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The PwC ESCAPE Index

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Inspiring conversations on the Mega Trends...

Shift in global economic power	*Demographic and social change*	*Rapid urbanisation*	*Climate change and resource scarcity*	*Technological breakthroughs*

PwC is inspiring a series of conversations around the five Mega Trends that we think will drive economic and business success in the next decade. The ESCAPE index is intended to stimulate a debate on the implications of shifting global economic power in particular, but is also influenced by the other four Mega Trends either directly or indirectly.

PwC ESCAPE Index

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Rationale for the index – Achieving escape velocity

- As the world economy continues to recover from the after-shocks of the global financial crisis, this is a good time for all countries to think about how they can 'escape' from their current position and move into a higher economic gear.

- Many advanced economies must aim to 'escape' recent relative stagnation and return to sustained growth. Several economies have already started to move in this direction, but there is still further to go, particularly in parts of Europe.

- The main emerging economies are aiming to 'escape' from the middle income trap and break into the group of advanced economies.

- For some lower income economies in Africa in particular, the focus is still on 'escaping' from the poverty trap and sustaining recent high growth rates.

- To achieve these objectives, it is not enough just to improve across traditional economic indicators such as GDP per capita. Attention must also be paid to developing their health and education systems, adopting the latest communications technology, establishing a stable and effective political, legal and regulatory environment, and ensuring that future growth is environmentally sustainable.

- It is this broader range of measures that our new ESCAPE index seeks to capture.

PwC ESCAPE Index – Key messages

- PwC's new ESCAPE Index provides a holistic measure of a country's performance and progress over time across Economic, Social, Communication, Political and Environmental dimensions relevant to future progress (e.g. escaping from the poverty or middle income traps depending on a country's current income level).

- The index includes 20 individual indicators each with a 5% weight and currently covers 42 leading advanced and emerging economies (accounting for 85% of world GDP).

- Almost all major emerging markets have shown marked improvements in the Index since 2000. Countries in the CEE region show particularly strong rises from a low base.

- Saudi Arabia, Malaysia, China and Chile lead the way for the emerging markets and score higher than the US in 2012, suggesting they may now be escaping from the middle income trap towards advanced economy status.

- The emerging economies average has continued to rise since 2007, while the advanced economies average has fallen back since the global financial crisis hit.

- Northern European economies perform well on the index and show improvements since 2000. Sweden tops the 2012 index followed by Switzerland and Singapore.

- The UK and US are well down the rankings of the advanced economies in 2012.

Implications for business and policymakers

Implications for business

- Our ESCAPE index could serve as a starting point for businesses planning to (a) target a new consumer market; and/or (b) relocate production activities.

- The index covers a range of indicators that businesses should consider when **identifying potential consumer markets** such as the economic environment and the income distribution. The communications technology area is also important for potential consumer markets due to the large online presence of many companies.

- When considering **moving production to a new location**, companies should be aware of the legal, regulatory and political frameworks in place in a country as well as a host of social indicators. For example, a country with very low levels of trust may be a difficult place to reach business agreements. The years of schooling in the country may give an indication as to the average skills level of the local workforce. Businesses should also consider communications technology due to the reliable communication methods required for day-to-day functionality in large global companies.

- However, this kind of high level index can only be an initial starting point for business planning. It is not a substitute for the much more detailed and tailored analysis needed before making actual business decisions. For more information on how to do that, please see our **Pioneer service:**

http://www.pwc.co.uk/business-services/issues/pioneer-open-up-tomorrows-markets.jhtml

Some questions for businesses that the ESCAPE index data could help to answer (or identify)

Economic performance and stability	• What are the main macroeconomic risks a business may face e.g. high inflation, low growth, a high current account deficit leading to currency volatility? • How open is a country to trade and investment?
Social progress and cohesion	• How skilled is the workforce and what implications will that have for productivity and training costs? • Will the level of trust in a society affect how organisational structure should be designed? • What approach will need to be taken when developing business contracts?
Communications technology	• How far are the internet and mobile phones the key channel to market? • How easily can a country's operations be integrated into a global supply chain?
Political, legal and regulatory institutions	• How stable is the political, legal and regulatory environment ? • How easy is it to establish and run a business? • How favourable is the tax regime?
Environmental sustainability	• How could operating in a country affect a company's reputation with environmental pressure groups?

Implications for policymakers

- The ESCAPE index could be used by policymakers as the starting point for a balanced scorecard approach to assessing their country's progress over time and relative to other nations (particularly their broad peer group by income level).

- The index covers a range of different indicators, many of which could be considered by governments when considering new policy initiatives. Policymakers could use the index to assess in which areas their country has progressed well since 2000, and where it has more room for development.

- The index also facilitates regional analysis. Policymakers could use this information to identify where it would be beneficial to work with other countries to agree a common approach to making improvements in a particular area.

- However, as with business decisions, such a high level index can only be a starting point for policymakers. Devising new policies clearly requires much more detailed analysis and consultation with informed stakeholders, but the elements in this index could highlight possible priorities for action.

