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GLOBAL OPPORTUNITY INDEX 2021

White Paper

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ABOUT THE MILKEN INSTITUTE

The Milken Institute is a nonprofit, nonpartisan think tank.

For the past three decades, the Milken Institute has served as a catalyst for practical, scalable solutions to global challenges by connecting human, financial, and educational resources to those who need them. Guided by a conviction that the best ideas, under-resourced, cannot succeed, we conduct research and analysis and convene top experts, innovators, and influencers from different backgrounds and competing viewpoints. We leverage this expertise and insight to construct programs and policy initiatives.

These activities are designed to help people build meaningful lives in which they can experience health and well-being, pursue effective education and gainful employment, and access the resources required to create ever-expanding opportunities for themselves and their broader communities.

SUMMARY

》 Of the seven major geographical regions included in the Global Opportunity Index (GOI) 2021, **Europe & Central Asia and East Asia & Pacific are the least homogenous in their performance.**

》 **International Standards & Policy is the category most responsible for changes in score** from last year's ranking.

》 **New variables added to GOI 2021** intend to capture the quality and accessibility of national digital infrastructures.

THE INDEX

The Global Opportunity Index (GOI) provides foreign investors with a broad outlook on the global investment landscape. Covering 145 countries across seven major geographical regions, the GOI measures a number of factors that investors might consider when deciding where to deploy capital. Specifically, we measure overall investment opportunity through 96 variables organized into five categories and 14 sub-categories detailed below:

Business Perception

BUSINESS CONSTRAINT

- Cost to start a business
- Ease of shareholder suits
- Percentage of firms identifying corruption as a major constraint
- Percentage of firms identifying labor regulations as a major constraint
- Percentage of firms identifying tax rates as a major constraint
- Time required to start a business (days)
- Willingness to delegate authority

RECOVERY AND RESOLUTION PROCESS

- Enforcing contracts
- Resolving insolvency: cost (% of estate)
- Resolving insolvency: recovery rate (cents on the dollar)
- Insolvency regulatory framework
- Time required to enforce a contract (days)
- Time to resolve insolvency (years)

Economic Fundamentals

FUTURE ENVIRONMENT OF GROWTH

- Age dependency ratio (% of working-age population)
- Fixed-broadband Internet subscriptions
- Healthy life expectancy
- Internet access (% of households)
- Mobile phone subscribers (per 100 people)
- Mobile-broadband subscriptions
- MSME density (micro, small and medium-sized enterprise)
- Government health expenditure (% of GDP)
- Percentage of the population covered by at least a 3G mobile network
- International trade in digitally deliverable services

ECONOMIC PERFORMANCE

- Central government debt, total (% of GDP)
- GDP growth (annual %)
- GDP per capita (current US$)
- Inflation, consumer prices (annual %)
- Real interest rate (%)
- Total factor productivity
- Trade (% of GDP)
- Unemployment, total (% of total labor force)

WORKFORCE TALENT

- Labor force participation rate age 15+ (% of total)
- Labor force with secondary education (% of total)
- Labor participation rate, female (% of female population ages 15+)
- Mean years of schooling
- Pupil-to-teacher ratio in primary education
- School life expectancy
- Self-employed, total (% of total employment)
- Extent of staff training

Financial Services

FINANCIAL ACCESS

- Account ownership at a financial institution or mobile money service provider
- Automated teller machines (ATMs) (per 100,000 adults)
- Banks branches per 100,00 adults
- Credit card ownership (% age 15+)
- Debit card ownership (% age 15+)
- Domestic credit provided by financial sector (% of GDP)
- Domestic credit to private sector (% of GDP)
- Financing of SMEs
- Venture capital availability

FINANCIAL SIZE AND CONDITION

- Life insurance premium volume to GDP (%)
- Mutual fund assets to GDP
- Non-life insurance premium volume to GDP (%)
- Non-performing loans to total gross loans (%)
- Pension fund assets to GDP
- Private credit by banks, percentage of GDP
- Private credit coverage (% of adults)
- Public credit coverage (% of adults)
- Size of the banking system
- Total non-government securities (% of GDP)
- Total private debt, loans, and debt securities (% of GDP)

