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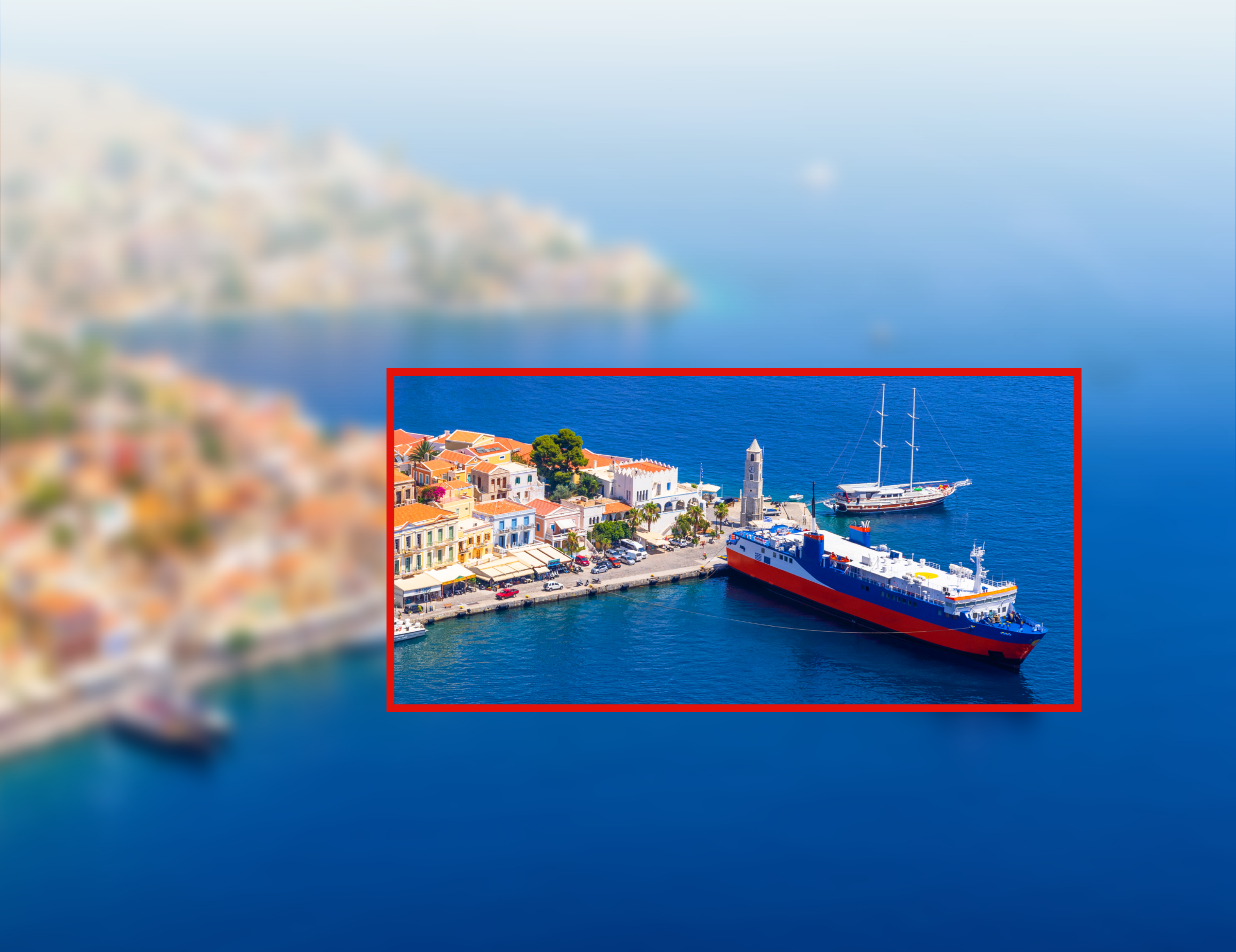
Business environment rankings

Assessing the best places for doing business



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Does an improving business environment boost GDP?

Improving performers in EIU's business environment index have consistently gone on to see faster per-head growth.

- **Gauging in advance which economies are better placed for growth than others is one of the most essential aspects of EIU's role as a forecasting outfit.**
- **One of the ways that we provide insight into this is through our business environment rankings, which pull together 91 indicators to give a comprehensive overview of the attractiveness of doing business in 82 countries and territories around the world.**
- **We have replicated a 2023 academic study on the World Bank's now-defunct Doing Business publication, which found that improvements in score did not result in stronger growth.**
- **In contrast, improvements in our index are a statistically significant leading indicator for stronger growth in real GDP per head: in the two decades since it began, our index has successfully predicted where growth can be expected.**

Knowing in advance where economic growth is about to accelerate can be the difference between investor success and failure. Our business environment index is designed to reflect the main criteria used by companies to formulate their global business strategies and is based not only on historical conditions but also on our experts' assessments for the next five years. This allows us to incorporate hard-to-measure indicators with strong predictive power, such as likely upcoming policy changes by the current or most likely future government; our macroeconomic forecasts for growth in domestic purchasing power and demand from key trading partners; and changes in the institutional environment, among many other variables.

