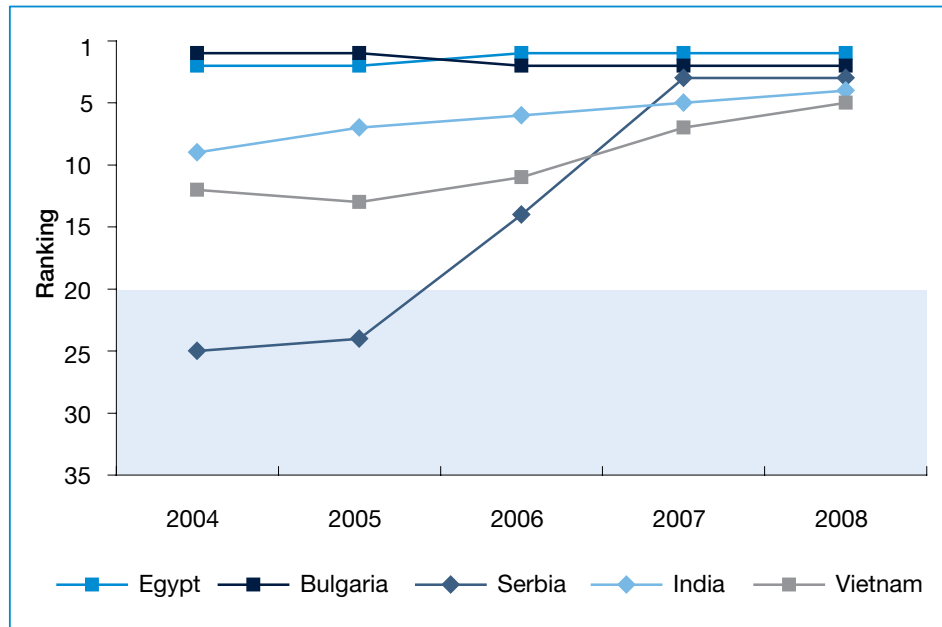


Low GDP per capita, reflecting low labour costs, is a significant factor in determining Manufacturing Index rankings. But the five-year trend results (partially illustrated overleaf) show the significant impact of country risk premia – and, in particular, political risk – on the rankings. Traditionally one of the most difficult aspects of investment appraisal to assess, proven methodologies now exist to quantifiably ascertain and project political risk allowing meaningful inclusion into investment modelling.

Manufacturing in Focus...

The top five manufacturing destinations in 2008

Five-year track record



Note: Results for the years 2004 to 2007 were calculated by running historical data through the Model. Refinements in the model in 2008 mean that the results for 2007 may not correspond to those included in last year's report.

Egypt

Egypt tops the Manufacturing Index in 2008. It also comes out in prime position when the refined Model is applied to data for 2007 and 2006, and comes second in 2005 and 2004. Egypt's success relates largely to its relatively low labour costs, its reasonable proximity to Germany (which is one of the main export markets assumed in the Model), and its falling country risk premium, mainly driven by a decline in political risk. The country has enjoyed robust average GDP growth of 4.7%² since 2000, while foreign direct investment ('FDI')³ flows into Egypt increased by 713% between 2000 and 2006, to \$10bn. Examples of investors are General Motors, Apache Corp and Procter & Gamble.

However, there remain some downsides associated with investment in Egypt. Its transport infrastructure requires further development and there are also lingering concerns about transparency of governmental decision-making and policy implementation.

Bulgaria and Serbia

The results for Bulgaria and Serbia – the second- and third-placed countries in the Manufacturing Index – illustrate the impact that significant changes in country risk premia can have on index rankings.

The two countries are similar in terms of wealth, population size and location – both being physically close to Germany. However, Serbia was placed 25th in 2004 whereas Bulgaria held the top ranking. At the time, Bulgaria was a candidate for membership of the European Union (which it joined in January 2007), while Serbia was emerging from a period of conflict and economic isolation. Thus Serbia's move up the rankings to third place this year essentially reflects the fact that its political risk – an element contained within the country risk premium applied in the model – has more than halved over the intervening years. Another point to note is that Serbia's corporation tax is set at a low level of 10%. For comparison, the corporation tax rate in Bulgaria is 15%.