- We provide a much more detailed discussion of these issues in our report on the Future of Government:

http://www.pwc.com/gx/en/psrc/publications/future-of-government.jhtml

Some questions for policymakers that the ESCAPE index data could help to answer (or identify)

Economic performance and stability	• How has the macroeconomic climate changed over time? • How does a country compare with it's peer group in economic terms? • Does a country have a problem with, for example, high unemployment?
Social progress and cohesion	• Is there a problem with high or rising income inequality in a country? • How does it's health or school system compare with it's peer group? • How trusting are a county's citizens relative to those of other nations?
Communications technology	• Is there a problem with internet availability leading to a digital divide? • How strong are a country's communication channels relative to it's peer group?
Political, legal and regulatory institutions	• How widespread is corruption relative to other comparable countries? • Is the political, legal and regulatory system stable? • How easy is it to do business in a country?
Environmental sustainability	• Do people have access to clean water? • How environmentally friendly is a country or region relative to it's peer group?

Methodology

Composition of the PwC ESCAPE index

- The new PwC ESCAPE* index takes account of all of these factors by assessing:
  - **E**conomic performance and stability
  - **S**ocial progress and cohesion
  - **C**ommunications technology
  - **P**olitical, legal and regulatory institutions
  - **E**nvironmental sustainability

- The ESCAPE index resembles some existing PwC measures such as the Good Growth Index and the Total Impact Measurement and Management (TIMM) framework. However, the ESCAPE index is distinct in that it looks at a broader range of countries, indicators and time periods than the Good Growth Index. The ESCAPE index also looks at national level data, whereas the TIMM framework is designed primarily to be applied to individual companies, other organisations or projects.

- The next slide sets out more detail on the 20 individual variables included in the index (with explanatory notes in the Appendix). We weight each equally at 5% to avoid any single variable having undue influence on the overall results. The Economics area has a 40% weight, others have a 60% weight in total.

*The 'A' in the acronym is 'silent'

Methodology

20 variables

5% weight each

Normalised

Economic — 40%
1. GDP per capita, PPP
2. GDP per capita (previous 10 year CAGR %)
3. Annual inflation
4. General government gross debt
5. Adjusted trade openness
6. Total investment
7. Unemployment rate
8. Current account balance (% of GDP)

42 countries

Environmental — 10%
1. Access to an improved water source
2. CO_2 emissions

ESCAPE Index

Social — 20%
1. Life expectancy at birth
2. Average years of total schooling
3. GINI Index
4. Most people can be trusted (%)

Political — 20%
1. Political stability
2. Control of corruption
3. Rule of law
4. Ease of doing business index

Communication — 10%
1. Internet users
2. Mobile cellular suscriptions

The 42 countries included in the index accounted for around 85% of world GDP in 2012

Advanced economies		
Australia	Canada	Denmark
Finland	France	Germany
Greece	Ireland	Italy
Japan	South Korea	Netherlands
New Zealand	Portugal	Singapore
Spain	Sweden	Switzerland
United Kingdom	United States	

Emerging economies*		
Brazil	Chile	China
Colombia	Egypt	India
Indonesia	Malaysia	Mexico
Nigeria	Pakistan	Peru
Philippines	Poland	Romania
Russia	Saudi Arabia	South Africa
Thailand	Turkey	Ukraine
Vietnam		

* This classification is based on 2000 data, so might change by 2012 as indicated by our index results

Key results

Summary table – ESCAPE index rankings (1 of 4)

Rankings			Country	Index scores			2000-2012 change
2000	2007	2012		2000	2007	2012	
3	1	**1**	Sweden	64.9	71.5	70.5	5.7
1	3	**2**	Switzerland	65.4	68.7	70.3	4.9
4	7	**3**	Singapore	63.5	66.4	66.3	2.8
2	5	**4**	Netherlands	65.1	68.1	66.1	1.0
7	4	**5**	Finland	60.7	68.2	66.0	5.3
5	2	**6**	Denmark	63.2	70.1	65.9	2.7
13	9	**7**	Australia	55.7	63.6	64.1	8.5
8	8	**8**	New Zealand	56.7	64.5	63.7	7.0
11	10	**9**	Germany	56.2	62.3	63.4	7.2
9	12	**10**	South Korea	56.5	61.2	63.0	6.5
10	11	**11**	Canada	56.3	61.3	59.6	3.3
26	22	**12**	Saudi Arabia	38.9	50.2	58.1	19.2
6	6	**13**	Ireland	62.0	66.6	57.8	-4.2

Sources: World Bank, IMF, Worldwide Governance Indicators, World Values Survey, Barro and Lee, PwC Analysis

Summary table – ESCAPE index rankings (2 of 4)

| Rankings			Country	Index scores			2000-2012 change
2000	2007	2012		2000	2007	2012	
15	17	**14**	Malaysia	54.1	55.2	57.3	3.1
16	15	**15**	Japan	53.6	56.8	56.9	3.3
21	21	**16**	China	46.0	50.6	56.3	10.3
23	19	**17**	Chile	44.0	52.4	56.0	12.0
14	14	**18**	United States	55.3	57.6	55.5	0.2
12	13	**19**	United Kingdom	55.8	59.4	55.1	-0.7
17	16	**20**	France	50.9	55.5	53.6	2.7
27	25	**21**	Poland	36.0	48.2	52.9	16.9
22	24	**22**	Thailand	45.1	49.0	52.4	7.3
24	28	**23**	Vietnam	43.0	46.4	51.7	8.6
37	27	**24**	Romania	25.8	47.3	49.5	23.7
39	29	**25**	Russia	22.5	43.0	47.7	25.2
20	20	**26**	Italy	46.8	50.9	46.7	-0.1

