ECONOMIST INTELLIGENCE | EIU

Assessing the best countries for doing business

Discover which countries have climbed or fallen in our rankings

ECONOMIST INTELLIGENCE EIU

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Contact us

LONDON

Economist Intelligence
The Adelphi
1-11 John Adam Street, London, WC2N 6HT
United Kingdom
Tel: +44 (0)20 7576 8000
e-mail: london@eiu.com

GURUGRAM

Economist Intelligence
TEG India Pvt Ltd
Skootr Spaces, Unit No. 1,
12th Floor, Tower B, Building No. 9
DLF Cyber City, Phase – III
Gurugram – 122002
Haryana, India
Tel: +91 124 6409486
e-mail: asia@eiu.com

NEW YORK

Economist Intelligence
900 Third Avenue
16th Floor
New York, NY 10022
United States
Tel: + 1 212 541 0500
e-mail: americas@eiu.com

DUBAI

Economist Intelligence
PO Box No - 450056, Office No - 1301A Aurora
Tower Dubai Media City Dubai,
United Arab Emirates
Tel: +971 4 4463 147
e-mail: mea@eiu.com

HONG KONG

Economist Intelligence
1301 Cityplaza Four 12 Taikoo Wan Road Taikoo
Shing, Hong Kong
Tel: + 852 2585 3888
e-mail: asia@eiu.com

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Global business environment improves

- **Singapore, Canada and Denmark will be the three countries with the best business environment over the next five years, according to EIU's latest business environment rankings.**
- **Several west European countries plus the US, Hong Kong and New Zealand make up the remaining top ten geographies in our ranking–largely supported by strong levels of economic and political stability.**
- **The biggest improvements over the past year are in the business environments of Vietnam, Thailand, Belgium, Sweden, India and Costa Rica. The biggest deteriorations are in China, Bahrain, Chile and Slovakia.**
- **Two major trends stand out. First, the outlook for China's business environment has deteriorated as a result of greater policy uncertainty, US-China tensions and a more challenging longer-term outlook for growth.**
- **In our latest rankings China is behind markets such as Malaysia, Thailand, Vietnam, Mexico and India that are seeking to attract manufacturing investment away from China.**
- **Second, east European countries have been badly hit by the fallout of the war in Ukraine, resulting in reduced market opportunities. By contrast, western Europe has weathered the situation well.**

The changes in our business environment rankings (BER) over the past year illustrate the impact on global operating environments of the war in Ukraine; the ensuing spike in inflation and cost-of-living crisis; and the current combination of fiscal loosening, monetary tightening and an economic

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

Geography	Total score	Rank
Singapore	8.70	1
Canada	8.45	2
Denmark	8.45	3
US	8.37	4
Switzerland	8.34	5
Sweden	8.30	6
Hong Kong	8.25	7
Germany	8.25	8
New Zealand	8.21	9
Finland	8.11	10

Source: EIU.

slowdown. The BER measures the attractiveness of the business environment in 82 countries on a quarterly basis, using a standard analytical framework with 91 indicators. Our ranking for the second quarter of 2023 shows that North America and western Europe continue to be the best places in the world to do business. Asia ranks third, ahead of eastern Europe, while Latin America marginally outperforms the Middle East and Africa (MEA).

North America and western Europe: best in the world for business

Canada ranks second in the BER and the US ranks fourth, unchanged from a year ago. The fact that ten of the top 20 countries in the global ranking are in western Europe reflects the region's political stability, large and competitive domestic markets, and openness to world trade. Many west European countries were able to roll out significant fiscal support for citizens and businesses during 2022 as rising inflation raised the cost of living. The short-term economic outlook for the region is subdued, given rapid monetary tightening. However, in the medium term greater spending under the €750bn EU recovery fund will support business-friendly investment on the digital sector, the green agenda and the transition away from reliance on Russia in the energy sector.