2. Source for this and all subsequent GDP data is IMF

3. Source for all FDI data is UNCTAD

Manufacturing in Focus...

Bulgaria's second place ranking reflects its achievement of an average GDP growth of 5.5% since 2000. Flows of FDI into the country increased by 391% between 2000 and 2006, to \$5.2bn, involving global companies such as Hyundai, Carlsberg and American Standard. However, Bulgaria still presents some challenges for investors, such as the relatively high degree of corruption, organised crime and weaknesses in infrastructure as illustrated in the World Economic Forum's Global Competitiveness Report 2007-2008.

India

India, ranked fourth this year, has traced a gently rising course in the Manufacturing Index since 2004, when it was ranked ninth. Though growing strongly, India's GDP per capita remains relatively low due to the country's fast-growing population – a factor which ensures that low-cost labour is widely available.

This also suggests that India is likely to maintain a high position in the Manufacturing Index for some years. By 2038 (the end of the Model's 30-year time frame) India's GDP per capita is still expected to be less than 10% of the average GDP per capita of the developed world⁴, whereas China's will be almost 25% of that level. But a continued high ranking in the Manufacturing Index depends on India maintaining recent openness to trade and investment and improving its transport and energy infrastructure, as well as its average education levels.

Vietnam

Applying the refined version of the Model to data covering the last five years reveals a rising trend for Vietnam in the Manufacturing Index. Vietnam is highly competitive from a cost perspective, and offers investors sufficiently high potential returns that offset a relatively high country risk.

What about China?

Although China is an attractive investment location, it may be surprising to many that it is not one of the top ten most attractive destinations for manufacturing investment as measured by our Manufacturing Index. Its 14th place may even seem counterintuitive, given the high prominence of China as a recipient of manufacturing FDI.

The main reason behind China's trailing of countries such as Bulgaria and Vietnam is that the methodology behind the PwC EM20 Index does not give any advantage to countries based on the size of the local market. Approaching a hypothetical investment decision from the perspective of a medium-sized manufacturer, the methodology allows for relatively small but nonetheless credible locations to outperform China in terms of risk-adjusted investment returns. However, if a company was looking to develop a very large-scale manufacturing facility, the labour capacity and physical infrastructure required would arguably rule out some of the countries at the top of the Manufacturing Index, increasing China's relative attractiveness.

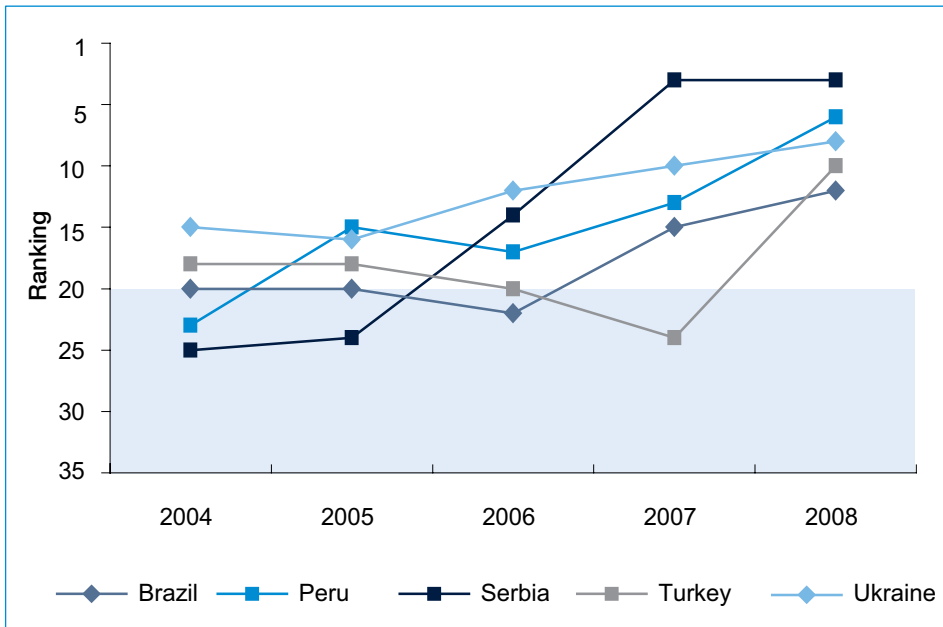
Another factor behind China's ranking is that it is not the most cost-competitive manufacturing location. Countries like Vietnam, Cambodia and small but relatively low-cost countries on Europe's fringes can sometimes offer higher margins to manufacturers. It is worth noting, however, that as the incomes of Chinese workers rise, they will become more attractive consumers for service providers, which is likely to boost China's position in the Services Index in the coming years.