Institutional Framework

Transparency

- Budget transparency
- Conflict of interest regulation
- Credit depth of information
- E-Participation Index
- Extent of disclosure
- Incidence of corruption
- Start-up procedures to register a business
- Strength of auditing and reporting standards
- Transparency of government policymaking
- Voice and accountability: estimate

Innovation

- Buyer sophistication
- Quality of research institutions
- R&D expenditures
- Scientific publications

Investors' Rights

- Protecting minority investors
- Property rights
- Quality of land administration
- Government ensuring policy stability
- Strength of legal rights index

Public Governance

- Burden of government regulation
- Efficiency of legal framework in challenging regulations
- Efficiency of legal framework in settling disputes
- Judicial independence
- Political stability and absence of violence/terrorism: estimate
- Freedom of press
- State of cluster development

International Standards & Policy

Economic Openness

- Bilateral Investment Treaties (BITs)
- Chinn-Ito
- Exchange rate regime
- Tariff rate, applied, weighted mean, all products (%)
- Treaties with investment provisions (TIPs)

Tax and Regulation

- Corporate tax rate (%)
- Income tax rate (%)
- Labor freedom
- Regulation of securities exchanges

Patent and Trademark

- Patent applications
- Trademark applications

NEW VARIABLES, GOI 2021

We have added a handful of new variables to GOI 2021. Notably, we have made an effort to include variables that capture a country's existing exposure to the digital economy and its potential to become a future hub for digitization. We argue that this is warranted given the evidence of economic efficiencies that come from a robust national digital infrastructure.[1] For example, the percentage of households with access to the internet is a good measure of both the quality of existing digital integration and the potential for future digital innovation. These new variables are noted below:

Economic Fundamentals

- Internet access (% of households)
- Percentage of the population covered by at least a 3G mobile network
- International trade in digitally deliverable services

Financial Services

- Account ownership at a financial institution or mobile money services provider

Institutional Framework

- Freedom of press
- Government ensuring policy stability

International Standards & Policy

- Labor freedom

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1   Lopez and Smith (forthcoming).

COUNTRIES

Our Index covers 145 countries across seven major geographical regions. Notable modifications from GOI 2020 include Haiti's addition and nine countries that have seen a change in their income level classifications. We have summarized these income level changes below in table 1:

Table 1: Countries with a Change in Income Level Classification, 2020-2021				
Country	**GOI 2021 Income Level**	**GOI 2020 Income Level**	**Gross National Income per Capita in US$ as of July 2020**	**Gross National Income per Capita in US$ as of July 2019**
Algeria	Lower-middle income	Upper-middle income	3,970	4,060
Benin	Lower-middle income	Low income	1,250	870
Indonesia	Upper-middle income	Lower-middle income	4,050	3,840
Mauritius	High income	Upper-middle income	12,740	12,050
Nepal	Lower-middle income	Low income	1,090	960
Romania	High income	Upper-middle income	12,630	11,290
Tanzania	Lower-middle income	Low income	1,080	1,020
Sri Lanka	Lower-middle income	Upper-middle income	4,020	4,060
Sudan	Low income	Lower-middle income	590	1,560

Note: The World Bank uses Gross National Income figures from the previous year of that indicated in the classification scheme.