Sources: World Bank, IMF, Worldwide Governance Indicators, World Values Survey, Barro and Lee, PwC Analysis

Summary table – ESCAPE index rankings (3 of 4)

Rankings			Country	Index scores			2000-2012 change
2000	2007	2012		2000	2007	2012	
18	18	**27**	Spain	50.0	54.9	46.1	-3.8
19	23	**28**	Portugal	50.0	49.1	44.5	-5.4
32	32	**29**	Peru	29.3	37.4	43.7	14.4
40	30	**30**	Ukraine	19.4	42.0	43.5	24.2
28	31	**31**	Mexico	35.3	41.7	42.9	7.6
31	39	**32**	Indonesia	29.4	30.9	42.1	12.7
38	37	**33**	Colombia	22.8	32.0	39.2	16.5
35	34	**34**	Turkey	26.0	36.2	39.2	13.2
33	36	**35**	Brazil	28.0	33.2	38.6	10.6
34	35	**36**	Philippines	27.2	34.2	38.5	11.2
30	33	**37**	India	30.9	36.2	38.2	7.2
25	26	**38**	Greece	41.3	47.8	37.1	-4.2
29	38	**39**	Egypt	31.7	31.9	34.9	3.2

Sources: World Bank, IMF, Worldwide Governance Indicators, World Values Survey, Barro and Lee, PwC Analysis

Summary table – ESCAPE index rankings (4 of 4)

Rankings			Country	Index scores			2000-2012 change
2000	**2007**	**2012**		**2000**	**2007**	**2012**	
41	42	**40**	South Africa	19.3	24.5	27.5	8.2
36	40	**41**	Pakistan	25.9	28.4	27.1	1.2
42	41	**42**	Nigeria	14.3	24.5	19.5	5.1
			Average (all countries)	43.4	50.0	50.7	7.2
			Average (emerging economies)	31.6	39.8	43.5	11.9
			Average (advanced economies)	56.5	61.2	58.6	2.1

Sources: World Bank, IMF, Worldwide Governance Indicators, World Values Survey, Barro and Lee, PwC Analysis

Advanced economies average score has fallen back since 2007, while emerging economies have kept rising since the financial crisis
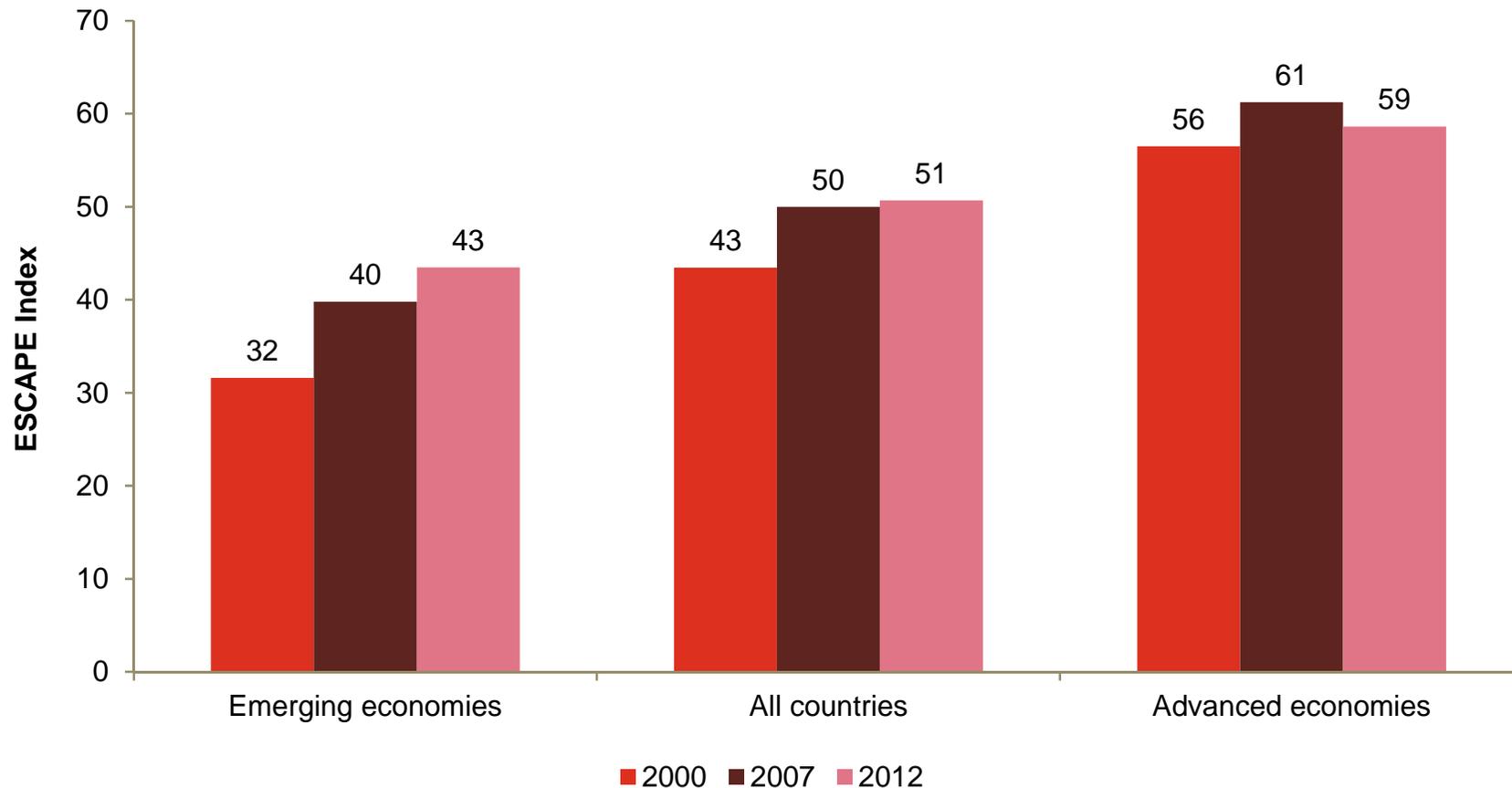
Sources: World Bank, IMF, Worldwide Governance Indicators, World Values Survey, Barro and Lee, PwC Analysis