4. In the Model, the developed world is represented by Germany and the US.

Manufacturing in Focus...

Rising stars

Rising stars – Manufacturing Index



A number of countries have shown significant improvements in their ranking over the last five years. As already noted, Serbia has benefited from a significant improvement in political stability, thus reducing substantially its country risk premium. This is also the case with Ukraine, which achieved an eighth place ranking in this year's Manufacturing Index, rising from 15th in 2004.

Alongside Eastern Europe, South America is home to a number of rising stars, with Peru and Brazil in particular improving their rankings.

Turkey, though achieving a dramatic leap up the Manufacturing Index to 10th in 2008, having been outside the top 20 in 2007, was tracing a declining curve for the preceding three years. It remains to be seen if its current high ranking will be sustained.

In general, the performance of countries such as Serbia and Turkey illustrates how quickly a country's relative ranking can change – and the inherent challenges this brings to companies making investment decisions.

One to watch: Cambodia

Like China and India in earlier periods, Cambodia has been identified as a location with a promising future for manufacturing investment, primarily due to the wide availability of low-cost labour and its falling country risk premium, arising from its continued recovery from the upheavals it experienced in the late 1970s and 1980s. In terms of location, it also benefits from relative proximity to the West Coast of the US.

This year Cambodia did not qualify for inclusion in the top 20 of the Manufacturing Index, largely due to the small size of its current manufacturing base. For the purposes of this Model it is considered essential for countries to have a reasonable manufacturing base, so that inward investors have access to an adequate pool of suppliers. It follows that, as Cambodia's manufacturing base increases in size, it will likely become a strong contender for a high place in future Manufacturing Indices.

Services in Focus...

East European countries have a strong presence in the Services Index

For businesses in the services sectors, relatively high GDP per capita levels are a significant determinant of attractiveness. This is because the Model assumes that 90% of services produced will be provided to the domestic market in which the business is located. Typical service businesses represented in the Model are financial service companies such as banks and insurers, or media, telecoms and IT-related operators.

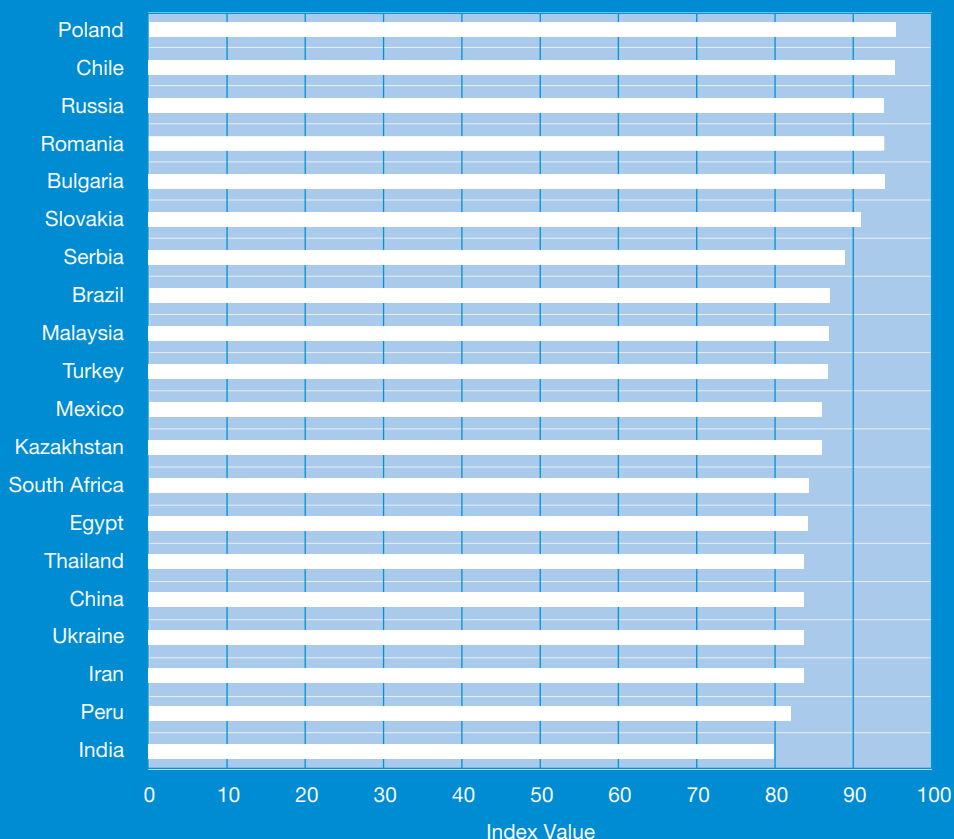
'Off-shoring' activities such as call centres are not represented, given that the service being provided would be geographically remote from the end user. Accordingly, qualitative factors such as the availability of English language skills are not taken into account in the Services Index.