Do business-friendly reforms really lead to stronger growth?

With two decades of data to work with, we wanted to put our index to the test and see whether supply-side improvements and growing market opportunities, as reflected in upward movements in our business environment rankings, really did foreshadow a pick-up in economic growth. A recent academic study, published in the *Journal of Comparative Economics*, provided a template for how to go about this. This assessment of whether improvements in the World Bank's Doing Business rankings were followed by stronger growth in real GDP per head found—rather counterintuitively—that they did not.

The World Bank discontinued its rankings in 2021, after data irregularities came to light, so this may be one explanation for the unexpected result. Some countries were found to have made regulatory changes specifically in order to receive a better score in the World Bank's methodology, which made the index a less accurate reflection of the business climate overall. The narrowness of the ranking—which was focused on regulatory procedures, quite different from our own more comprehensive index—could be another explanation.

Our business environment index vs the World Bank's Doing Business

In contrast, the results of our vector autoregression model suggest that **there is a statistically significant positive correlation between changes in our business environment index score and growth in real GDP per head** (which strips out population changes), with the change in the economy becoming visible one year after the change in the index. This lag is to be expected, as improvements in the operating environment take time to filter through. **Our model suggests that the positive impact on growth lasts in total for five years.**

As well as confirming the robustness of our model (see Appendix) we also tested whether this relationship held up for investment spending—and it does. Both foreign direct investment (FDI) per head and total investment per head are positively correlated with changes in our index over time. As with any exercise in modelling, some caveats apply. But this is encouraging, as it suggests that **looking at the geographies rising up in our ranking is an effective way to identify where an uptick in investment spending may soon be coming.**

Thailand is one country that neatly illustrates the findings of our model in recent years. Currently 39th in the ranking, Thailand saw a notable improvement in our business environment index in 2021-22, followed by an acceleration in growth in real GDP per head in 2022-23. There were several reasons for the improvement. Thailand was among the first movers in the Association of South-East Asian Nations (ASEAN) to give special incentives to invest in electric vehicles and green industries. At the same time, many infrastructure projects were being finished—notably the mass transit expansion in the capital, Bangkok—or under way, including as part of the country's Eastern Economic Corridor mega-development project. Thailand has benefited from—and encouraged, with preferential policies—the China+1 trend as investors seek to diversify away from China, often towards India and ASEAN.

Top ten geographies by business environment score
(10 represents the best possible score)

Geography	Total score	Rank
Singapore	8.56	1
Denmark	8.41	2
US	8.40	3
Germany	8.35	4
Switzerland	8.33	5
Canada	8.31	6
Sweden	8.29	7
New Zealand	8.26	8
Hong Kong	8.24	9
Finland	8.22	10

Source: EIU.

Where are the best places in the world to do business today?

Our latest business environment index finds that Singapore, Denmark and the US will be the three geographies with the best business environment over the next five years. Several west European economies, alongside Canada, Hong Kong and New Zealand, make up the remaining top ten best places in the world to do business. These are all advanced economies and long-standing strong performers in our index, so tend to be safe bets for investments. However, both headline and per-capita GDP growth rates are likely to be fairly stable and slow. To identify which economies may be best placed for an acceleration in per-head GDP and investment growth, we need to look further down in the ranking.

The table below shows the geographies that see the biggest improvements in score in our index in the next five years (2024-28) compared with the past five years (2019-23). These are not the same economies that will see the fastest real GDP growth in 2024-28—although Qatar and India will grow very strongly—rather, they are places where we expect the most significant policy improvements, infrastructure investment or growth in market opportunities. **Our model suggests that their improvement in our business environment index may subsequently result in an uptick in per-head growth in real GDP, investment spending and FDI.**

Most improving geographies in the business environment rankings
(change in business environment scores from 2019-23 to 2024-28)

Geography	Change in score	Rank* (2024-28)	Most improving category
Greece	1.38	34	Financing
Argentina	1.32	54	FDI policy; foreign trade & exchange controls
India	1.08	51	FDI policy; foreign trade & exchange controls; tax regime
Angola	1.01	78	Market opportunities; private enterprise policy
Qatar	0.93	26	Financing
Kenya	0.93	68	Infrastructure
Dominican Republic	0.74	57	Political environment
Venezuela	0.73	82	Market opportunities
Lithuania	0.72	28	Tax regime
Serbia	0.72	52	Macroeconomic environment

Source: EIU.

*Out of 82 countries and territories.