Western Europe has declined the most since the beginning of the financial crisis in 2007, while the CEE region has risen most sharply since 2000
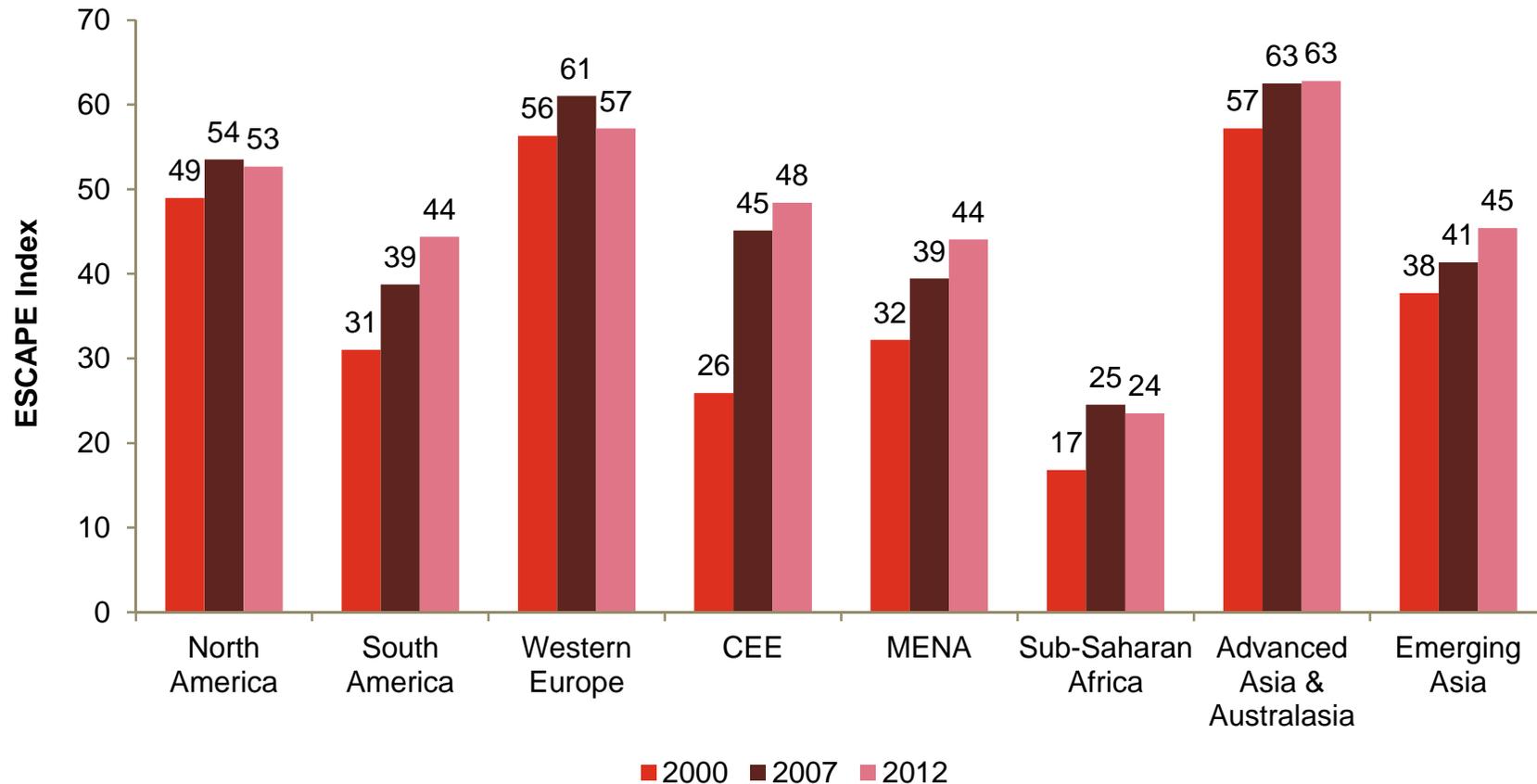
Sources: World Bank, IMF, Worldwide Governance Indicators, World Values Survey, Barro and Lee, PwC Analysis