The rankings of the Services Index are shown in the figure below.

The clear leaders in the Services Index are Poland and Chile (with index values of 95.0 and 94.9 respectively), followed closely by Russia.

South East European countries also have a strong presence, with Romania, Bulgaria and Serbia ranked fourth, fifth and seventh respectively. Slovakia comes in the midst of them, in sixth place.

Services Index – Summary Rankings

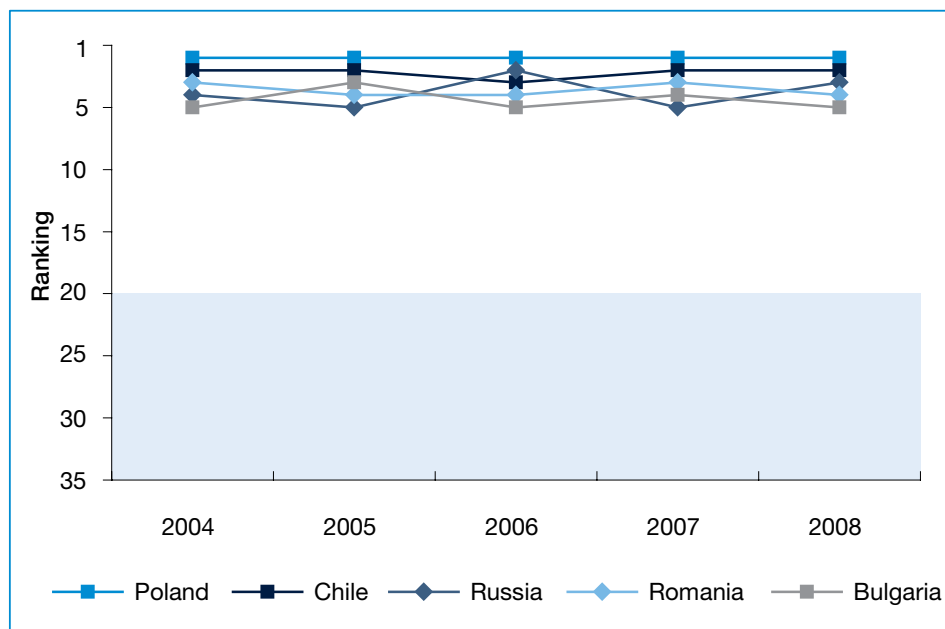


In general there is less volatility in the Services Index than in the Manufacturing Index – reflecting the fact that the high GDP per capita crucial to making a market attractive to a services company is generally a result of greater and prolonged market stability. This suggests that services businesses can enjoy a relatively higher degree of confidence as to the sustainable nature of their investment when entering the highest placed markets in the Services Index.

Services in Focus...

The top five services destinations in 2008

Five-year track record



Note: Results for the years 2004 to 2007 were calculated by running historical data through the Model. Refinements in the Model in 2008 mean that the results for 2007 may not correspond to those included in last year's report.