Biggest winners: Compared with one year ago, **Belgium** improves its rank by seven spots and Sweden by six. Belgium's improvement reflects a more open foreign direct investment (FDI) policy, with a new federal mechanism providing a clearer framework from January 2023. Belgium's robust institutional framework, pro-business policy orientation, high-quality network infrastructure and location at the heart of the EU support its ranking. **Sweden** also improves its ranking on the back of better scores for political and economic stability. Sweden is one of the world's most digitally advanced economies and has progressed further than many of its peers in decarbonisation, meaning that it is well placed to respond to transformative trends in technology and the environment.

Change in business environment rankings

(from Q2 2022 to Q2 2023)

Geography	Change in rank	Direction
Vietnam	12	↑
Thailand	10	↑
Belgium	7	↑
Sweden	6	↑
India	6	↑
Costa Rica	6	↑
Latvia	-6	↓
Serbia	-6	↓
Colombia	-6	↓
Kuwait	-6	↓
Slovakia	-7	↓
Chile	-9	↓
Bahrain	-9	↓
China	-11	↓

Source: EIU.

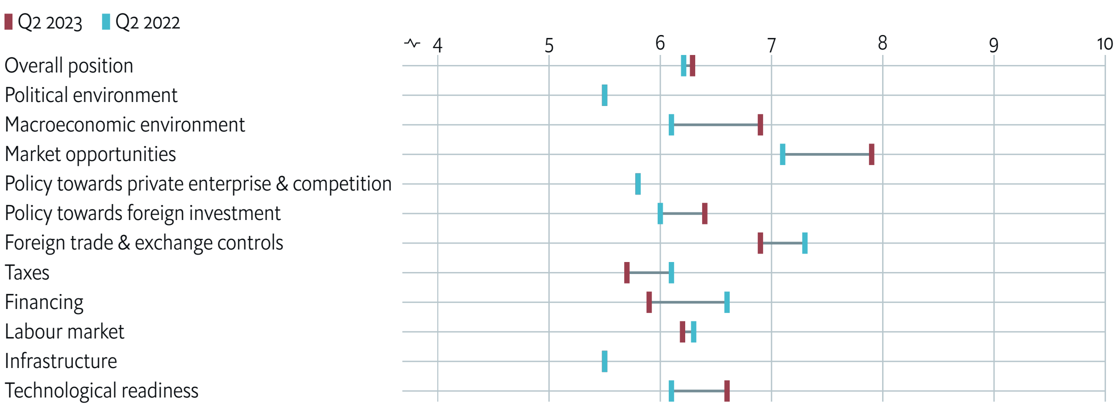
Biggest losers: Slovakia falls by seven spots. As elsewhere in the region, monetary tightening has weighed on financing opportunities. In addition, Slovakia's market opportunities score has deteriorated sharply, with growth in foreign trade set to slow amid continued supply-chain disruptions and elevated input costs for its energy-intensive manufacturing sector. **Latvia** drops by six places, driven by deteriorating scores for financing and the labour market–it has a shrinking labour force, persistent emigration of young workers, and skills shortages. **Serbia** also drops by six spots. Serbia's labour market score is deteriorating owing to low digital skills levels and one of the lowest labour force participation rates in Europe.

Asia: reorienting away from China

Singapore will retain the world's best business environment in the forecast period, with Hong Kong, New Zealand, Australia, Taiwan and South Korea also ranking in the global top 20. As a region, Asia's score for policy towards foreign trade is improving. This partly reflects the impact of regional free-trade agreements (FTAs) adopted in the past five years, the effects of which will be felt in our five-year forecast period (2023-27).

Biggest winners: the Asian countries that have improved their ranking the most over the past year are Vietnam, Thailand and India. Vietnam is our overall biggest mover worldwide, climbing 12 spots in the rankings, while Thailand improves by ten places and India by six. **Vietnam** and **Thailand**, which have favourable policies for foreign investors, are benefiting from firms pursuing a China+1 policy of having supply chains in both China and another Asian market. This reflects China's zero-covid policies, which have constrained business operations, and also allows firms to mitigate geopolitical risk associated with the US-China relationship. Vietnam's score rises on the back of an improving economic outlook, and Thailand's as a result of greater economic stability. **India** has historically struggled to attract manufacturing investment but is now well placed to benefit from similar trends. A strong, stable economy and access to a large labour supply form the basis of its appeal to investors. Policy reforms are making it easier to do business in India, and we expect major improvements in areas such as infrastructure, taxation and trade regulation, boosting investment.