# Saudi Arabia, Malaysia, China and Chile score above US on the 2012 ESCAPE Index and appear in good shape to escape the middle income trap
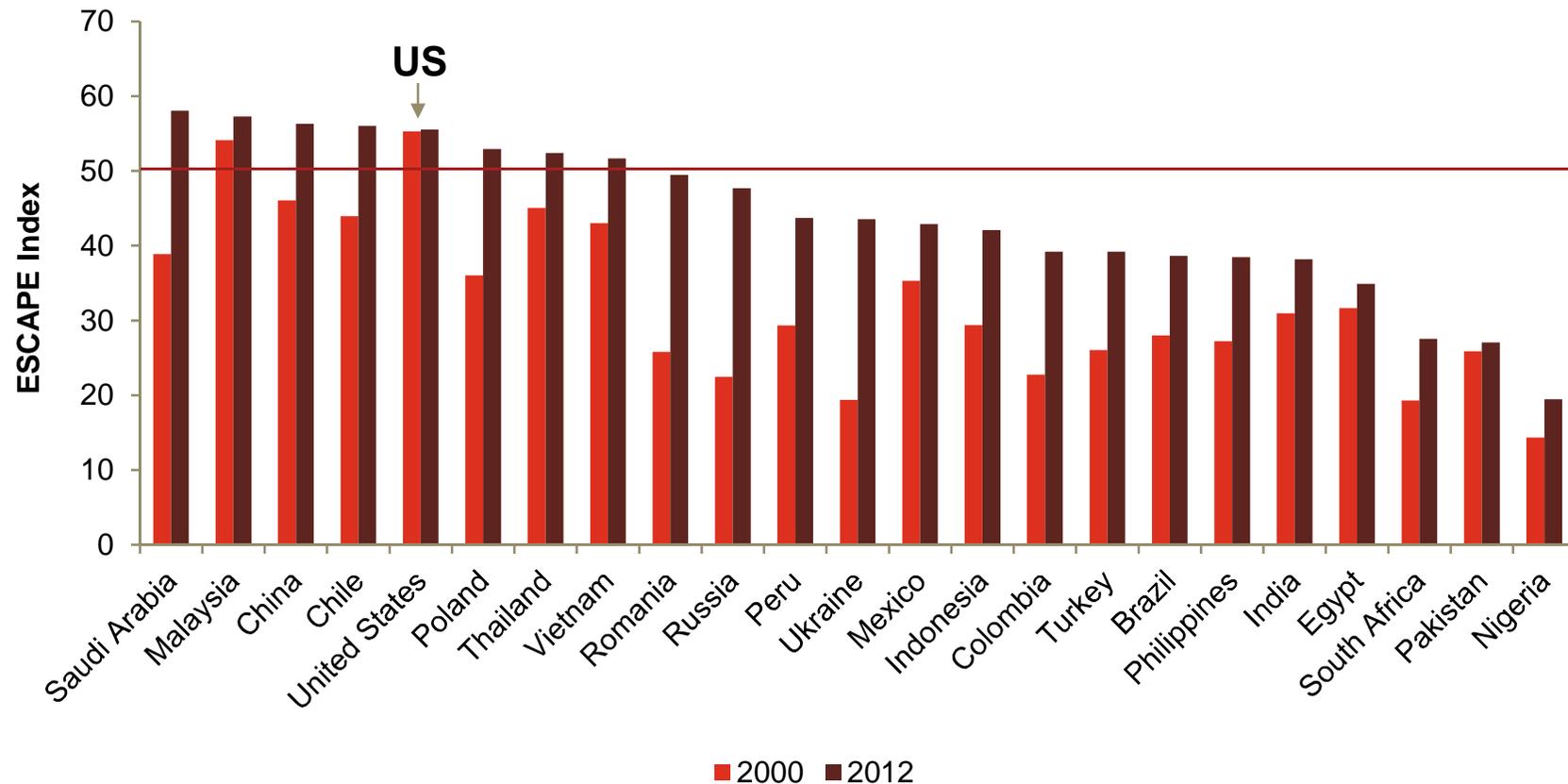
ESCAPE Index