Poland

Poland achieves the top ranking in 2008, as it does for the previous four years when the refined Model is applied to historical data. Unlike the Czech Republic and Hungary (no longer meeting the criteria for inclusion in the Model), Poland is still seen as an 'emerging market', although this may not remain so for much longer. It is wealthy enough to be very attractive to service providers, offering a relatively lucrative domestic market for them to tap into, and achieving average GDP growth of 4.1% since 2000.

Inflows of FDI increased by 49% between 2000 and 2006, reaching \$13.9bn. Investors in Poland's services sector are companies such as France Telecom, Canal+ and Deutsche Bank. There are still some challenges for investors, however, such as the transport (particularly road) infrastructure and the burden of government regulation.

Chile

Chile's Services Index value is only a fraction behind Poland's and it could be seen as Poland's equivalent in South America. Chile does well in the Services Index because it is a middle income country with one of the lowest country risk premia in the PwC EM20 Index. This reflects its reputation as being one of the better-governed countries in South America, with a relative absence of political upheaval and a generally good record on economic stability compared to some other Latin American countries.

Russia

Russia's relatively high wealth, as reflected in its GDP per capita, supports its third position in the Services Index. Like Chile, Russia also benefits from having one of the lowest risk premia in the Model. Both these factors – high GDP per capita and low risk – are underpinned by substantial revenues from commodity exports, which both boost household income and enable the Russian government to meet its debt servicing obligations. Consumer and business services markets in fast-growing, relatively affluent Russian cities such as Moscow and St Petersburg offer particularly attractive opportunities to inward investors.

Services in focus...

Romania

Romania achieves its fourth place ranking, just ahead of Bulgaria, due largely to its relatively high GDP per capita level (by emerging market standards).

Since accession to the EU Romania's economy has been growing rapidly, with GDP per capita rising accordingly. Romania is gradually being transformed – moving away from being a source of cheap labour for manufacturing (which can be seen in its downward trajectory in the Manufacturing Index since 2006) and towards being an attractive location for service companies focusing on meeting the needs of the growing domestic market.

Bulgaria

Bulgaria's GDP per capita is sufficient to keep it within the top five in the Services Index.

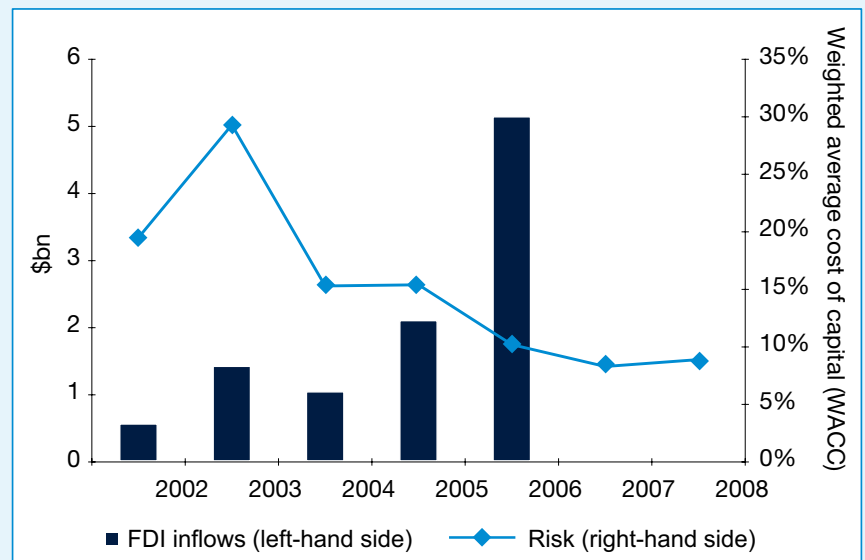
Bulgaria is in the enviable position of scoring highly in the Manufacturing Index, where it achieved second place, as well as in the Services Index. It will be interesting to see how the country's ranking changes in the future. As its GDP per capita rises, so Bulgaria will likely become less competitive in manufacturing but more attractive to services companies seeking a strong domestic market in which to invest.

Surprised about Serbia?