Source: World Bank (2020)
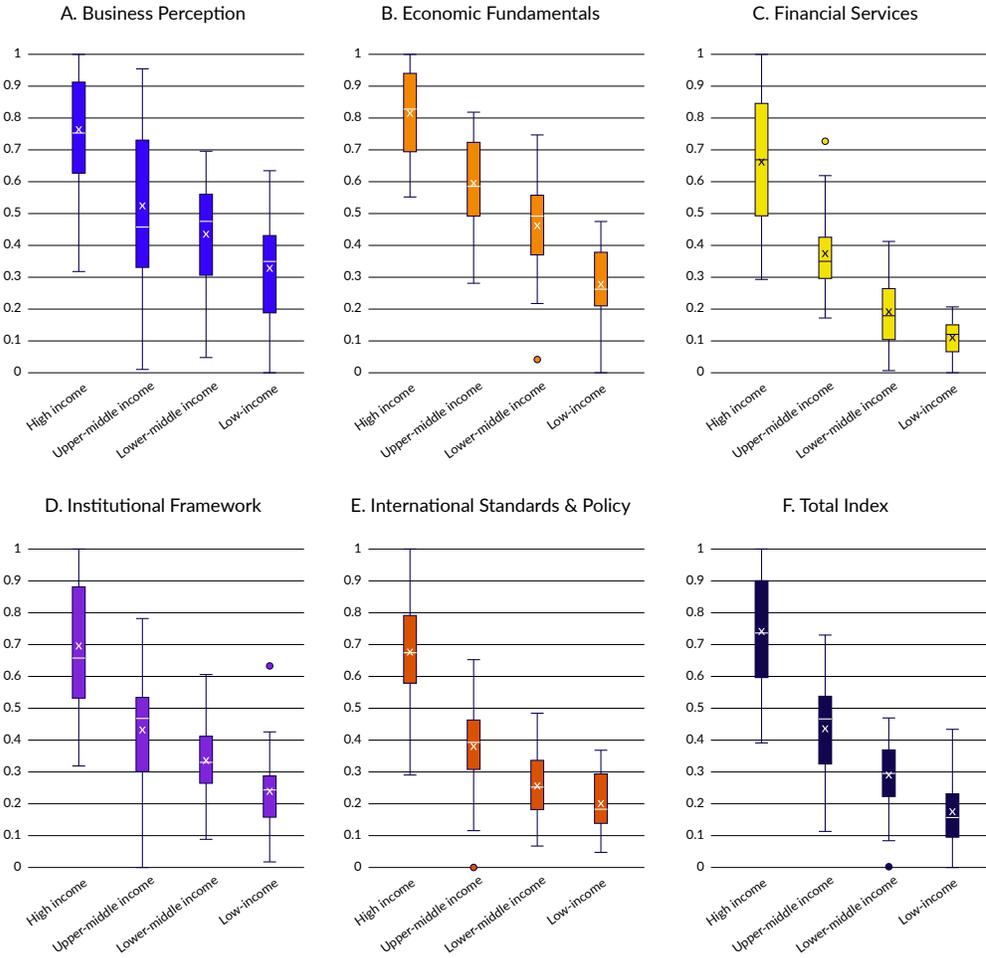
REGIONAL AND INCOME-LEVEL COMPARISON

To supplement the overall measure of investment opportunity seen in the ranking, we include analysis at the category level, aggregating across income level classification (see figure 1) and geographical region (see figure 2).

As is to be expected, a country's performance in the Index relates to its income level. High-income countries, on average, promise the most opportunity for foreign investors, with the opposite being true for low-income countries.

Some categories show a larger variance among income groups than others. For example, among upper middle-income countries, the interquartile range in Business Perception is approximately two times that of any of the other categories. A similar pattern exists among high-income countries, with the interquartile range for Institutional Framework and Financial Services exceeding the other categories by approximately two times. In other words, these observations show that while income level is broadly useful in determining performance in the Index, there is a level of nuance at the category level that investors should consider.

Figure 1: Comparison of Performance by Income Level, across Categories

A. Business Perception

B. Economic Fundamentals

C. Financial Services

D. Institutional Framework

E. International Standards & Policy

F. Total Index

Note: *The figure shows boxplots for each category of the Index and group of countries. Each boxplot displays the upper and lower quartiles of the distribution (i.e., upper and lower edges of the box), the median (denoted by the horizontal line inside the box), the mean (represented by the "X" marker), and the maximum and minimum values (i.e., whiskers) excluding outliers. Countries are classified by income level following the World Bank.*

*Source:* *Author's calculation, see list of data in the appendix (2020)*

The performance of geographical regions is also broadly uniform across all five categories (see figure 2). The median score of countries from Europe & Central Asia, North America, and East Asia & Pacific is higher than the other regions in each category. However, similar to income level, there is a significant variance in the performance of specific region/category combinations. For example, the interquartile range of the East Asia & Pacific region is the largest of all regions in three of the five categories. Moreover, the total index score for the East Asia &

Pacific and Europe & Central Asia regions has considerable variance between the 25th and 75th quartile mark. In contrast, countries in Latin America, Sub-Saharan Africa, and South Asia are much more homogenous in their performance in each category and in the Index as a whole.

In short, our analysis emphasizes the need for investors to perform due diligence when deciding where to deploy capital. While, for example, it may be true that European countries perform well on average in Institutional Strength, it is also true that there is considerable variance across the region—meaning investors would be wise not to assume Country X is similar to Country Y in this regard.