US

Legend: ■ 2000 ■ 2012

The US and UK are well down the rankings of advanced economies on the 2012 ESCAPE index, but Eurozone crisis economies have fallen furthest
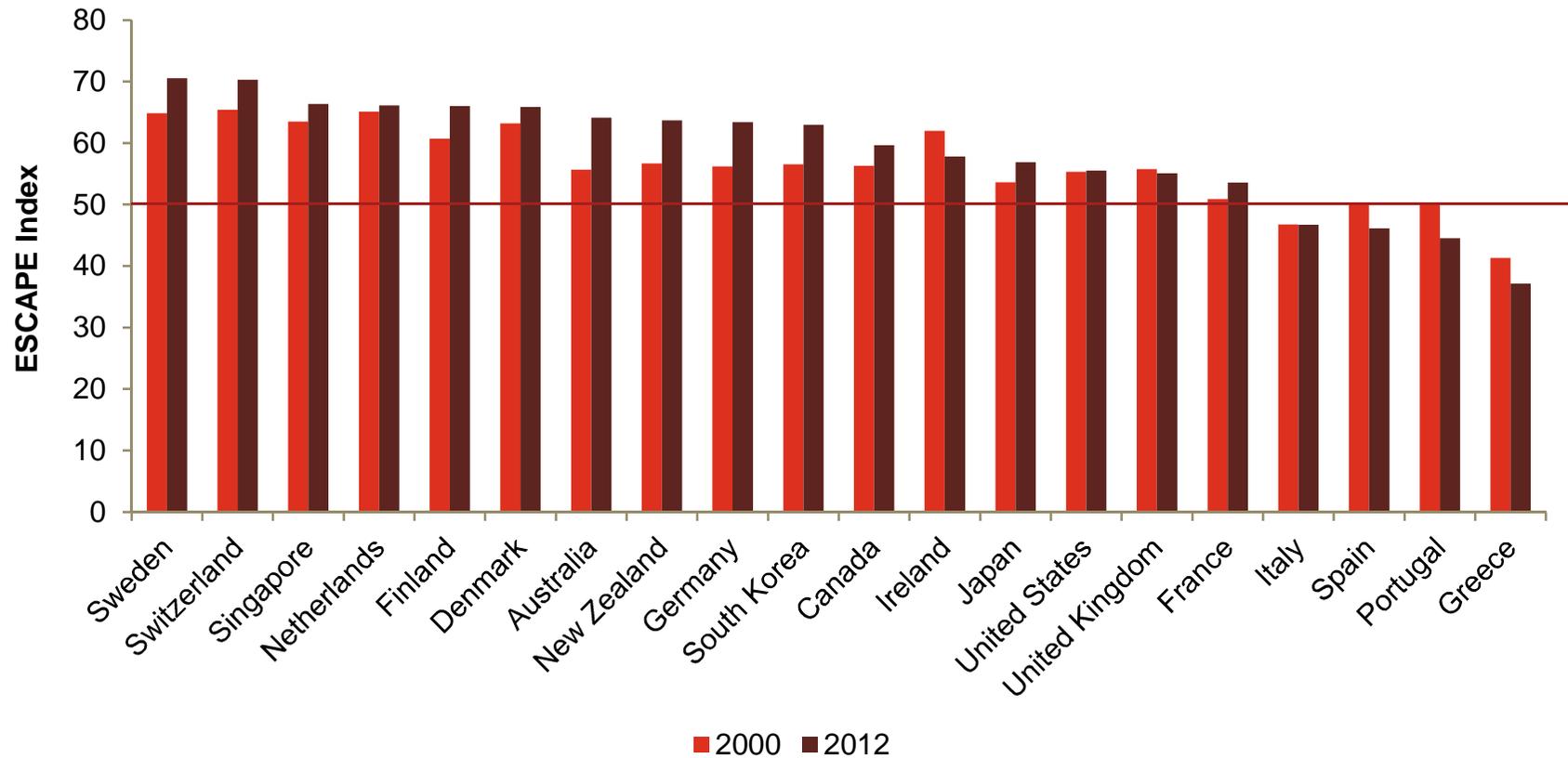
ESCAPE Index (y-axis: 0 to 80)

Countries (x-axis): Sweden, Switzerland, Singapore, Netherlands, Finland, Denmark, Australia, New Zealand, Germany, South Korea, Canada, Ireland, Japan, United States, United Kingdom, France, Italy, Spain, Portugal, Greece

Legend: ■ 2000 ■ 2012

Sources: World Bank, IMF, Worldwide Governance Indicators, World Values Survey, Barro and Lee, PwC Analysis

Scores shown relative to 2007 sample average = 50

Across all countries, there has been a clear improvement in environmental and particularly communications factors
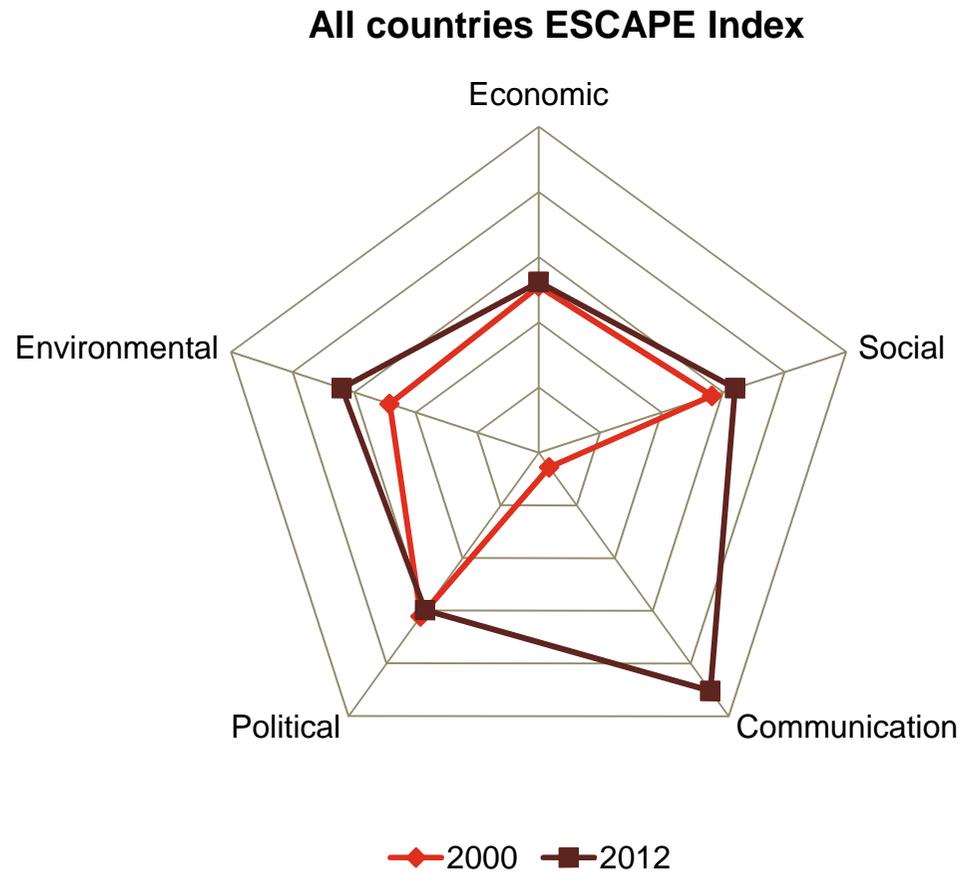
All countries ESCAPE Index

