MILKEN INSTITUTE

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GLOBAL OPPORTUNITY INDEX 2024

Attracting Foreign Investment

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About the Milken Institute

The Milken Institute is a nonprofit, nonpartisan think tank focused on accelerating measurable progress on the path to a meaningful life. With a focus on financial, physical, mental, and environmental health, we bring together the best ideas and innovative resourcing to develop blueprints for tackling some of our most critical global issues through the lens of what's pressing now and what's coming next.

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EXECUTIVE SUMMARY

The Milken Institute designed the Global Opportunity Index (GOI) to assist investors seeking opportunities outside their local markets, as well as countries intending to improve their business environments. The index is based on 100 indicators classified into five categories: Business Perception, Economic Fundamentals, Financial Services, Institutional Framework, and International Standards and Policy. By capturing key investment conditions in a country, the GOI and accompanying data tool serve as an objective benchmark, offering vital information to investors and policymakers.

The GOI remains a strong predictor of capital movements 10 years after its inception. The index alone explains 64.7 percent of the variation in per capita foreign direct investment (FDI) inflows and 51.7 percent of per capita portfolio inflows to countries across the world. The 2024 GOI report provides a global overview of countries' attractiveness and capital flows. The emerging trends are:

- **Denmark leads this year's rankings,** with Sweden moving down to the second position, and Finland, the United States (US), and the United Kingdom (UK) completing the top five GOI countries. The largest discrepancies among these five countries are in their Financial Services scores. The US and the UK are the leaders in this GOI category, while Finland lags its peers at the 26th position.

- **Among regions with emerging and developing (E&D) economies, E&D Europe stands out with the highest average GOI score** and the lowest spread between its top- and bottom-ranked countries. The low range in rankings of countries in E&D Europe signals cohesive investment conditions across the region. In contrast, **Sub-Saharan Africa (SSA) has both the lowest average score and the widest range** of all E&D regions, with two countries (Mauritius and South Africa) in SSA visibly outperforming the rest of the region.

- **Latin America and the Caribbean (LATAC) stands out in Economic Fundamentals.** This region's relatively high rankings in Economic Fundamentals can be attributed to the efforts of countries in this region to build a resilient and sustainable economy. The LATAC region also has the second-smallest spread between its top- and bottom-ranked countries, implying cohesive investment conditions across the region.

- **The 20 countries with the highest GOI scores are all Advanced Economies** (AEs), including eight nations from the European Union, five G7 economies, and one ASEAN-5 country (Singapore). These are predominantly major global economies, jointly attracting 64.5 percent of global foreign capital flows. Across the GOI categories, they perform particularly well in Institutional Frameworks and Business Perception.

- **E&D Asia performs relatively well in Financial Services,** with its average score in this category closely trailing that of E&D Europe and ahead of other E&D regions. This region includes Malaysia, which has the best investment conditions (captured by the highest GOI score) among all E&D economies. In addition to its robust Business Perception and Financial Services, Malaysia ranks relatively high in the Institutional Framework category, partly due to the strength of investors' rights in this country.

- **Middle East and Central Asia (MECA) leads the way among E&D regions in Institutional Framework.** Overall, the region's average scores are buoyed by the relatively high rankings of the United Arab Emirates (UAE) in all categories of the GOI. The UAE's high rankings are largely due to its strong economic performance and well established investors' rights, with the latter reflected in the country's position in the Institutional Frameworks category.

INTRODUCTION

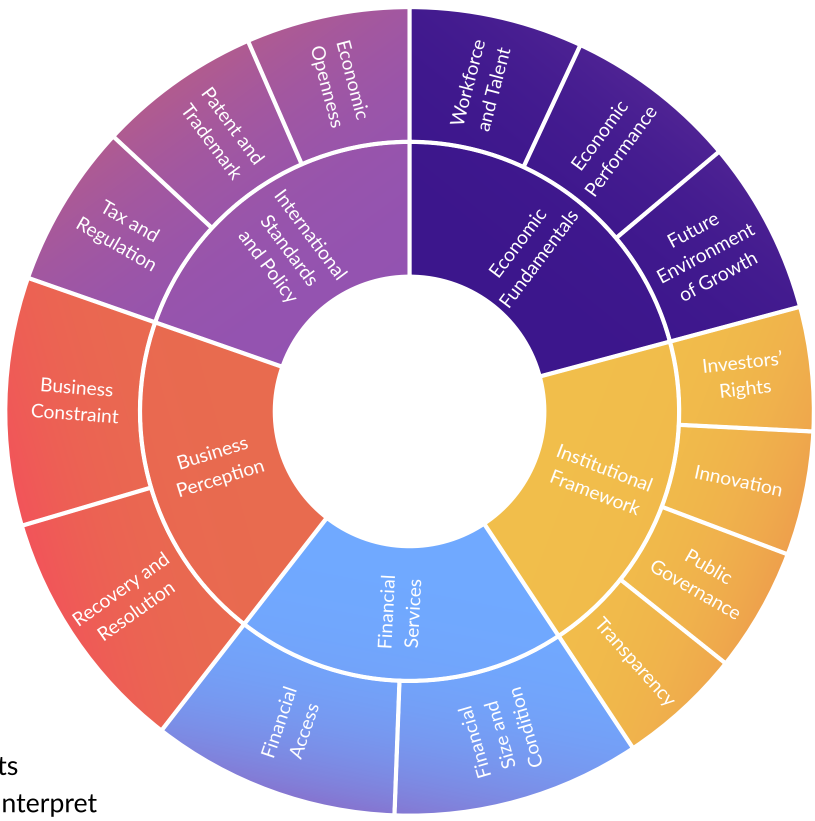
The post-pandemic return of high inflation led central banks around the world to adopt tightening monetary policies, resulting in rising interest rates through most of 2022. Now, after nearly a year and a half, major central banks (including the US Federal Reserve, the European Central Bank, and the Bank of England) are beginning to halt the rate-rising cycle.[1] While this has generated optimism among investors, financial conditions remain tight amid warnings of further interest rate spikes and a global slowdown in growth.[2] In this new environment of high interest and slow growth, the Global Opportunity Index (GOI) provides a baseline for assessing countries' attractiveness to international investors.

Overview of the GOI Components

The GOI is designed to inform businesses searching for global opportunities and governments seeking ways to attract capital. To achieve this, the index considers economic and financial conditions that influence capital flows, as well as the key business and regulatory policies used by governments to support and drive investment. The overall GOI rankings are based on 100 indicators of countries' performance that fall into five categories (see Figure 1):

- **Business Perception** measures the ease of doing business and the regulatory framework facilitating contract enforcement and dispute resolution.
- **Economic Fundamentals** captures macroeconomic performance, workforce talent, and efforts to create a resilient and sustainable economy and society.
- **Financial Services** evaluates the depth and breadth of the financial system and accessibility to finance.
- **Institutional Framework** assesses the extent to which a country's institutions safeguard the rights of investors and the safety of their assets.
- **International Standards and Policy** measures economic openness and alignment with international regulatory and intellectual property protection standards.

Figure 1: GOI Categories and Subcategories



Source: *Milken Institute (2024)*

These five categories are further divided into 14 subcategories designed to track specific aspects of countries' performance. This breakdown helps interpret the index and allows for a deeper understanding of the main drivers of capital movements (Figure 1). The online tool accompanying the report enables readers to delve into each determinant of capital flows included in the index.

Importance of the Rankings: GOI and Foreign Capital Inflows

The GOI methodology is regularly reviewed to ensure the index reflects contemporary business trends and factors affecting investors' decisions.[3] As a result, the index remains relevant in explaining capital movements a decade after its first publication. This is evidenced by a robust positive relationship between the 2024 GOI scores and foreign direct investment (FDI) inflows to a country (Figure 2). According to a simple linear regression, the index accounts for about 64.7 percent of the variation in FDI per capita in nations worldwide, including both advanced and emerging and developing economies.

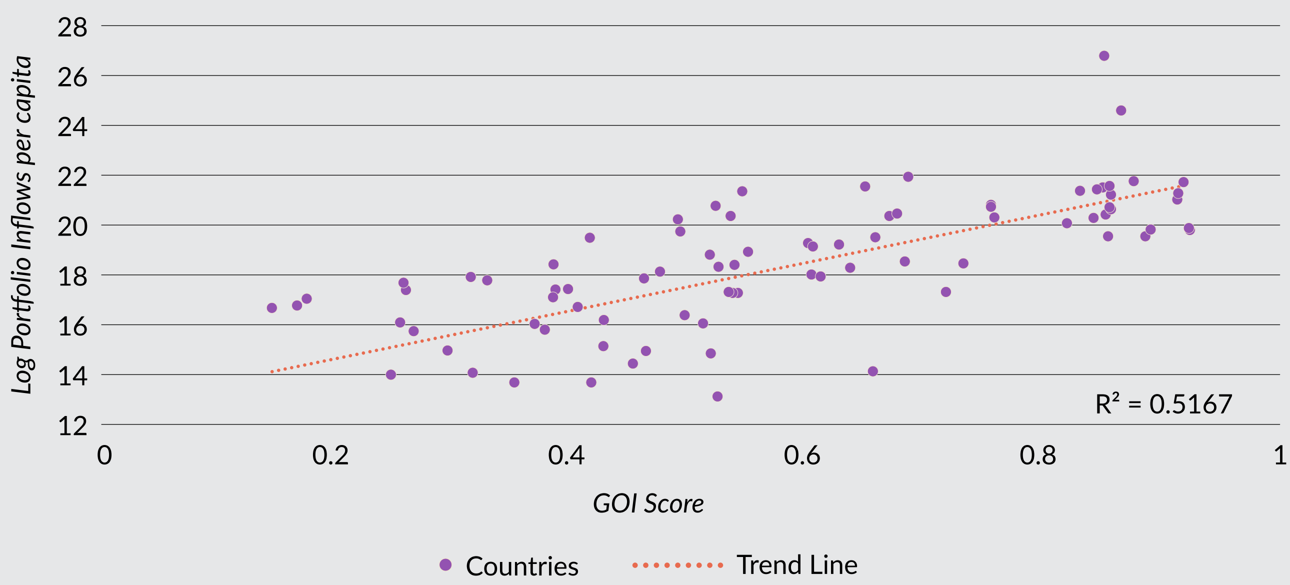
Figure 2: GOI Scores versus Log of FDI per Capita

Note: *Based on the average FDI inflows between 2018 and 2022 for countries with positive inflows.*

Source: *Milken Institute and author's calculations based on the IMF International Financial Statistics (2024)*

Although FDI is generally considered a preferred form of investment due to its unique advantages (such as increased resilience, potential technology transfers, and staff training), foreign portfolio inflows remain an important source of funding for countries with emerging economies.[4] Thus, the importance of the GOI is further assessed by exploring its relationship with portfolio inflows (Figure 3).