Figure 2: Comparison of Performance by Geographic Region, across Categories
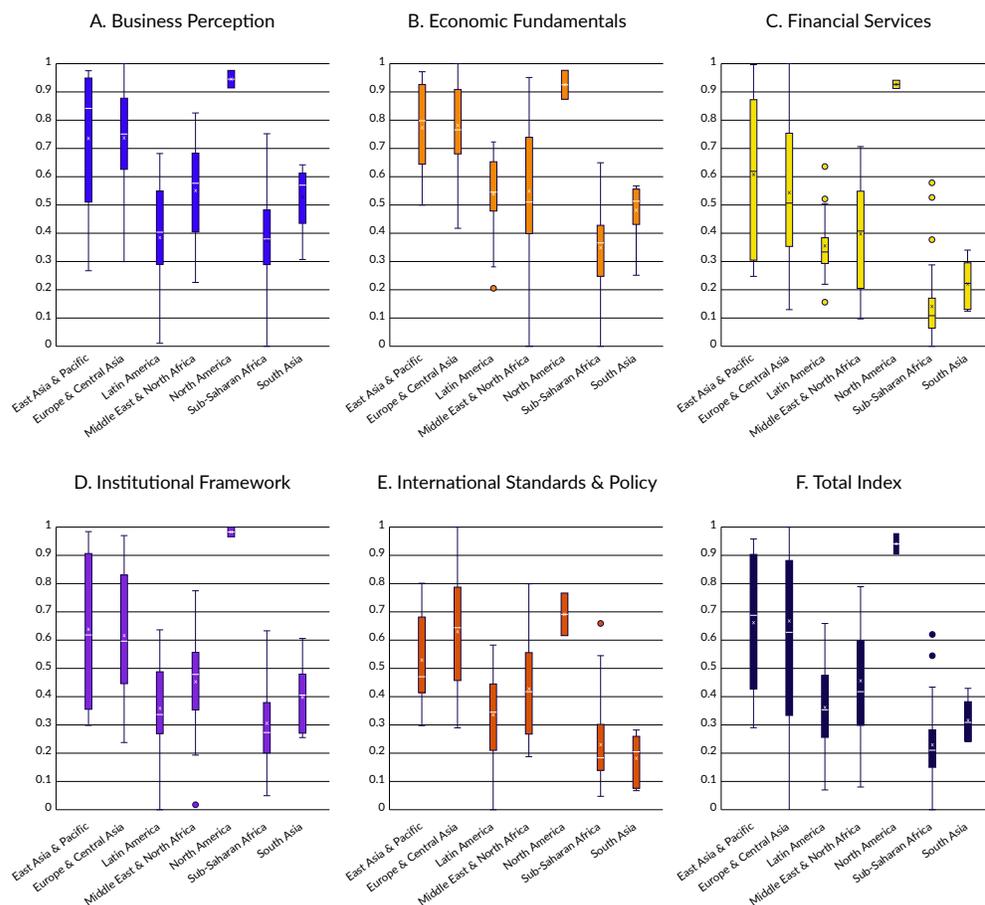
Note: The figure shows boxplots for each category of the Index and group of countries. Each boxplot displays the upper and lower quartiles of the distribution (i.e., upper and lower edges of the box), the median (denoted by the horizontal line inside the box), the mean (represented by the "X" marker), and the maximum and minimum values (i.e., whiskers) excluding outliers.

Source: *Author's calculation, see list of data in the appendix (2020)*

2020-2021: WHAT CHANGED?

Table 2 indicates which category was most responsible for a country's change in index score between GOI 2020 and 2021. With the caveat that the variables for GOI 2020 and 2021 are not identical, this table still gives some indication of the macro trends driving the change from the previous year's ranking.

International Standards & Policy (ISP) is the most dynamic category, responsible for the largest change in score among approximately 70 percent of the countries in the Index. The ISP category does have a single variable difference between 2020 and 2021 (with labor freedom replacing labor regulation rigidity). However, categories with more variable differences—such as Economic Fundamentals (three new variables)—only account for the biggest change in score for six countries. It is, therefore, more likely that real differences in the underlying variables are driving the change of the ISP category.