One country that features prominently in this year's PwC EM20 Index, both in the Manufacturing and Services Indices, is Serbia. This may be surprising given that the country is only starting to appear on many investors' radars as it recovers from the conflicts of the 1990s. Nonetheless, GDP has grown by 5.5% on average since 2000 and FDI is growing as the government opens up the economy and international buyers overhaul recently privatised Communist-era manufacturing facilities. The level of annual FDI inflows has grown steadily in recent years, shown in the figure opposite.

One of the drivers behind Serbia's growing potential attractiveness to foreign investors is the falling risk of investing in the country. Political risk is considerably lower than at the start of the decade, while improved legal and financial institutional frameworks make capital invested in Serbia more secure. As a result, investors are willing to accept lower returns on their capital, making viable greater numbers of potential Serbian investment opportunities. Of course, Serbia still experiences some underlying political uncertainty, its accession to the EU is not imminent and further investment in infrastructure is necessary, but many international investors show confidence in the market's potential, including the companies shown in the table opposite.

Serbia's FDI inflows and risk



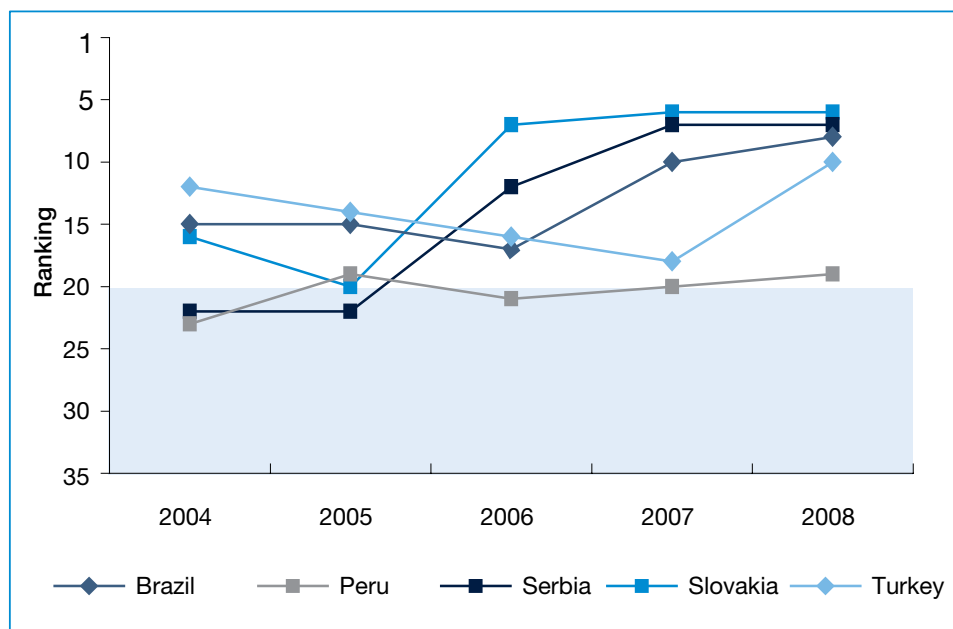
Examples of recently completed or announced investments in Serbia

Manufacturing		Services	
Investor	Sector	Investor	Sector
US Steel	Metals processing	Merrill Lynch	Real estate
Fiat	Motor vehicles	Telekom Austria	Telecommunications
Gazprom	Oil and gas	News Corporation	Broadcasting

Services in Focus...

Rising stars

Rising stars – Services Index



Two countries just outside the top five in the Services Index, Slovakia and Serbia, are clear rising stars. Slovakia dramatically improved its ranking between 2004 and 2008, rising from 16th to sixth. This reflects its strong growth in GDP per capita and improved political and economic stability noted previously. Since joining the EU, its country risk premium has fallen significantly.

Serbia was ranked outside the top 20 in 2004, but achieved seventh place in 2008. Its improvement largely reflects increasing GDP per capita, although its country risk premium remains relatively high. The country risk premium reduction reflects the improvements in political and economic stability as the country moves towards EU admission.

One to watch: Argentina

When looking for future potential star locations for investment by services companies, Argentina has been identified as 'one to watch'. Argentina made it through all the filters in the Model, but achieved a final ranking outside the top 20 this year. On its current trajectory, this could change next year.