Figure 3: GOI Scores vs. Log of Portfolio Inflows per Capita



Note: *Based on the average portfolio inflows between 2018 and 2022 for countries with positive inflows.*

Source: *Milken Institute and author's calculations based on the IMF International Financial Statistics (2024)*

The index displays a positive and significant association with portfolio investments, as with FDI. In fact, the GOI composite score explains over half (51.7 percent) of the total variation in per capita portfolio inflows to countries. This suggests that the factors considered by the GOI are important determinants of multiple types of capital inflows. It also supports the relevance of the index as a summary metric for investors interested in foreign capital flows and governments seeking to enhance their prospects of attracting investments.

GOI 2024 RANKINGS

Denmark leads this year's rankings, with Sweden moving into the second position, while Finland, the US, and the UK remain among the five top-ranked countries. The 20 countries with the highest GOI scores are all high-income Advanced Economies (AEs), including eight nations from the European Union, five G7 economies, and one ASEAN-5 country (Singapore) (Table 1).[5] These countries are predominantly major economic actors (ranked among the top 50 economies by GDP), jointly attracting 64.5 percent of global foreign capital inflows.[6]

Table 1: GOI Top 20 Countries' Income Group, Income per Capita, and Population

Country	GOI Rank	Classification	GDP Global Ranking	2022 GDP per Capita	2022 GDP Growth (annual %)	2022 Population (millions)
Denmark	1	EU	39	66.52	3.6	5.873
Sweden	2	EU	23	55.69	2.6	10.522
Finland	3	EU	47	50.66	2.1	5.548
United States	4	G7	1	76.35	2.1	333.53
United Kingdom	5	G7	6	45.30	4	67.791
Netherlands	6	EU	18	56.49	4.5	17.591
Germany	7	G7	4	48.64	1.8	83.794
Switzerland	8	Other AE	20	92.37	2.1	8.739
Norway	9	Other AE	25	106.33	3.3	5.448
Ireland	10	EU	27	103.17	12	5.134
New Zealand	11	Other AE	50	47.21	2.4	5.125
Austria	12	EU	32	52.26	5	9.025
Canada	13	G7	9	55.09	3.4	38.846
Singapore	14	ASEAN-5	33	82.81	3.6	5.637
Hong Kong (China, SAR)	15	Other AE	41	49.23	-3.5	7.333
Japan	16	G7	3	33.82	1.1	125.171
Luxembourg	17	EU	67	127.66	1.5	0.645
Australia	18	Other AE	12	65.53	3.7	25.973
Belgium	19	EU	24	50.11	3.1	11.618
Iceland	20	Other AE	98	74.05	6.4	0.376

Source: *Milken Institute and author's analysis based on data from the IMF and the World Bank (2024)*

Performance across GOI Categories

Overall, the top-ranked countries perform well across all categories of the GOI. Six of the 20 top-ranked nations score above the AE average on all five categories of the GOI, and most of the remaining top 20 (10 out of 14) fall below the average in only one category. A more detailed assessment reveals particularly strong performance in Institutional Frameworks and Business Perception. Indeed, only one (Luxembourg) of the top 20 countries scores below the AE average in Institutional Framework, and only two (Luxembourg and Switzerland) score below the average in Business Perception (Figure 4). This points to the importance of establishing and maintaining strong national institutions as a foundation for stable business conditions to attract foreign capital.

Figure 4: GOI Rankings across the GOI Categories, Top 20 Countries

Country	GOI Rank 2024	Business Perception	Economic Fundamentals	Financial Services	Institutional Framework	International Standards and Policy
Denmark	1	1	3	14	8	12
Sweden	2	18	2	8	11	7
Finland	3	2	13	26	7	1
US	4	4	24	5	1	8
UK	5	19	15	2	2	9
Netherlands	6	10	7	16	9	13
Germany	7	14	21	10	14	5
Switzerland	8	33	10	9	13	3
Norway	9	3	5	17	15	26
Ireland	10	7	4	25	16	14
New Zealand	11	9	6	19	4	41
Austria	12	17	20	23	18	2
Canada	13	15	37	4	10	21
Singapore	14	6	29	18	3	18
Hong Kong (China, SAR)	15	12	18	7	6	35
Japan	16	11	51	3	5	28
Luxembourg	17	35	1	11	24	6
Australia	18	8	16	12	12	38
Belgium	19	16	17	21	17	10
Iceland	20	5	8	15	19	34
Average Ranking	10.5	12.3	15.4	13.3	10.7	16.6

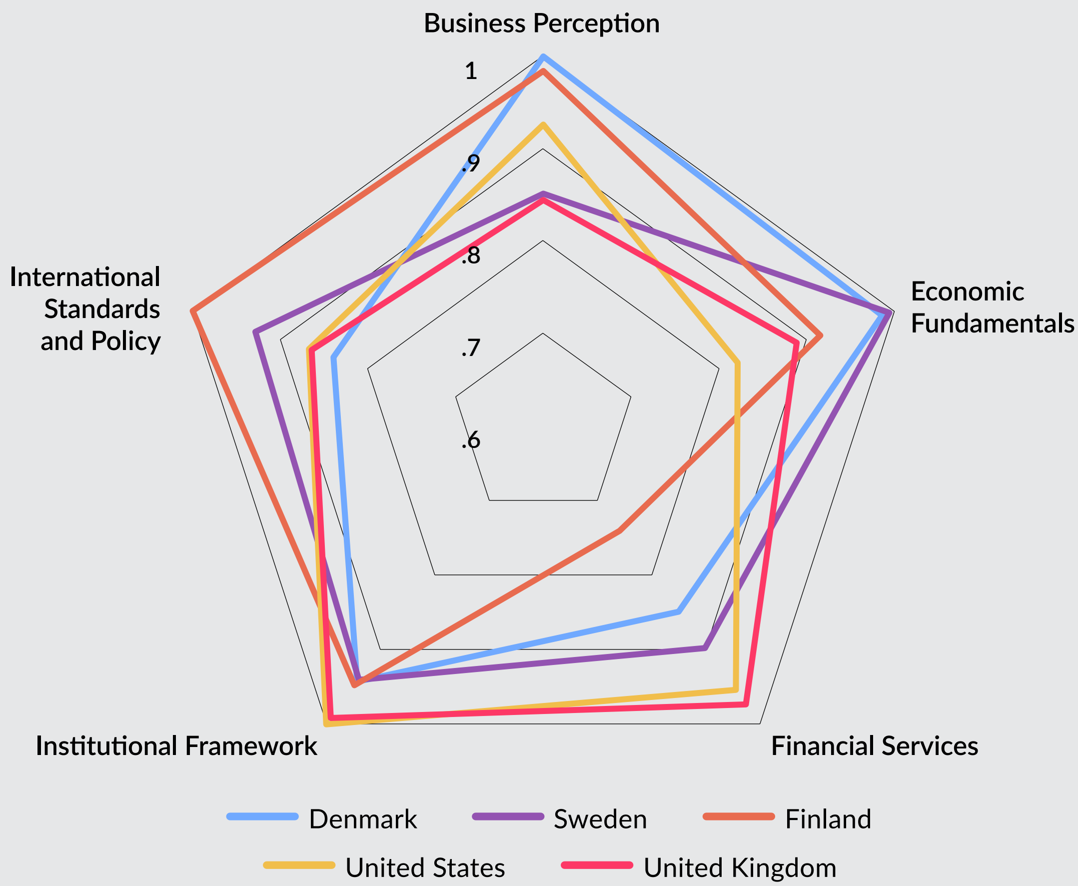
Color Key (Deviation from AE average)				
	More than 1 SD above average	0 to 1 SD above average	0 to 1 SD below average	More than 1 SD below average

***Source:** Milken Institute (2024)*

Despite their overall strong performance, a few top-ranked countries exhibit areas for improvement in International Standards and Policy and in Economic Fundamentals (Figure 4). New Zealand, Australia, Iceland, and Hong Kong (China, SAR) score relatively low (compared to the AE average) on International Standards and Policy, with vulnerabilities arising in their Economic Openness and, in the case of the first three (though not Hong Kong), Tax and Regulation subcategories. In terms of Economic Fundamentals, Japan, Canada, Singapore, and the US trail behind their AE peers, with Japan performing particularly poorly (compared to AE countries) in this category of the rankings. Japan's relatively low ranking in Economic Fundamentals is partly due to weaknesses in its Economic Performance as measured by GDP growth, trade, and central government debt, among other metrics.

Focusing on the top five GOI nations, Sweden and Denmark stand out in their Economic Fundamentals, with the latter also leading in Business Perception (along with Finland, see Figure 5). The largest discrepancies across the five highly performing nations arise in Financial Services. The US and the UK are the clear leaders in this category of the GOI, scoring particularly high in the Financial Access subcategory. In contrast, Finland lags behind its peer top-ranked economies in Financial Services, scoring below the overall AE average in the Financial Size and Condition subcategory of the GOI.