Economic
Social
Communication
Political
Environmental

◆ 2000   ■ 2012

Sources: World Bank, IMF, Worldwide Governance Indicators, World Values Survey, Barro and Lee, PwC Analysis

The advanced economies have suffered economically since 2000, due to the impact of the global financial crisis
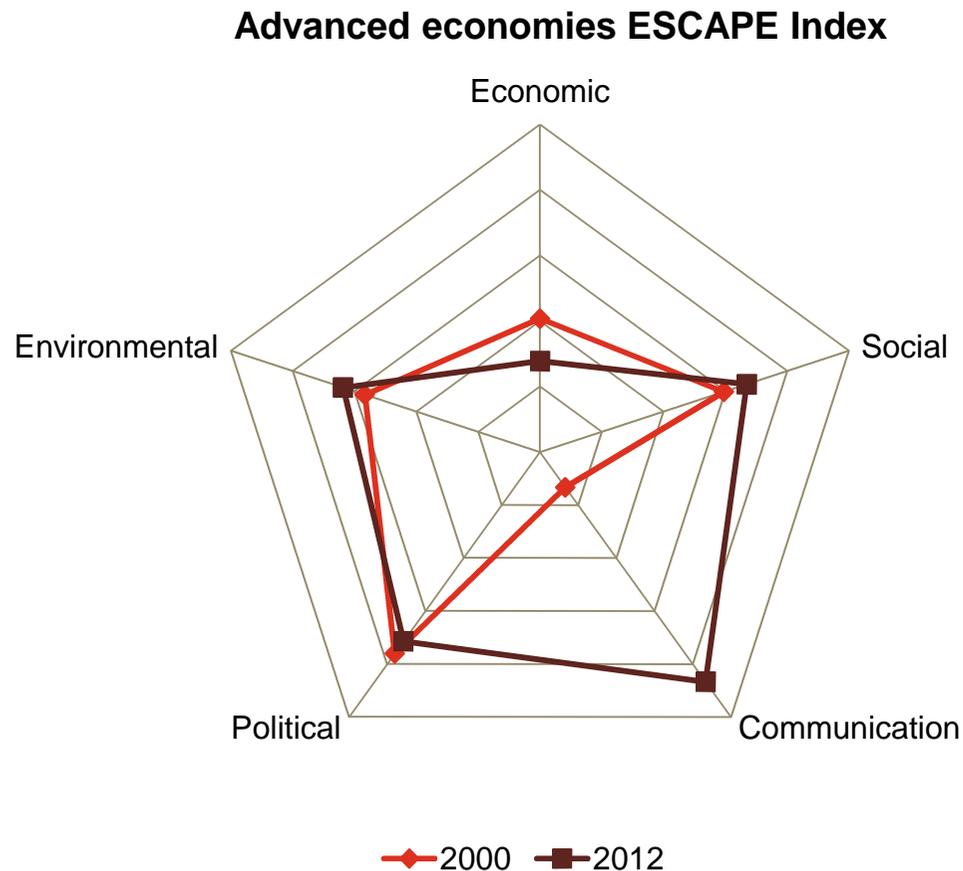
Advanced economies ESCAPE Index

Legend: 2000, 2012

Axes: Economic, Social, Communication, Political, Environmental

The emerging economies have improved across economic, communication and environmental areas, but less so on social and political measures
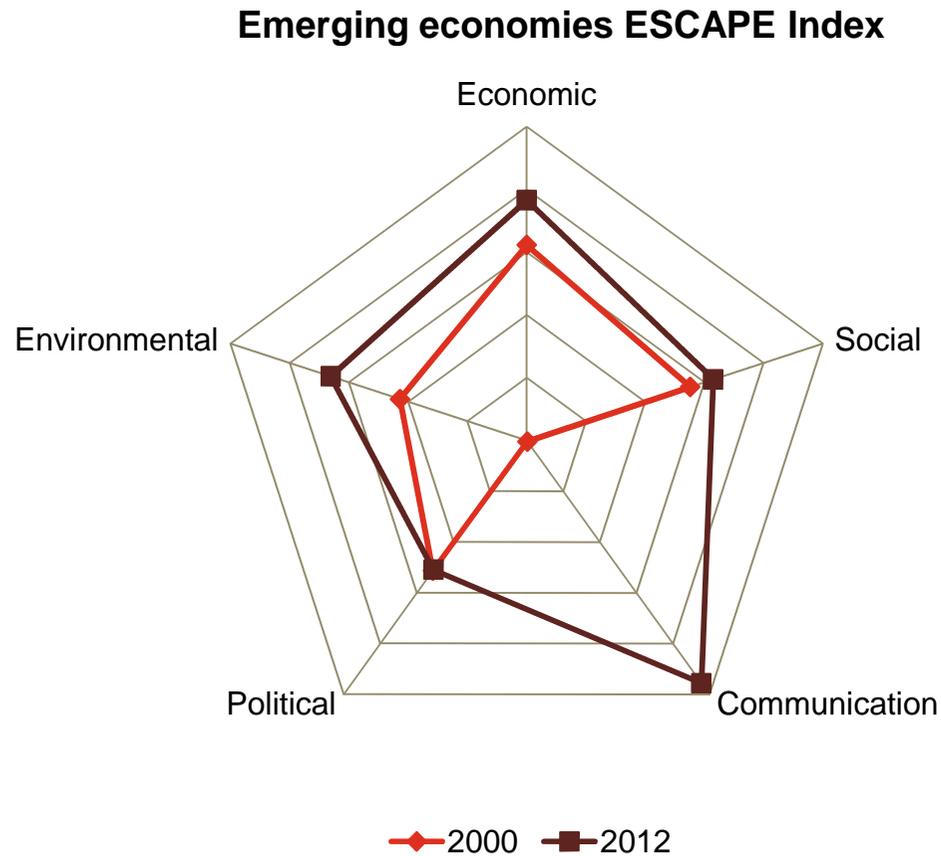
Emerging economies ESCAPE Index