Table 2: Category Most Responsible for Change in Index Score, 2020-2021

Business Perception	Economic Fundamentals	Financial Services	Institutional Framework	International Standards & Policy			
Bhutan	Algeria	Belize	Bolivia	Albania	Czech Republic	Kenya	Romania
Burkina Faso	Guyana	Guinea	Brazil	Angola	Denmark	Korea, Rep.	Russian Federation
Egypt	Kuwait	Malawi	Canada	Argentina	Djibouti	Kyrgyz Republic	Rwanda
Saudi Arabia	Nicaragua	Netherlands	Guatemala	Armenia	Dominican Republic	Lao PDR	Senegal
Turkey	Niger	US	India	Australia	Ecuador	Luxembourg	Serbia
	Ukraine		Indonesia	Austria	El Salvador	Madagascar	Seychelles
			Israel	Azerbaijan	Estonia	Mali	Sierra Leone
			Japan	Bahrain	Ethiopia	Malta	Slovak Republic
			Latvia	Bangladesh	Finland	Mauritania	Slovenia
			Lebanon	Barbados	France	Mauritius	Spain
			Lesotho	Belgium	Gabon	Moldova	Sudan
			Liberia	Benin	Gambia, The	Mongolia	Sweden
			Lithuania	Bosnia and Herzegovina	Georgia	Montenegro	Switzerland
			Macedonia	Botswana	Germany	Morocco	Tajikistan
			Malaysia	Bulgaria	Ghana	Mozambique	Tanzania
			Mexico	Burundi	Greece	New Zealand	Thailand
			Nepal	Cambodia	Honduras	Nigeria	Togo
			Norway	Cameroon	Hong Kong	Oman	Trinidad and Tobago
			Singapore	Chad	Hungary	Pakistan	Tunisia
			South Africa	Chile	Iceland	Panama	Uganda
			Sri Lanka	China	Iran, Islamic Rep.	Paraguay	Uruguay
			Suriname	Colombia	Ireland	Peru	Yemen, Rep.
			UAE	Costa Rica	Italy	Philippines	Zambia
			UK	Cote d'Ivoire	Jamaica	Poland	Zimbabwe
			Venezuela	Croatia	Jordan	Portugal	
			Vietnam	Cyprus	Kazakhstan	Qatar	

Source: *Author's calculation, see list of data in the appendix (2020)*

Table 3 illustrates the countries with the largest (more than + or - 10) change in ranking from GOI 2020. Of the 13 countries included in the table, 8 remained in the middle two quartiles of the ranking (between the 36th and 108th positions). In the upper and lower quartiles, Hong Kong went from the highest-ranked country in GOI 2020 to 17th in 2021, while Liberia remained in the lowest quartile, dropping by 11 positions. Lastly, Lesotho's 18 position drop moved it from the middle 50 percent into the lowest quartile, with Djibouti and Egypt doing the opposite thanks to their positional gains in the 2021 Index.

Table 3: Countries with Largest Positional Change in Index Ranking, 2020-2021

Country	2021 Ranking	2020 Ranking	Difference
Lebanon	106	87	-19
Lesotho	124	106	-18
Hong Kong	17	1	-16
Albania	78	63	-15
Turkey	73	60	-13
Macedonia	58	47	-11
Liberia	134	123	-11
Mexico	64	54	-10
Cambodia	92	103	+11
Seychelles	52	64	+12
Djibouti	98	110	+12
Egypt	102	115	+13
Serbia	63	77	+14

Source: Author's calculation, see list of data in the appendix (2020)

APPENDIX

Data Sources for Index:

Bank for International Settlements

Global Health Data Exchange

Heritage Organization

International Labour Organization

International Telecommunications Union

International Monetary Fund

Portland State University

SME Finance Forum

The Conference Board Total Economy Database

United Nations Conference on Trade and Development

UN E-government

United Nations Educational, Scientific and Cultural Organization

World Bank Doing Business

World Bank FINDEX

World Bank GFD Database

World Bank World Development Indicators

World Bank World Governance Indicators

World Economic Forum Global Competitiveness Report

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Benjamin Smith is a research analyst in International Finance within the Research Department at the Milken Institute. His specialty areas include the intersection between technology and financial services, global economic policymaking, and foreign direct investment. Prior to joining the Milken Institute, Smith worked on trade policy issues with research institutes in the US and Canada and published articles on US economic policy with a leading international affairs magazine. Smith holds an MA in political science from Colorado State University and a BA from Keele University.