Big improvers that score strongly already in our index

Qatar has implemented a US$220bn investment programme over the past decade, mainly focused on infrastructure. Its business environment has benefited from the expansion of Hamad International Airport, the road network and tourism infrastructure. **Lithuania** has long been open to trade and investment, but a major tax reform will soon make it more attractive by extending corporate tax relief and shifting the tax burden away from labour. **Greece** sees the biggest improvement in the business environment in our index over this period. This reflects the impact of a pro-business government, led by the New Democracy party, now in its second term, that has undertaken reforms, cut taxes and boosted business confidence.

Geographies further down our ranking where we expect a strong improvement

India is the only single-country market that offers a potential scale comparable to that of China. India's youthful demographic profile promises both strong demand and good labour availability. Alongside solid economic fundamentals, digital infrastructure and favourable demographics, more policy support is being introduced to attract manufacturing investment. **Serbia**, meanwhile, while much smaller, has seen a virtuous circle from its openness to FDI in the past, which has driven growth and attracted further investment, including in higher-value-added sectors. A recent strengthening of macroeconomic policy and institutions supports market stability.

Argentina's sharp improvement in score largely reflects the free-market reforms that we believe the administration of the president, Javier Milei, will introduce—in particular, policies to boost private enterprise and competition and attract foreign investment. In the **Dominican Republic**, the current Abinader administration, which we expect to be re-elected in May, will continue its business-friendly policies. It is encouraging investment into the tourism sector (for example with port upgrades for cruise ships), and improving logistics infrastructure to become a regional transport and distribution hub.

Places with weak business environments but potential for improvement

Kenya passed a Privatisation Act in 2023, which will help to trim the state's excessively large economic footprint while boosting the private sector. **Angola**, while close to the bottom of our rankings, is arguably a better place to do business than five years ago, with the Lourenço administration using its improved ties with the US to revamp key legislation, bringing the country's financial sector into line with international standards and reducing the tax burden on the non-oil sector. In contrast, **Venezuela** is the worst ranked in our index, and will remain so despite a slight improvement after its painful economic collapse.

Appendix

Business environment ranking methodology

Our index measures the attractiveness of the business environment in 82 countries and territories, examining 91 indicators spread across 11 different categories. The categories include: the political environment, the macroeconomic environment, market opportunities, policy towards free enterprise and competition, policy towards foreign investment, foreign trade and exchange controls, taxes, financing, the labour market, infrastructure and technological readiness. Each of the 91 indicators is scored on a scale from 1 (very bad for business) to 5 (very good for business), and there is a mix of quantitative and qualitative questions. Scores are awarded both for the preceding five years and for the next five years.

Regression analysis technical details

We based our analysis on Adhikari, T and Whelan, K (2023) Did Raising Doing Business Scores Boost GDP? *Journal of Comparative Economics* 51, 1011-1030.

In order to replicate the authors' results using our own business environment ranking (BER) data, we ran a vector autoregression (VAR) model between real GDP per capita and the BER scores, with country or territory-level idiosyncratic intercepts. We took a first difference form of both the variables and used up to two lags of each variable to account for the potential endogeneity problem. We also did a log transformation of real GDP per capita to deal with the high variance in the series across geographies and time periods. We used a panel dataset for our 82 countries and territories for 2003-22.

To test the robustness of our VAR model, we ran the following stability checks in first difference form: AR roots test, stationarity test and co-integration test. The model satisfies all three stability conditions. Furthermore, the impulse response functions are stable with no permanent shocks: both variables converge back to the baseline over a period of time.

The results of our study suggest a statistically significant positive impact of changes in BER scores on the log of real GDP per capita, with a lag of one period. The positive impact is substantial for the first two years, and gradually declines over the following three years. We also extended the analysis from the published paper by replacing real GDP per head with foreign direct investment (FDI) per head and total investment per head, and found statistically significant positive correlations for these variables too. More specifically:

- An increase of 1 percentage point in the BER score growth rate in the current period will lead to **an improvement of about 0.1 percentage points in the growth rate of the log of GDP per capita** in the next period.
- An increase of 1 percentage point in the BER score growth rate in the current period will lead to **an improvement of about 0.3 percentage points in the growth rate of the log of gross fixed investment per capita** in the next period.

- An increase of 1 percentage point in the BER score growth rate in the current period will lead to **an improvement of about 0.4 percentage points in the growth rate of the log of FDI per capita** in the next period.

As with any exercise in modelling, some caveats apply. We have simplified a complex picture, and in so doing may have lost some important nuances. Our ranking covers only 82 economies, and there are no doubt some outside of our sample that have achieved strong growth without much of an improvement in business climate. Moreover, for economic growth to be sustainable and inclusive, resulting in a long-term rise in living standards, there are other requirements that need to be met as well. As important as these are, they are outside the scope of this particular model.

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