Figure 5: GOI Scores across the GOI Categories, Top Five Countries

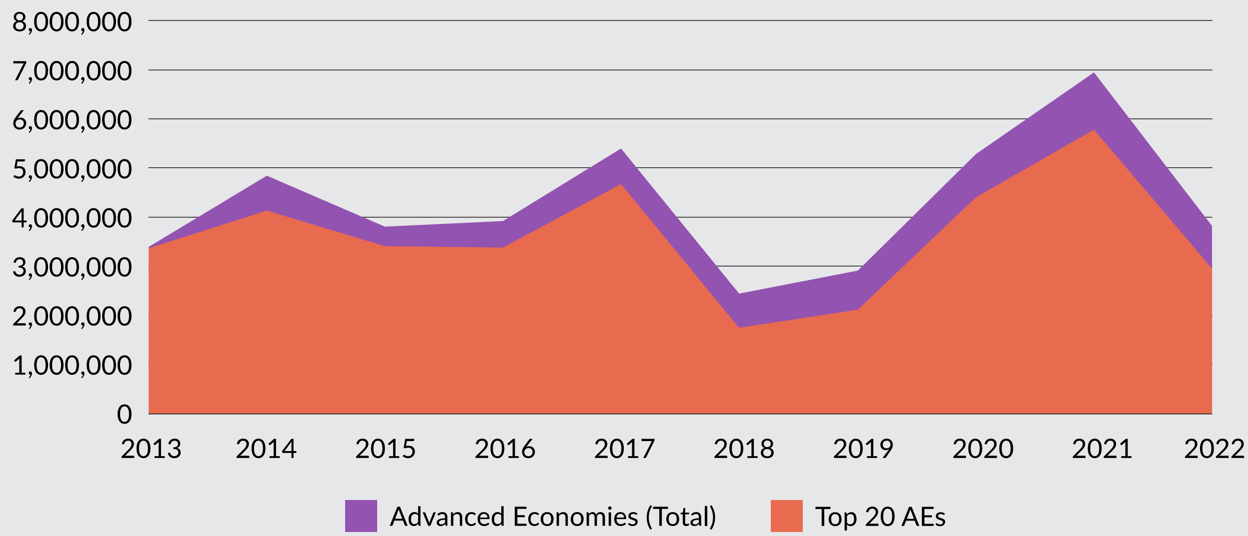


Source: *Milken Institute (2024)*

Capital Inflows to Top-Ranked Countries

During the COVID-19 pandemic, heightened risk aversion stimulated foreign capital flight-to-safety, resulting in an 81.4 percent year-on-year jump in capital inflows to AEs between 2019 and 2020 (Figure 6).[7] Foreign capital inflows to AEs continued to increase in 2021 (by 31.1 percent) before dropping in 2022 (by 44.8 percent) while remaining above their pre-pandemic level. The 20 countries with the highest GOI scores captured the dominant portion of investments flowing to AEs (81.2 percent) between 2020 and 2022, indicating their attractiveness to investors, especially during times of uncertainty.

Figure 6: Capital Inflows to Advanced Economies, 2018–2022 (USD millions)

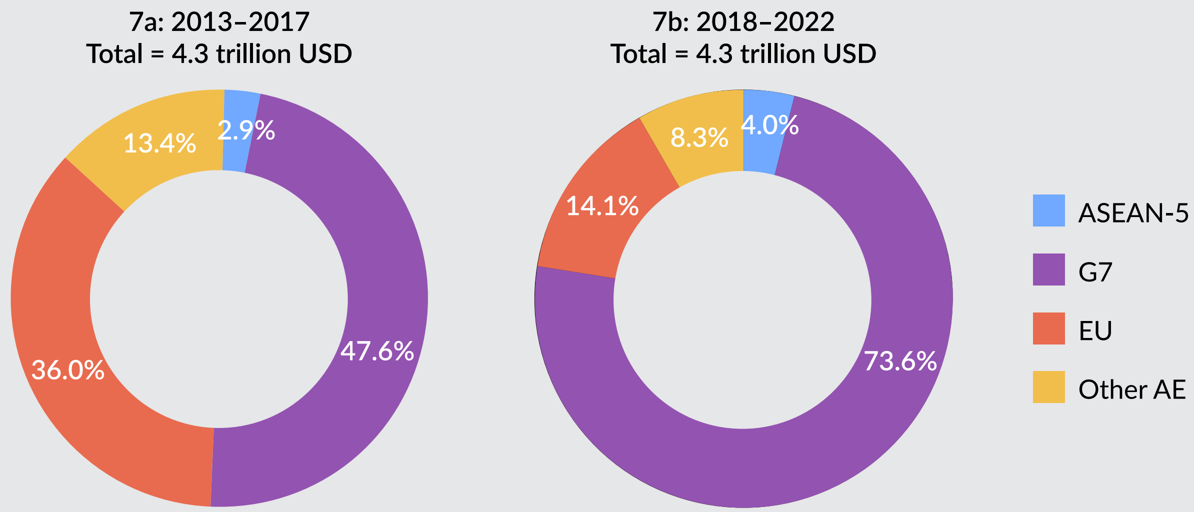


Note: *Based on countries included in the GOI.*

Source: *Author's calculations based on IMF International Financial Statistics (2024)*

Despite the pandemic-driven fluctuations between 2019 and 2022, total capital inflows to AEs remained stable at an annual average of approximately 4.3 trillion over the five years spanning 2018 to 2022 (compared to the period from 2013 to 2017). The composition of these inflows, however, changed in terms of both destination countries and types of capital. Between 2018 and 2022, the G7 countries captured 73.6 percent of total inflows to AEs, a significant increase from 47.6 percent between 2013 and 2017 (Figures 7a and 7b). Simultaneously, inflows to other AEs in the European Union decreased to 14.1 percent, dropping by 21.9 percentage points relative to the five years between 2013 and 2017. This rebalancing was largely due to an increase in portfolio and bank-related inflows to the US and Germany, which ranked fourth and seventh on the GOI, respectively. Both countries experienced notable appreciations in their equity markets over the last five years, with a jump of 32.3 percent in the US from 2018 to 2022 and an increase of 44.1 percent in Germany from 2018 to 2021 (followed by an adjustment in 2022). These equity security appreciations provided pull dynamics, signaling to global investment flows that the countries held desirable risk-adjusted return potential.

Figure 7: Capital Inflows to All AEs, by Country Group



Note: *Based on countries included in the GOI.*

Source: *Author's calculations based on IMF International Financial Statistics (2024)*

In terms of types of capital, from 2018 to 2022, the AEs as a group saw an increase in bank-related inflows while experiencing a decrease in FDI (Figure 8a). Focusing on capital inflows to the top five GOI countries, the UK had the highest share of bank-related inflows, which accounted for 6.1 percent of its GDP between 2018 and 2022. FDI represented most of the inflows to Sweden and Denmark (4.7 percent and 2.5 percent of their GDPs, respectively), while portfolio inflows largely drove investments in Finland (5.4 percent of GDP). Finally, investments flowing to the US were the most balanced across FDI, portfolio, and bank-related inflows, with each constituting between 1.2 and 2.3 percent of the country's GDP from 2018 to 2022 (Figure 8b).

Figure 8: Average Five-Year Capital Inflows, by Type

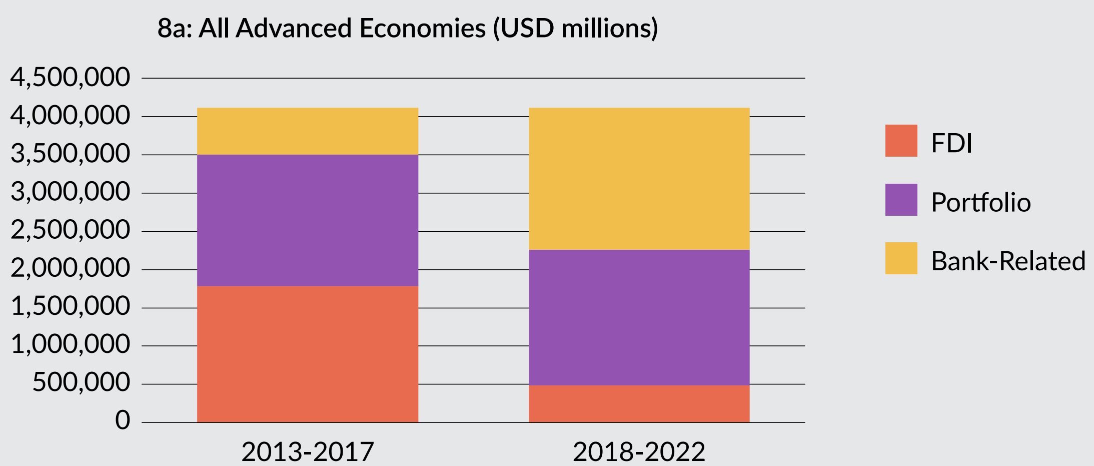
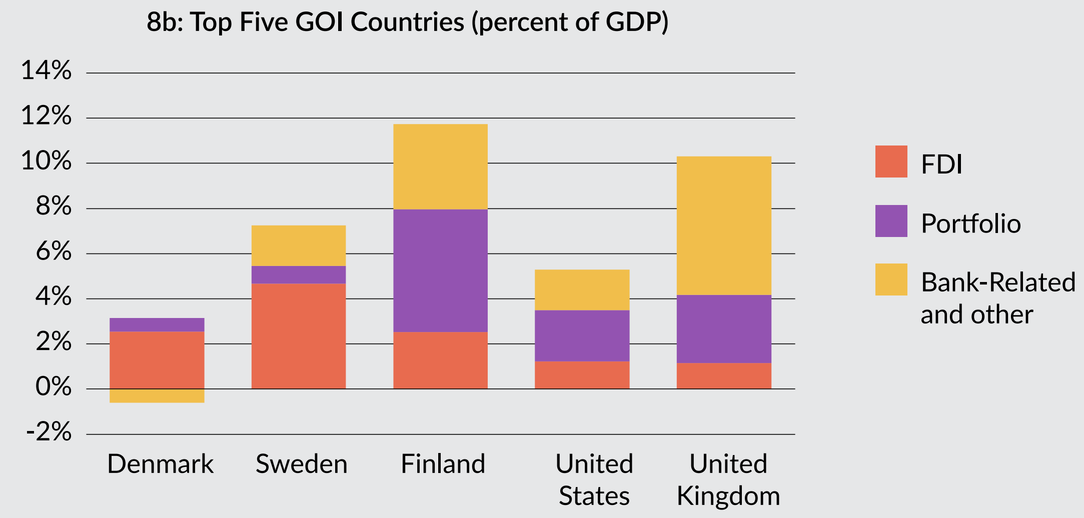


Figure 8: Average Five-Year Capital Inflows, by Type (cont.)