Argentina's growing appeal reflects its recovery from economic turmoil at the start of the decade, with its GDP per capita increasing in recent years. Its GDP per capita is currently 16% of that of the developed world average. However, one of the major drivers behind Argentina's improving performance in the Model is its falling country risk premium, a reflection of its enhanced economic stability in recent years.

In conclusion

The impact of country risk should not be under-estimated

The range of potentially attractive investment locations – across several continents – identified in this year's PwC EM20 Index should provide encouragement for global groups looking for their next international investment opportunity.

Some countries identified as attractive emerging markets in this year's report will come as no surprise. Others may do so. What is apparent is that the best-known emerging markets may not always provide the optimal solution in terms of potential investment returns.

This is the great strength of the PwC EM20 Index. It is based on the understanding that choosing the right emerging market for investment requires careful analysis of potential returns in the context of risk. What is important is not the size of the market but whether you can make adequate profits there to compensate you for the risks involved.

The trend analysis contained in this year's report also highlights the speed with which market attractiveness can change, often triggered by an improvement – or weakening – in the political and economic climate and, as a result, a lower – or higher – country risk premium.

The PwC EM20 Index offers a framework to assist in an initial screening of investment opportunities, but business-specific factors must always be considered before decisions are made. Certain criteria may be crucial to the success of an investment for a particular business. For example, the extent and quality of the labour supply, education levels, availability of specific skills, foreign language capability, regulatory environment and cultural match can all have high importance, depending on the nature of the business in question. Tax issues can also have a major impact on the success of any foreign direct investment, and careful planning is essential.

Setting up manufacturing operations in a new location or offering services in a new market is never an easy process. But the rewards can be great. By using the PwC EM20 Index as a springboard for debate and further analysis, executives in global companies can set out on the investment path with greater confidence that the decisions they make will prove to be successful ones.

About us

The member firms of the PricewaterhouseCoopers network provide industry-focused assurance, tax and advisory services to build public trust and enhance value for its clients and their stakeholders. More than 146,000 people in over 150 countries across our network share their thinking, experience and solutions to develop fresh perspectives and practical advice.

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In Autumn 2008 we will be running a series of events exploring investment opportunities in South East Europe. To learn more, please visit our website pwc.co.uk/emergingmarkets over the summer.

Appendix 1:

How the PwC EM20 Index was compiled

Updated and refined results for 2008

Last year's initial PwC EM20 Index report generated a high degree of interest and useful feedback, which has been reflected in some refinements to the methodology used. The major development has been an expansion in scope to include all emerging markets considered to be plausible candidates for foreign direct investment (FDI). In addition, a number of extra filters have been applied during the process for identifying eligible emerging markets. This has been done in order to provide a degree of 'real-world' business credibility, so that all of the locations analysed are those that businesses would consider truly viable investment options when making decisions.

Another new feature of this year's report is the inclusion of historical trend data for the last five years. This extra dimension to the findings helps readers to look for trends and see whether locations are moving up or down the rankings, and how quickly. A number of 'rising stars' are also highlighted, as well as a couple of 'countries to watch' – locations that could be worth considering, if not immediately, then at some point in the future.

Model features

PwC's Risk & Reward Model has distinctive characteristics, combining both risk and reward in order to assess a location for FDI. Risk is incorporated by means of country risk premia derived from bond market data, whilst reward is impacted by economic fundamentals such as GDP per capita and projected economic growth rate. The influence of these key factors is combined by means of discounted cash flow analysis, as used in actual business investment appraisals, rather than the more judgemental weighting and scoring systems used in most other country indices. The result is the PwC EM20 Index – a reflection of the relative value to be gained from investing in the emerging markets analysed.

Separate rankings are generated for stylised manufacturing and services businesses, reflecting their differing operating requirements and investment criteria. For example, a country's average labour cost is an important factor for manufacturing investment, whereas average income levels are highly relevant to services companies. Note that 'off-shoring' activities such as call centres are not represented because the services provided would be geographically remote from the end user, whereas our Model relates (by assumption) to a business where the majority of services are sold locally.