India's business environment score has improved across most parameters
(10 represents the best possible score)



Source: EIU.

Biggest loser: China is our biggest loser globally, falling by 11 spots in the second-quarter rankings compared with a year earlier. Although the end of the zero-covid policy is positive for firms operating in China, regulatory changes stemming from the statist direction of economic policy as well as rising local costs weigh on its business environment and limit opportunities for international investors. China now ranks below Malaysia, Thailand, Vietnam and India.

Latin America: narrowly outperforming the Middle East and Africa

Latin America scores poorly for political effectiveness, reflecting problems with corruption, crime, weak institutions and often incoherent policy towards business. Inflows of FDI—mainly to commodity-related sectors, but also to services (such as commerce, restaurants and finance) and manufacturing—boomed in 2022 in many Latin American economies. This FDI mini-boom could continue into 2023. Improvements will be recorded in countries that are undergoing reforms, but these will be slower than in other emerging-market regions, reflecting governability difficulties. By global comparison, Latin America's tax policy stands out as being particularly poor, reflecting costly and unwieldy systems in most countries. Moreover, the tax burden is now set to rise, reflecting the need to narrow fiscal deficits post-pandemic.

Biggest winner: Costa Rica improves its global ranking by six spots, driven by higher infrastructure and technological readiness scores. Broad political consensus on maintaining a market-friendly, open economy has helped the country to secure a wide network of FTAs and has made it attractive to investors. This, along with accession to the OECD in May 2021, supports Costa Rica's strong score for policy towards foreign investment.

Biggest losers: Chile drops by nine spots compared with last year, and **Colombia** by six, with scores for the political environment and policy towards foreign investment declining for both. In Chile this reflects policy uncertainty associated with an unresolved constitutional reform process that creates uncertainty and hurts political effectiveness, as well as the left-wing government's plans to expand the role of the state in the economy. That said, Chile remains Latin America's top-ranked country in the BER, at 30th in the global ranking. In Colombia economic policy under the left-wing president, Gustavo Petro, will become more interventionist and state-driven, involving stricter regulations for the oil sector.

Middle East and Africa: the lowest-ranking region

MEA's overall score in the BER is the lowest of any region. The ranking for the MEA region continues to be weighed down by poor governance and endemic insecurity, including the spillover from the conflicts in Syria, Yemen and Libya, alongside political unrest in a number of countries, including Iraq and Lebanon. Cuts in capital spending in the context of post-pandemic fiscal tightening have constrained the region's macroeconomic score, but on the positive side, this has pushed countries to support business-friendly reforms, such as improved frameworks for public-private partnerships and foreign investment. Israel and the Gulf states are the highest-ranked countries in the region, with the latter's scores improving in recent years in line with rising oil prices and growing absorptive capacity for new investment. Qatar, Saudi Arabia and the UAE will improve further in 2023-27. Both the Middle East and Africa typically suffer from weak corporate governance and regulation, as well as poorly trained labour forces and, in countries such as Angola, Nigeria and the Gulf states, an overreliance on hydrocarbons.

Nonetheless, rates of return can be high for firms that master the region's complicated political and regulatory climate.

Biggest winner: No countries in the Middle East or Africa saw improvements in our ranking of the scale recorded in other regions in the world. **South Africa** saw a modest rise, up by four spots, but this reflects improvement from a low base given the disruptions to critical public services such as power supply that characterise the business environment at present.

Biggest losers: Bahrain fell by nine spots, and **Kuwait** fell by six, both owing to deteriorating market opportunities scores as a consequence of falling (albeit still comparatively high) global oil prices, which represent a large share of fiscal and export receipts. Lack of progress on regulations and reforms also weighs on these countries' business environment scores.

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