Note: *Based on countries included in the GOI.*

Source: *Author's calculations based on IMF International Financial Statistics (2024)*

Box 1: Types of Capital Flows

Because the GOI focuses on foreign investors' attitudes, the report relies on "gross" capital inflows, defined as the "net" (i.e., purchases minus sales) flow of funds from foreign investors to a country's economy. Note that these inflows can be either positive or negative. For example, if foreign investors buy $3 million of a country's assets but during the same period sell $5 million, that results in negative $2 million capital inflows.

Foreign investments vary by type and motivation. Capital inflows are typically classified into three major categories:

- **Foreign direct investment:** transactions that increase nonresidents' direct ownership of shares in a country's domestic firms.
- **Portfolio inflows:** nonresidents' acquisition of equity and debt securities, primarily stocks and bonds, originally issued by residents.
- **Bank-related inflows:** foreigners' deposit holdings, loans to foreign individuals and entities, and a few other miscellaneous investments. "Bank-related" inflows are determined by instrument class rather than type of investor (i.e., if a foreign bank purchased a bond issued by a resident, this would be classified as "portfolio," not "bank-related," inflow).

REGIONAL ASSESSMENTS: FOCUS ON EMERGING ECONOMIES

As discussed above, the GOI's top performers consist of countries with advanced economies located predominantly in North America and Western Europe. While these countries provide stability in the form of strong institutional frameworks and advanced business foundations, countries with emerging and developing economies may be of particular interest to investors seeking high-growth returns. As a result, this section explores the investment conditions in countries across five regions classified as emerging and developing (E&D) by the International Monetary Fund's (IMF) World Economic Outlook: Emerging and Developing Asia (E&D Asia), Emerging and Developing Europe (E&D Europe), Latin America and the Caribbean (LATAC), Middle East and Central Asia (MECA), and Sub-Saharan Africa (SSA).[8]

On average, E&D Europe performs the best in overall GOI rankings compared to other E&D regions (Figure 9). E&D Europe also tends to be the most cohesive of the five E&D regions, with the smallest differences in GOI scores between its top- and bottom-ranked countries. In contrast, SSA is the least cohesive E&D region, with two outliers (Mauritius and South Africa) that clearly outperform the rest of the countries in SSA (Figure 9).

Figure 9: Comparison of GOI Categories across Emerging Economies, by Region

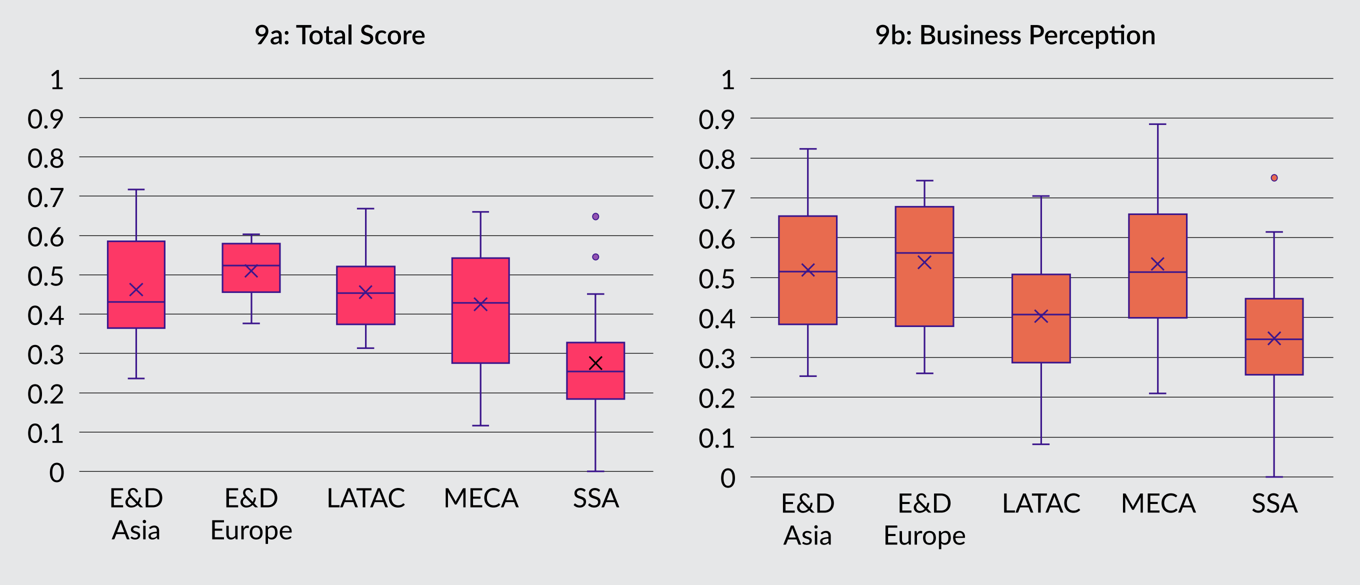
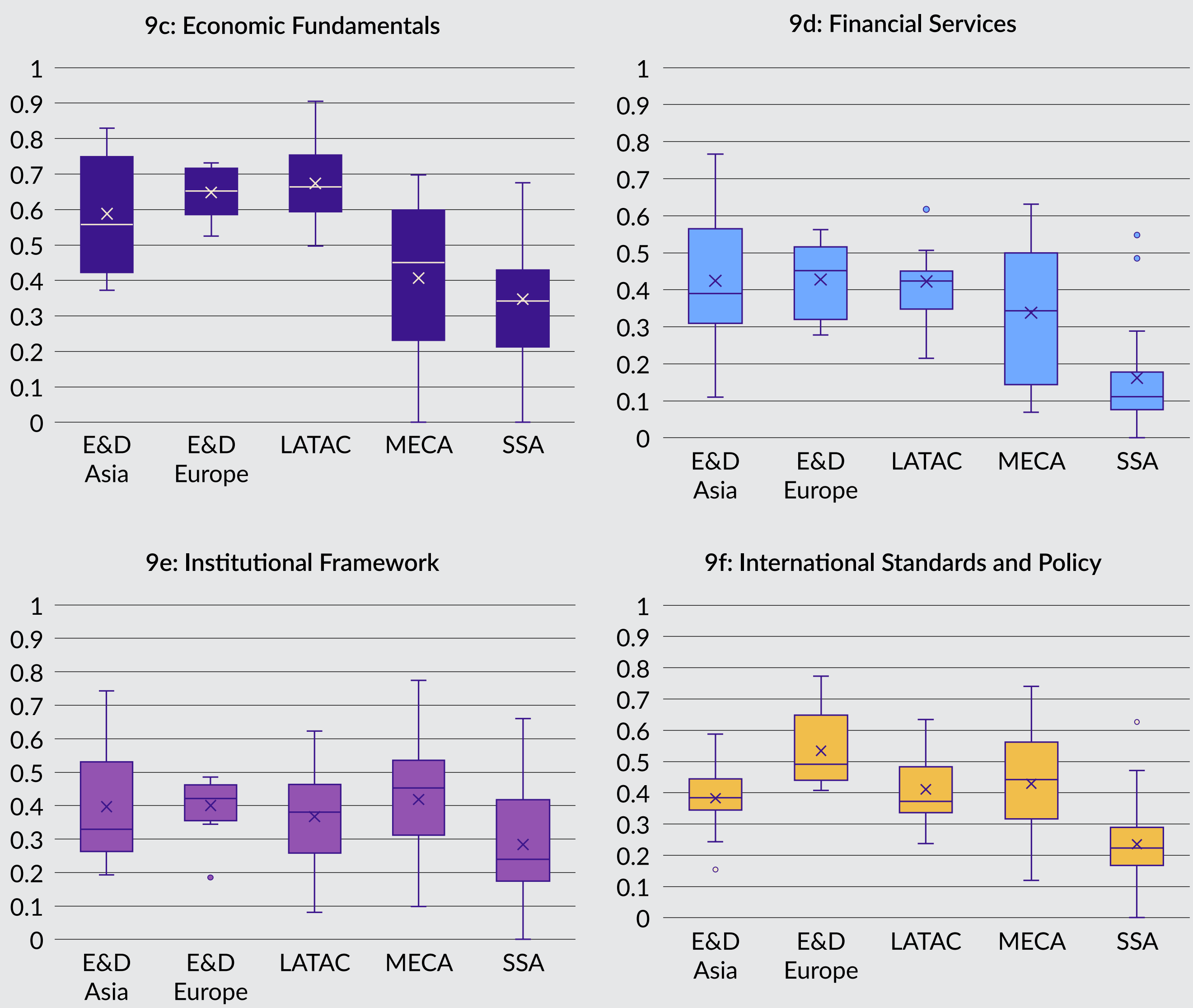


Figure 9: Comparison of GOI Categories across Emerging Economies, by Region (cont.)