Sources: World Bank, IMF, Worldwide Governance Indicators, World Values Survey, Barro and Lee, PwC Analysis

Appendix: Data sources and explanatory notes

Data sources and explanatory notes (1/4)

Variable	Explanatory notes	Main data source	Other data sources
GDP per capita, PPP (constant 2005 international $)	GDP per capita based on purchasing power parity (PPP)	World Bank	International Comparison Program database
GDP per capita (constant LCU), previous 10-year CAGR (%)	The compound annual growth rate (CAGR) over the previous 10 years	World Bank	OECD National Accounts data files
Inflation, consumer prices (annual %)	Inflation as measured by the consumer price index	World Bank	IMF, International Financial Statistics and data files
General government gross debt (Percent of GDP)	Gross debt consists of all liabilities that require payment or payments of interest and/or principal by the debtor to the creditor at a date or dates in the future	IMF WEO Database	
Adjusted trade openness	The residual obtained after regressing trade (as a % of GDP) on total population and population density	PwC Analysis	World Bank
Total investment (Percent of GDP)	Investment or gross capital formation is measured by the total value of the gross fixed capital formation and changes in inventories and acquisitions less disposals of valuables for a unit or sector	IMF WEO Database	

Data sources and explanatory notes (2/4)

Variable	Explanatory notes	Main data source	Other data sources
Unemployment rate (Percent of total labour force)	The number of unemployed people as a percentage of the total labour force	IMF WEO Database	
Current account balance (Percent of GDP)	Current account is all transactions other than those in financial and capital items	IMF WEO Database	
Life expectancy at birth, total (years)	Indicates the average number of years a newborn infant would live	World Bank	UN, national statistical offices, Eurostat, Secretariat of the Pacific Community, U. S. Census Bureau
Average years of total schooling	Average years of schooling attained	Barro R. & J. W. Lee	UNESCO, Eurostat, censuses, UIS database, UN, other sources
GINI index	Measures the extent to which the distribution of income (or, in some cases, consumption expenditure) among individuals or households within an economy deviates from a perfectly equal distribution	World Bank	Government statistical agencies, Luxembourg Income Study database
Most people can be trusted (%)	Percentage of respondents who agree that most people can be trusted	World Values Survey, Values Surveys Databank	

Data sources and explanatory notes (3/4)

Variable	Explanatory notes	Main data source	Other data sources
Internet users (per 100 people)	People with access to the worldwide network	World Bank	International Telecommunication Union, World Telecommunication/ICT Development Report and database
Mobile cellular subscriptions (per 100 people)	Subscriptions to a public mobile telephone service using cellular technology, which provides access to the public switched telephone network	World Bank	International Telecommunication Union, World Telecommunication/ICT Development Report and database
Ease of doing business index	Ranks economies from 1 to 189 with first place being the best	World Bank	
Political stability and absence of violence/terrorism: Estimate	Reflects perceptions of the likelihood that the government will be destabilised or overthrown by unconstitutional or violent means, including politically-motivated violence and terrorism	World Bank - Worldwide Governance Indicators	Survey institutes, think tanks, non-governmental organisations, international organisations, and private sector firms

Data sources and explanatory notes (4/4)

Variable	Explanatory notes	Main data source	Other data sources
Control of corruption: Estimate	Reflects perceptions of the extent to which public power is exercised for private gain, including both petty and grand forms of corruption, as well as 'capture' of the state by elites and private interests	World Bank - Worldwide Governance Indicators	Survey institutes, think tanks, non-governmental organisations, international organisations, and private sector firms
Rule of law: Estimate	Reflects perceptions of the extent to which agents have confidence in and abide by the rules of society, and in particular the quality of contract enforcement, property rights, the police, and the courts, as well as the likelihood of crime and violence	World Bank - Worldwide Governance Indicators	Survey institutes, think tanks, non-governmental organisations, international organisations, and private sector firms
Improved water source (% of population with access)	Refers to the percentage of the population using an improved drinking water source	World Bank	WHO/UNICEF Joint Monitoring Programme (JMP) for Water Supply and Sanitation
CO2 emissions (kg per 2005 PPP $ of GDP)	Carbon dioxide emissions are those stemming from the burning of fossil fuels and the manufacture of cement	World Bank	Carbon Dioxide Information Analysis Centre, Environmental Sciences Division, Oak Ridge National Laboratory, Tennessee, United States

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