Thorough investment appraisal

The overall aim of the PwC EM20 Index is to generate in the business community an ongoing discussion about the markets potentially most attractive for investment. It does not claim to provide all the answers. No model can ever replicate the real world precisely. Our Model, for example, does not capture the size of a market. Once the initial filtering has been completed, the relative size of a given market is not reflected in that country's final index value. Overall market size could, however, be of particular relevance to services companies such as banks, insurers or media businesses seeking to serve domestic customers. Similarly, country risk premia reflect market opinion, but may not always fully capture factors such as the predictability of legal and tax regimes. Such issues always need to be considered when making real-world investments.

The findings presented in this report therefore cannot be seen as a replacement for in-depth research by individual investors. Specific issues such as a location's cultural traditions, regulation, or access to English speakers could have an important bearing on the preferred choice of location. Corporate matters, such as tax policies and planning, also require careful attention.

Investment decisions cannot be rushed, but the process can begin on an informed footing with the help of the PwC EM20 Index.

Country selection criteria and EM20 methodology

In order to be considered for inclusion in the PwC EM20 Index, countries needed to meet certain criteria associated with emerging market status. These were as follows:

- GDP per capita in 2007 less than \$13,500 at market exchange rates;
- population greater than 5m people in 2007; and
- GDP at purchasing power parity in 2007 greater than \$50m.

These criteria were set to identify countries with populations and resources of sufficient size to meet the needs of inward investors, while also having an appropriately low cost base. The criteria yielded a list of 50 countries. From this list we removed those countries deemed unsuitable due to circumstances such as civil war or international trade sanctions. The remainder were shortlisted by considering their scores against the three selection criteria identified above and, especially, their average GDP growth rate from 2002 to 2007, to ensure that only dynamic, growing markets were included in the EM20 analysis.

From the short list of 34 countries, selection filters were applied whereby countries whose manufacturing or services sector was smaller than the minimum required for a credible investment destination were not considered suitable for the PwC EM20 Index in 2008. Countries were therefore excluded if their:

- manufacturing sector in 2007 was worth less than \$3bn in 2002 prices or less than 10% of GDP in 2006;
- services sector in 2007 was worth less than \$10bn in 2002 prices or less than 35% of GDP in 2006.

The established PwC EM20 Index methodology was then applied to all remaining countries – 29 in all for both the manufacturing and the services sectors, with the top 20 in each being listed in the final Manufacturing and Services Indices. (See Appendix 2 for the full listing.) The model considers 'greenfield' investments in both a stylised manufacturing company (which is 50% export orientated) and a stylised services business (which provides 90% of its services to the market where it is located).

The PwC EM20 Index was calculated by applying discounted cash flow analysis (over a 30 year period) as used in actual business investment appraisals. It combines the influence of key factors such as initial income levels (GDP per capita), projected economic growth, corporate tax rates, transport costs to key export markets, and country risk premia derived from bond market data. The resulting PwC EM20 Index represents the relative attractiveness of business opportunities in the top 20 ranking countries in each sector based on the net present value of the investment in each country relative to the amount originally invested.

Appendix 2:

Emerging market countries considered for inclusion in the PwC EM20 Index (Alphabetically)

	Manufacturing	Services
Countries in the PwC EM20 Index in 2008	Brazil	Brazil
	Bulgaria	Bulgaria
	Chile	Chile
	China	China
	Egypt	Egypt
	India	India
	Indonesia	Iran
	Malaysia	Kazakhstan
	Mexico	Malaysia
	Peru	Mexico
	Philippines	Peru
	Poland	Poland
	Romania	Romania
	Russia	Russia
	Serbia	Serbia
	South Africa	Slovakia
	Thailand	South Africa
	Turkey	Thailand
	Ukraine	Turkey
	Vietnam	Ukraine
Countries falling outside the top 20 in 2008	Argentina	Argentina
	Bangladesh	Bangladesh
	Colombia	Colombia
	Iran	Indonesia
	Kazakhstan	Pakistan
	Pakistan	Philippines
	Slovakia	Sri Lanka
	Sri Lanka	Venezuela
	Venezuela	Vietnam
Countries considered but not included in the analysis in 2008*	Algeria	Algeria
	Azerbaijan	Azerbaijan
	Cambodia	Cambodia
	Nigeria	Nigeria
	Uzbekistan	Uzbekistan

* Due to not meeting the screening criteria for minimum size of manufacturing and/or services sectors

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