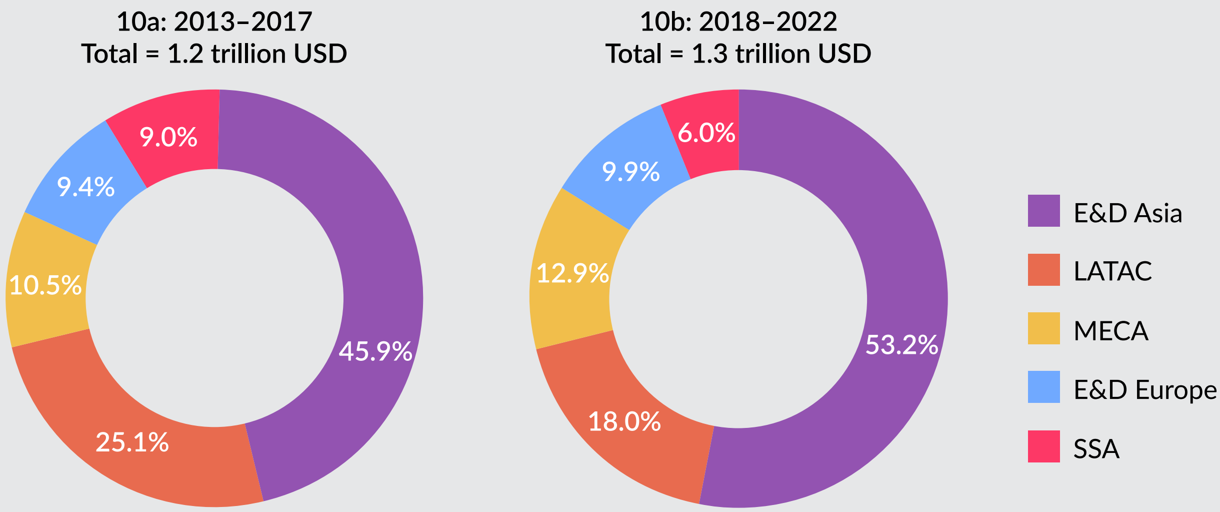
Source: *Milken Institute (2024)*

Comparing the average scores of E&D regions across the five GOI categories, interregional differences are the smallest in Institutional Frameworks and the largest in Economic Fundamentals. In the latter category, E&D Europe and LATAC outperform other E&D regions, with higher average scores and lower differences across countries. In contrast, MECA and SSA have the lowest average scores on Economic Fundamentals, with overall low scores in Economic Performance, Future Environment for Growth, and Workforce and Talent (i.e., all three subcategories that comprise the Economic Fundamentals scores).

Regional averages, however, disguise considerable intraregional differences. The SSA and MECA are the most varied in their investment conditions, with the most noticeable differences between their top- and bottom-ranked countries in Business Perception and Institutional Frameworks. In the latter category, Bosnia and Herzegovina constitutes an outlier in E&D Europe (an otherwise largely cohesive region) due in part to its low scores on the Public Governance and Innovation subcategories.

In terms of investment, E&D economies attracted an annual average of $1.3 trillion in capital inflows between 2018 and 2022. This represented an increase of 10.5 percent from the prior five-year period between 2013 and 2017 (Figure 10).

Figure 10: Capital Inflows to All E&Ds, by Country Group



***Source:** Authors' calculations based on IMF International Financial Statistics (2024)*

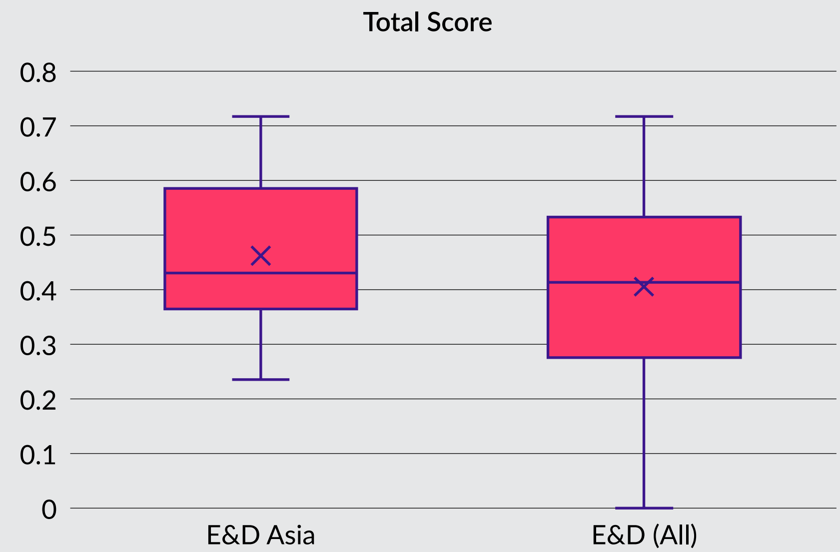
E&D Asia attracted more than half (53.2 percent) of the total capital flowing to E&D economies between 2018 and 2022, increasing its share among the E&D regions by 7.3 percentage points (Figure 10). In contrast, the share of capital flowing to the LATAC region dropped by 7.1 percentage points, while the proportions of total investments flowing to the other E&D regions remained relatively stable.

Five-year averages of capital flows reflect lasting patterns in investments. They do not, however, reveal short-term changes that may signal initial shifts in investment trends. With growing tensions between the US and China, capital inflows to E&D Asia dropped sharply (a change of -75.4 percent) during 2022, while inflows to LATAC increased (by 2.1 percent).[9] The timing of these changes was marked by a heightened emphasis on redirecting operations toward geopolitical allies while also fostering greater cooperation between the US and its regional partners among American policymakers and investors. The next few years will tell if the concurrent shifts in capital flows represent a temporary change or a lasting trend that will continue to shape international investment patterns.

Emerging and Developing Asia

E&D Asia has the third-largest GOI range between its top- and bottom-ranked countries among E&D regions (a difference of 80 ranks, see Figure 11). The group of 10 highest-ranked countries in E&D Asia includes well-performing economies (such as Malaysia, Thailand, and China, ranked in the top 40 worldwide) as well as countries with less attractive investment conditions (such as the Philippines and Cambodia, ranked 91st and 93rd, respectively). Malaysia, the region's top-ranked country, has the best overall investment conditions among E&D nations, with an overall ranking of 27 (above several AEs, including the Czech Republic, Portugal, and Italy).

Figure 11: Distribution of Scores in E&D Asia and All E&D Countries



Source: *Milken Institute (2024)*

Four of the top 10 countries in E&D Asia rank above the E&D overall average in all categories of the GOI (Figure 12). Malaysia, the country with the best investment conditions in the region, performs significantly above the E&D average in Financial Services and Institutional Frameworks (Figure 12). This country's exceptional performance in Institutional Frameworks is partly due to its strong Investors' Rights, ranking fifth overall in this subcategory of the GOI. In addition to Malaysia, China (the region's largest economy) scores significantly above the E&D average on Financial Access and Financial Size and Conditions, the two subcategories included in Financial Services. While China attracted more than half (58.3 percent) of total capital inflows to E&D Asia between 2018 and 2022, its appeal to investors appears to have decreased recently, likely due to rising geopolitical tensions with the US. In 2022, total inflows to China became negative for the first time since 2015, resulting in a marked drop (by 75.4 percent) of total inflows to E&D Asia.

Figure 12: Rankings on GOI Components for Top 10 Countries in E&D Asia

Country	GOI Rank 2024	Business Perception	Economic Fundamentals	Financial Services	Institutional Framework	International Standards and Policy
Malaysia	27	25	31	27	25	46
Thailand	37	21	22	29	51	68
China	39	30	64	24	39	70
Indonesia	55	57	44	75	52	55
Vietnam	65	75	23	73	90	73
India	72	63	100	59	42	91
Mongolia	78	82	80	67	81	92
Sri Lanka	82	66	90	80	91	81
Philippines	91	86	78	94	101	80
Cambodia	93	119	59	78	106	89
Average Ranking	63.9	62.4	59.1	60.6	67.8	74.5

Color Key (Deviation from E&D average)	More than 2 SD above average	1 to 2 SD above average	0 to 1 SD above average	0 to 1 SD below average	More than 1 SD below average

Source: *Milken Institute (2024)*

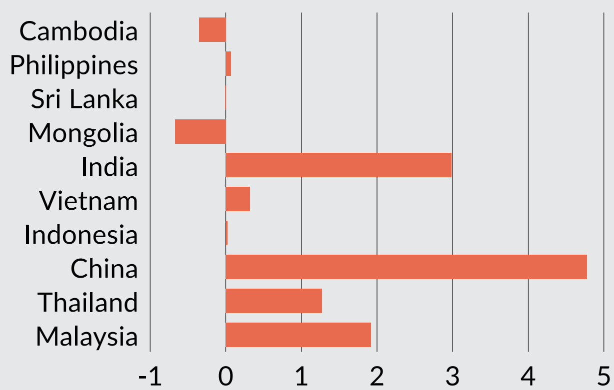
In contrast to Malaysia and China, Cambodia (ranked 93rd overall) has the least attractive investment conditions among the top 10 GOI-ranked E&D Asian economies (Figure 12). Cambodia's relatively low performance on the GOI is partly due to its poor business environment, ranking 119th (among 130 countries) in the Business Perception category of the GOI. Indeed, it takes 99 days on average to start a business in Cambodia, which is the second-longest wait time among all countries in the GOI. Along with Cambodia, the Philippines is the only other top 10 GOI-ranked country in the E&D Asia region with a Business Perception below the overall E&D average. The Philippines is also the only top 10 E&D Asian country with a Financial Services score below the E&D average, largely due to its relatively low (compared to other E&D countries) scores on both Financial Access and Financial Size and Condition (Figure 12).

Box 2: China's Growing Innovation Economy

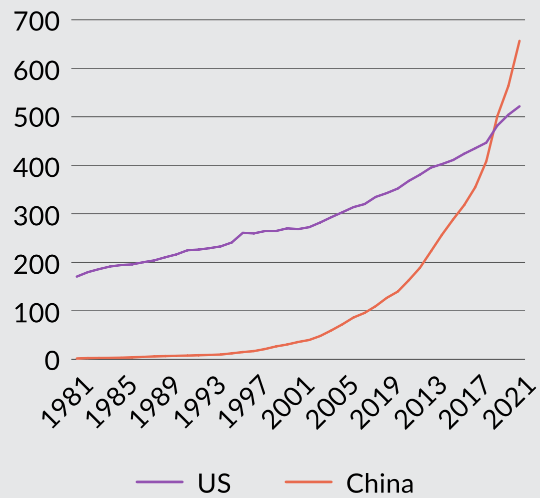
With the seventh-highest GOI score in the Innovation subcategory of the GOI, China continues its march toward developing a strong innovation economy that could rival the US and other AEs. China's favorable ranking in Innovation is largely (but not exclusively) due to the quality of its research, ranking first among all GOI countries on this metric. China also ranks among the top 20 GOI countries on all other measures included in the GOI Innovation score, falling to 13th, 14th, and 18th in scientific publications, R&D expenditure, and buyer sophistication, respectively. This leads the country to outperform the average E&D economy by 4.8 standard deviations (SD) in its Innovation score (Figure B1a). The only other country in the E&D region with a significantly higher Innovation score (i.e., more than two standard deviations) than the E&D average is India, another large and growing Asian economy.

Figure B1: China's Relative Performance in Innovation

B1a: Standard Deviation from Average E&D Innovation Score



B1b: Annual Number of Scientific Papers (Thousands)



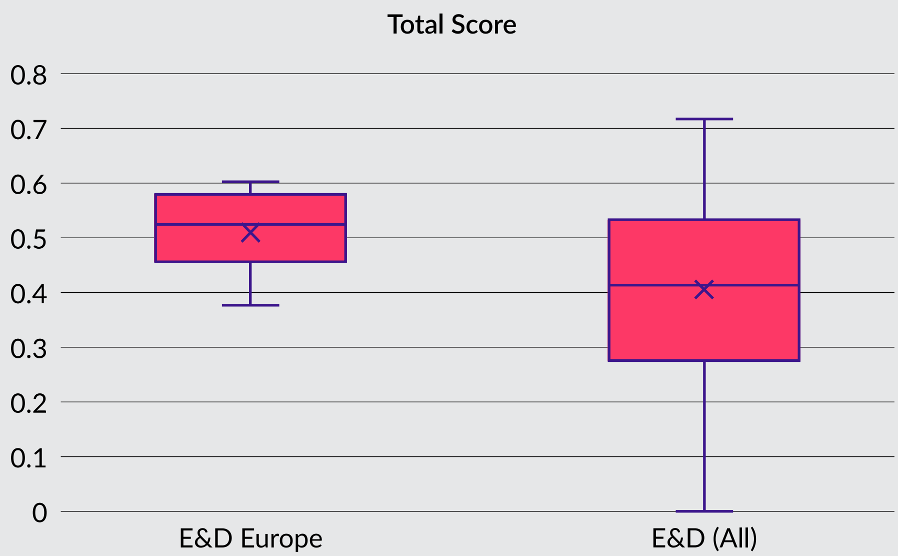
Source: *Figure B1a based on author's calculations. Figure B1b based on Clarivate data obtained from the Wall Street Journal (see Karen Hao and Sha Hua, August 16, 2023: https://www.wsj.com/world/china/the-u-s-is-turning-away-from-its-biggest-scientific-partner-at-a-precarious-time-9fb9adaa).*

Beyond the metrics used in the GOI, China's favorable ranking in the Innovation subcategory is also reflected in the exponential growth of scientific publications by Chinese researchers. China surpassed the US in the annual number of scientific publications for the first time in 2019, and since then, the gap between the countries has widened (Figure B1b).[10] This confirms the strong momentum behind China's innovation economy, positioning the country for continued growth of its scientific developments.

Emerging and Developing Europe

E&D Europe features the highest average GOI score of all E&D regions, with a median rank of 59 compared to 83.5 across all E&D countries. The region also has the smallest spread between its top- and bottom-ranked countries, implying that investment conditions are relatively attractive throughout much of E&D Europe (Figure 13). Indeed, 11 of 13 countries in this region have a GOI score above the E&D average.

Figure 13: Distribution of Scores in E&D Europe and All E&D Countries



Source: *Milken Institute (2024)*

Investment conditions in E&D Europe are favorable across multiple economic, financial, and regulatory factors, with seven of the 10 top-ranked countries in the region scoring above the E&D average in all five categories of the GOI (Figure 14). Compared to the E&D benchmark, E&D Europe performs particularly well in International Standards and Policy. Two nations in this region (Hungary and Poland) exhibit International Standards and Policy scores that are more than two standard deviations greater than the E&D overall average, and two others (Bulgaria and Romania) have scores that are at least one standard deviation above the average for all E&D countries. This is partly due to high Economic Openness (a subcategory of International Standards and Policy) across E&D Europe, with Montenegro being the only country in the region with an Economic Openness score below the E&D overall average.

Figure 14: Rankings on GOI Components for Top 10 Countries in E&D Europe

Country	GOI Rank 2024	Business Perception	Economic Fundamentals	Financial Services	Institutional Framework	International Standards and Policy
Bulgaria	43	48	49	41	56	36
Hungary	44	39	67	51	76	19
Poland	45	78	45	49	55	31
Russian Federation	46	32	42	58	66	58
Montenegro	50	29	48	70	65	76
North Macedonia	54	42	77	46	71	61
Serbia	59	54	53	62	83	53
Romania	67	98	69	83	54	39
Moldova	69	59	43	96	85	57
Albania	73	62	62	93	84	67
Average Ranking	55	54.1	55.1	64.9	69.5	49.7

Color Key (Deviation from E&D average)	More than 2 SD above average	1 to 2 SD above average	0 to 1 SD above average	0 to 1 SD below average	More than 1 SD below average

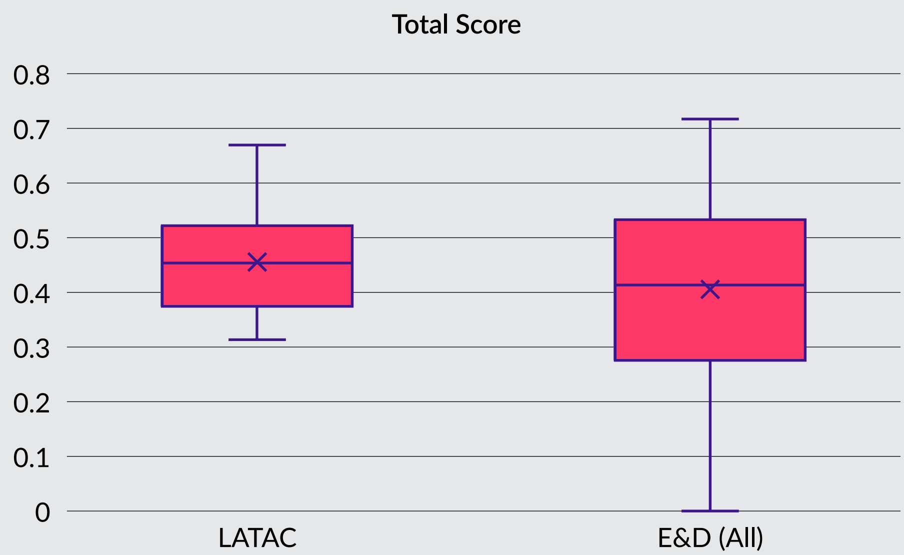
Source: *Milken Institute (2024)*

Among the 10 countries with the highest GOI scores in E&D Europe, Moldova and Albania are the only two falling below the E&D average on two categories of the GOI: Financial Services and Institutional Framework. In both countries, Institutional Frameworks are particularly hindered by their weak performance in the Public Governance subcategory, which falls two standard deviations below the E&D benchmark. Romania is the only other country in E&D Europe with a category of the GOI (Business Perception) scoring below the E&D average. Romania's relatively low score in Business Perception is largely due to the country's high Business Constraints, with the country ranked 121st in terms of the overall costs of procedures required for an entrepreneur to start a new business (an indicator used to calculate Business Constraints).

Latin America and the Caribbean

Boosted by its high rankings in the Economic Fundamentals category, LATAC has an average GOI score that falls slightly above the average for all E&D countries (Figure 15). The region also has the second-smallest spread between its top- and bottom-ranked countries (71 rank-difference as compared to a 90 rank-difference in E&D Asia, the region with the third-smallest spread), implying cohesive investment conditions across the LATAC region.

Figure 15: Distribution of Scores in LATAC and All E&D Countries



Source: *Milken Institute (2024)*

Chile, the highest-ranked country in the LATAC region, has a broad range of attributes that increase its attractiveness to investors. This is manifested in the country's relatively high scores (one or more standard deviations above the overall E&D average) across all categories of the GOI. Countries across the LATAC region tend to display relatively strong economic conditions, with high rankings in Economic Fundamentals. In this category of the GOI, eight of the 10 top-scoring countries in LATAC rank 50th or higher, and one country (Costa Rica) ranks 14th among all countries, including AEs (Figure 16). The relatively superior standings across LATAC in Economic Fundamentals are largely due to high scores in Future Environment for Growth among countries in the region. This subcategory of the GOI captures countries' efforts to build a resilient and sustainable economy and society, indicating the existence of strong growth potential across the LATAC region.

Figure 16: Rankings on GOI Components for Top 10 Countries in LATAC

Country	GOI Rank 2024	Business Perception	Economic Fundamentals	Financial Services	Institutional Framework	International Standards and Policy
Chile	33	34	36	34	31	36
Uruguay	42	68	32	36	33	54
Costa Rica	47	77	14	64	38	72
Jamaica	58	47	39	65	49	95
Brazil	60	81	46	35	68	82
Mexico	62	53	55	72	67	66
Peru	63	99	19	63	75	52
Panama	68	79	50	66	77	69
Colombia	70	95	35	71	57	86
Barbados	74	51	85	52	87	100
Average Ranking	57.7	68.4	41.1	55.8	58.2	71.6

Color Key (Deviation from E&D average)	More than 2 SD above average	1 to 2 SD above average	0 to 1 SD above average	0 to 1 SD below average	More than 1 SD below average

Source: *Milken Institute (2024)*

In addition to their strong Economic Fundamentals, the 10 highest-ranked countries in LATAC all have above-average (relative to E&D countries) Financial Services scores. This is primarily due to the countries' high rankings in the financial size and conditions subcategory of the GOI, which includes traits of the financial system such as public and private credit coverage (Figure 16). Despite the region's relatively strong rankings across GOI categories, three of the 10 highest-ranked countries in LATAC fall below the E&D average in International Standards and Policy, and two lag the E&D average in Business Perception. The low International Standards and Policy rankings of Jamaica, Colombia, and Barbados are largely due to low scores in Economic Openness, whereas the low rankings on Business Perception of Peru and Colombia are due to high Business Constraints in both countries.

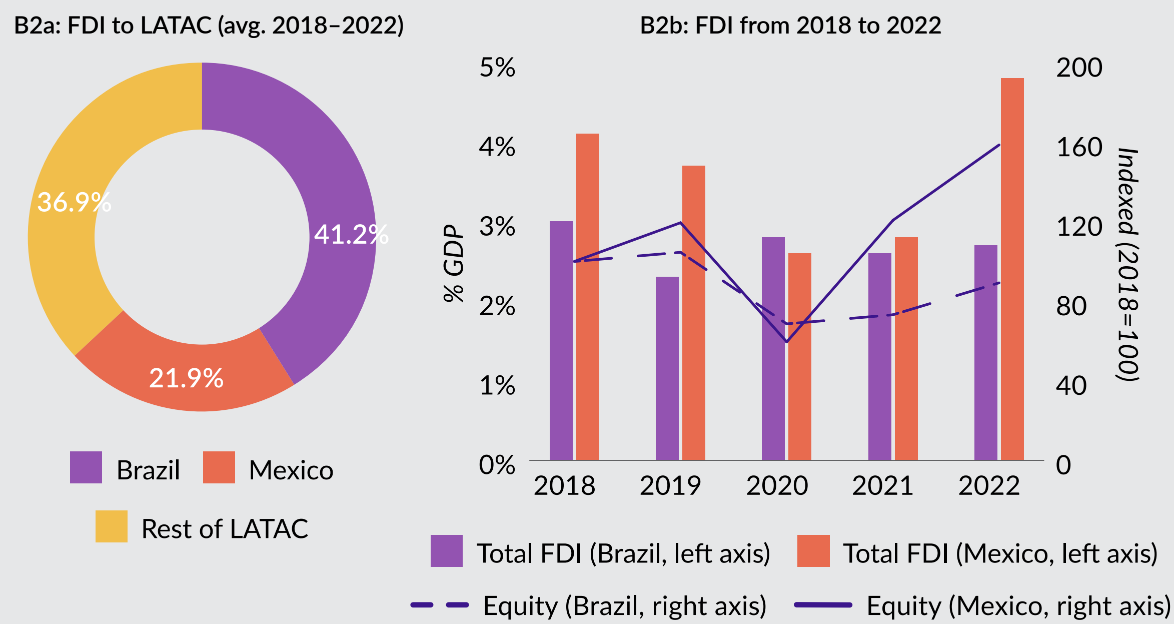
Box 3: Brazil and Mexico

Brazil and Mexico are two of the largest economies in Latin America and the Caribbean, jointly contributing 60 percent of the region's GDP.[11] Both countries are considered upper-middle-income by the International Monetary Fund, and both exhibit relatively strong investment environments, with scores that fall above the E&D-country average on all categories of the GOI (Figure 16).

Cont. on following page

When the two countries' strengths are compared, Brazil has a more robust financial system, as reflected in its higher Financial Services ranking. Brazil's advantage over Mexico in this category of the GOI is largely due to its broader financial coverage, with the two countries ranking 47th and 90th, respectively, in the Financial Access subcategory of the GOI. In contrast, Mexico outperforms Brazil in Business Perception and International Standards and Policy. Mexico's stronger performance in Business Perception is largely due to its superior position in the Recovery and Resolution Process, with Mexico ranking 35th and Brazil 82nd in this subcategory of the GOI. In addition, Mexico benefits from stronger Economic Openness, ranking 44th (50 positions above Brazil) in this subcategory of International Standards and Policy.

Figure B2: Foreign Investment in Mexico and Brazil



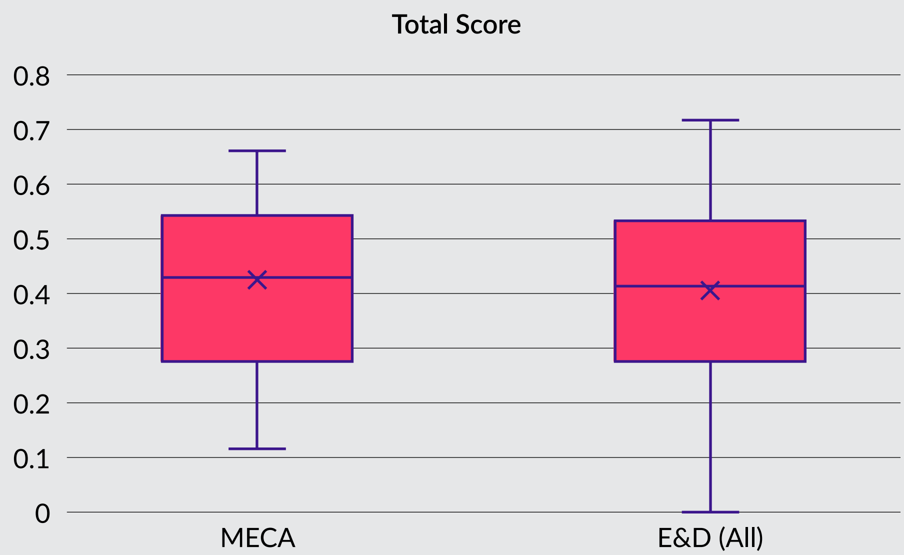
Source: *Authors' analyses based on data from the ECLAC (2024)*

From 2018 to 2022, Brazil and Mexico jointly attracted most (63.1 percent) of the FDI inflows to LATAC (Figure B2a). As the bigger economy, Brazil captures a larger share of total FDI than Mexico (41.2 percent compared to 21.9 percent, respectively). Inflows to Mexico, however, stand out in terms of their stability and the growth of new investments. While FDI inflows to Brazil (and most other countries in the LATAC region) dropped sharply in 2020 after the onset of COVID-19, inflows to Mexico remained remarkably stable during the pandemic (Figure B2b). In addition, while the equity portion of Brazil's FDI has trended downward in recent years (with equity investments in 2022 below their 2018 level), Mexico has experienced sharp growth in new inflows, with its equity investments in 2022 at almost 60 percent above their 2018 level (Figure B2b). Mexico was also the LATAC country with the most FDI project announcements in both 2021 and 2022, signaling continued growth prospects of new investments in Mexico.[12]

Middle East and Central Asia

MECA's average GOI score falls closest to the average of all E&D countries (Figure 17). This region also has the largest interquartile range, implying a high dispersion of GOI scores among mid-ranking MECA countries, in addition to a relatively broad overall range. The spread between its highest- and lowest-ranked countries (the United Arab Emirates [UAE] and Mauritania) is 94 ranks, making this the second-least cohesive E&D region.

Figure 17: Distribution of Scores in MECA and All E&D Countries



Source: *Milken Institute (2024)*

Half of MECA's 10 highest-ranked countries score below the overall E&D average on Economic Fundamentals. The region's relatively poor performance in this category of the GOI is largely due to low scores on Economic Performance and the Future Environment for Growth (two of the three subcategories of Economic Fundamentals) across MECA's highest-ranked countries. The variables included in the Future Environment for Growth monitor a country's efforts to build a resilient economy and society. The MECA countries' relatively low ranking on this subcategory of the GOI indicates that the region could benefit from expanding its support for policies driving socially inclusive and environmentally friendly development.

Figure 18: Rankings on GOI Components for Top 10 Countries in the MECA

Country	GOI Rank 2024	Business Perception	Economic Fundamentals	Financial Services	Institutional Framework	International Standards and Policy
United Arab Emirates	34	58	61	40	23	25
Georgia	41	23	58	53	45	45
Azerbaijan	48	13	52	97	40	90
Bahrain	49	40	91	47	60	43
Qatar	52	71	95	33	43	47
Armenia	53	37	75	82	46	50
Saudi Arabia	56	60	88	54	29	62
Kazakhstan	57	22	70	85	58	75
Oman	61	52	93	56	50	51
Kuwait	66	76	96	48	70	49
Average Ranking	51.7	45.2	77.9	59.5	69.5	53.7

Color Key (Deviation from E&D average)				
More than 2 SD above average	1 to 2 SD above average	0 to 1 SD above average	0 to 1 SD below average	More than 1 SD below average

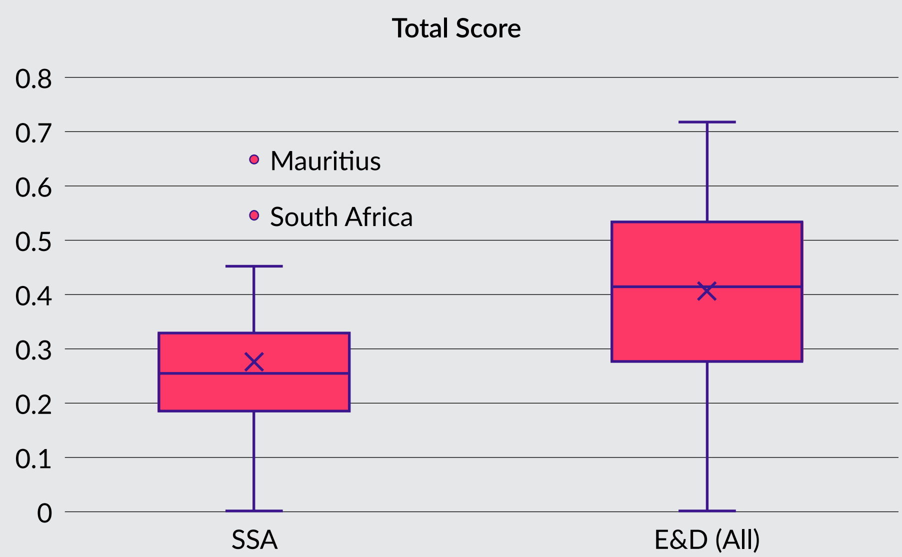
Source: *Milken Institute (2024)*

Aside from Economic Fundamentals, the 10 highest-ranked MECA countries tend to perform relatively well, with nine of the 10 scoring above the E&D overall average on at least four of the five categories of the GOI. MECA's highest-ranked country, the UAE, shows relatively strong performance across all categories. The UAE's particularly high rankings (among the top 25 countries overall) in the Institutional Framework and International Standards and Policy categories of the GOI set it apart from its regional neighbors. Along with UAE, Azerbaijan stands out in the MECA region, ranking 13th overall in Business Perception. Unlike the UAE, however, Azerbaijan exhibits unbalanced performance across the five GOI categories, with its Financial Services and International Standards and Policy scores falling below the E&D overall average.

Sub-Saharan Africa

SSA is the least cohesive E&D region, containing both the lowest-ranked GOI country (Chad, ranked 130th overall) and one of the highest-ranked E&D economies (Mauritius, ranked 38th overall and fifth across E&D economies). Mauritius and South Africa stand out in the region, with their relatively strong investment environments constituting two outliers among SSA countries. Despite this, the low rankings of the rest of the SSA nations drive down the regional average GOI score, which falls noticeably below the E&D region's overall GOI score average (Figure 19).

Figure 19: Distribution of Scores in SSA and All E&D Countries



Source: *Milken Institute (2024)*

Despite the largely trailing performance of the SSA region, the 10 highest-ranked countries in SSA perform relatively well in Institutional Frameworks. Seven of these 10 countries have an average Institutional Framework GOI score that falls above the E&D overall average, and only three (Lesotho, Zambia, and Uganda) rank 100 or lower in this category of the GOI (Figure 20). In contrast, financial institutions remain relatively weak in the region, with seven of the 10 highest-ranked SSA countries below the E&D region's average in Financial Services. This indicates the low availability of financing across SSA countries, which may represent an important hindrance to the growth potential of businesses in this region.

Figure 20: Rankings on GOI Components for Top 10 Countries in Sub-Saharan Africa

Country	GOI Rank 2024	Business Perception	Economic Fundamentals	Financial Services	Institutional Framework	International Standards and Policy
Mauritius	38	27	60	44	28	42
South Africa	51	49	54	43	34	104
Botswana	76	91	63	92	59	65
Rwanda	81	56	113	101	30	83
Namibia	84	83	99	55	61	111
Kenya	86	84	84	103	47	94
Ghana	100	90	79	119	72	118
Lesotho	102	96	92	99	107	106
Zambia	105	64	111	125	103	103
Uganda	106	94	110	109	110	79
Average Ranking	82.9	73.4	86.5	89	65.1	90.5

Color Key (Deviation from E&D average)	More than 2 SD above average	1 to 2 SD above average	0 to 1 SD above average	0 to 1 SD below average	More than 1 SD below average

Source: *Milken Institute (2024)*

As mentioned above, Mauritius and South Africa distinguish themselves among SSA countries because of their overall positive performance. The two countries score mostly above the E&D average across all GOI categories, with the only exception arising in the case of South Africa's score on International Standards and Policy (Figure 20). Despite its generally strong performance, South Africa falls below the E&D average in International Standards and Policy due in part to its low scores on the Economic Openness and Tax and Regulation subcategories of the GOI.

On the less positive end of the spectrum, Lesotho stands out as scoring below the E&D average across all categories of the GOI, while Ghana, Zambia, and Uganda fall more than one standard deviation below the E&D average on Financial Services. Ghana also scores particularly low in International Standards and Policy. As in the case of South Africa, Ghana's low score in this category is partly due to its low Economic Openness, indicating that pursuing more open economic policies may represent an action area for several SSA countries.

CONCLUSION

The economic and social turbulence that ensued from the onset of COVID-19 resulted in a flight-to-safety of international capital. This was reflected in a more than doubling (growth of 116.1 percent) of capital inflows to AEs between 2019 and 2021. Now, after almost a year and a half of hikes in interest rates across several major economies, countries with E&D markets find themselves again competing with AEs for foreign capital. While most foreign capital investments still target AEs, E&D economies offer significant potential to investors seeking higher risk-adjusted returns. As the global economy adjusts to higher interest rates and slower growth, comparing countries to their peers informs investors of the relative risks and rewards of investing while identifying areas needing policy improvement to strengthen international investors' interest in a country or region.

The emerging patterns suggest that E&D Europe constitutes a region with a particularly favorable and cohesive investment environment. Simultaneously, several countries in Latin America, E&D Asia, and the MECA region exhibit economies with strong fundamentals and relatively stable institutional frameworks. These E&D regions offer attractive opportunities to investors interested in emerging markets with favorable growth potential. Investors can use the GOI report and rankings to make informed and unbiased investment decisions as financial conditions stabilize.

ENDNOTES

1. Sam Fleming, Martin Arnold, and Colby Smith, "Is This the Turning Point for Interest Rates?" *Financial Times*, November 3, 2023, https://www.ft.com/content/c7e712e8-12be-4d25-82e5-e53bd3bb3311.
2. "A Rocky Recovery," International Monetary Fund, 2023, https://www.imf.org/en/Publications/WEO/Issues/2023/04/11/world-economic-outlook-april-2023.
3. As an example, in 2022 environmental, social, and governance (ESG) variables were added to the index to reflect companies' growing appetite to incorporate ESG data into their investment and business decisions.
4. Prakash Loungani and Assaf Razin, "How Beneficial Is Foreign Direct Investment for Developing Countries?" (*Finance & Development, A quarterly magazine of the IMF*, June 2001), https://www.imf.org/external/pubs/ft/fandd/2001/06/loungani.htm. See also: *Global Financial Stability Report, Chapter 3: Emerging and Frontier Markets* (International Monetary Fund, 2020), https://www.imf.org/-/media/Files/Publications/GFSR/2020/April/English/ch3.ashx.
5. The classification of countries into Advanced Economies, and Emerging and Developing Economies follows the IMF classification for the World Economic Outlook. See "World Economic Outlook Database–Groups and Aggregates Information," International Monetary Fund, April 2023, https://www.imf.org/en/Publications/WEO/weo-database/2023/April/groups-and-aggregates.
6. Authors' analysis of IMF data (based on 2021 balance of payment values).
7. Numbers based on authors' analysis of IMF data. See also Maela Giofré, "Foreign Investment in Times of COVID-19: How Strong Is the Flight to Advanced Economies?" *Journal of Multinational Financial Management*; Volume 6, June 2022, https://www.sciencedirect.com/science/article/pii/S1042444X22000068.
8. "World Economic Outlook Database–Groups and Aggregates Information," International Monetary Fund.
9. For more information on how current geopolitics have affected investment and trade between the US and its main strategic partners, see Maggie Switek, Lawson Mansell, and Leilani Jimenez, "Mexico's Competitiveness as a Strategic Trade Partner," Milken Institute, October 3, 2023, https://milkeninstitute.org/report/mexico-competitiveness-strategic-trade-partner.
10. Recently, concerns have been raised regarding a proliferation of dubious research accompanying China's emergence as a scientific powerhouse. Though some of the increase in China's scientific publications might be due to fake, or duplicative, research, this is unlikely to explain most of its growth in innovation, especially considering the increase in the number of most cited papers originating in China. See Eleanor Olcott, Clive Cookson, and Alan Smith, "China's Fake Science Industry: How 'Paper Mills' Threaten Progress," *Financial Times*, March 27, 2023, https://www.ft.com/content/32440f74-7804-4637-a662-6cdc8f3fba86.
11. Authors' analysis of IMF data (based on 2022 GDP in current prices).
12. *Foreign Direct Investment in Latin America and the Caribbean 2023* (United Nations Economic Commission for Latin America and the Caribbean, 2023), https://repositorio.cepal.org/server/api/core/bitstreams/fd2ce029-2846-4900-a0e6-14818f6191b3/content. For more information on FDI growth and trends in Mexico, see also Maggie Switek, Lawson Mansell, and Leilani Jimenez, "Mexico's Competitiveness as a Strategic Trade Partner."

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