Baseline Profitability Index Analysis on the Country’s Attractiveness to Foreign Investment

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Abstract
This study asserted that a country’s attractiveness to foreign investments is affected by different factors which include corruption level, physical security, capital control, economic growth, expropriation by government, exploitation by local partners, financial stability, and exchange rate. It is based on the concept of Baseline Profitability Index created by Prof. Daniel Altman in 2013. Specifically, this study mainly focused on determining the practices and local policies employed by the countries that are highly attractive to foreign investors. These policies and practices were used as the basis in defining recommendations for policy interventions to address the issues and predicaments of those that lagged behind drawing in more foreign investments. It showed that the country’s attractiveness has significant correlation with corruption, physical security, expropriation, and capital control. Cross-correlation among the factors also demonstrates that corruption, physical security, capital control, economic growth, and government expropriation are significantly interrelated with each other while exchange rate has a significant relationship only with economic growth. Firm’s ability in some countries to evade the capital control was widespread which resulted in increased corruption and lowered economic efficiency. The insubstantial rule of law remains a powerful deterrent to improving economic efficiency. Countries that have oppressive legal and regulatory schemes and very low protection on property rights would be less likely to attract more foreign investors. Thus, countries must recognize the importance and real essence of foreign investment as it helps in building global competitiveness of the economy as a source of newly developed technologies, capital, and management expertise.

Keywords: Baseline profitability index; Foreign investments; Global competitiveness; Foreign investment attractiveness

Introduction
Baseline Profitability Index (BPI) is the first public tool that unequivocally takes a holistic approach to forecasting investment returns created by Daniel Altman, an adjunct professor at New York University’s Stern School of Business. Foreign Policy Magazine introduced and published BPI in 2013. It compares how local policies and conditions would influence similar investment in different countries. BPI measures the country’s basic attractiveness to foreign investment. The latter is an important part of a massive private investment which is driving economic growth around the world and sought by most developing countries as a means of complementing domestic investment, as well as securing economy-wide efficiency gains (Dabour, 2000). As reported by Sanderatne (2011) of Sunday Times, economic growth has a strong link with foreign investment. This means that a country needs larger influx of foreign investments to achieve a sustainable...
and increased economic growth.

Foreign direct investments (FDI) can be vital for developing countries like the Philippines. Developing countries have a lack of access to resources essential to start the production (Globalization101, 2015). The former is one of the major external sources of financing for most countries that were improving economically (Economy Watch, 2010). The world has seen a wide influx of FDI in developing countries in the past two decades. Many developing countries are competing to attract foreign investors. Foreign investment also acts as a long term source of capital and advanced technologies. The foreign investors also bring along their best international management practices. As large amounts of capital come in through these investments and more and more industries are set up. It helps in increasing employment (Gupta, 2012). FDI has also been proven to be resilient during the financial crisis (International Monetary Fund, 2001). It had helped many countries when they faced economic turmoil. In past financial crises, the stability of FDI flows has significant association with an increase in mergers and acquisitions. This foreign ownership facilitates the access of financially-constrained domestic firms to world capital markets by bringing transparency, better management, and improved technology (Calderon and Didier, n.d.). It expedites the country to build competitive advantage. The size of exports, level of training and qualification of the workforce and innovation are just some of the issues that affect a country’s position regarding competitiveness. In turn, these components and others, are influenced in a way directly or indirectly by the structure and level of FDI. Following a simple logic, we can only infer that this type of investment is one that contributes, help raise the competitiveness of nations regarding their efficient operation (Abala, 2014).

Foreign investments play a very crucial role in building competitive advantage and economic development; however, countries are facing with several impediments to attracting more foreign investors, and the Philippines is one of them. Philippines has the fastest growing economy in the world, but there are hindrances that are slowing down the process and low influx foreign investment is one of them. Some of the reasons are the restrictive 60-40 ownership rule and the lack of significant changes in the latest version of the foreign investment negative list (FINL) (EU-Philippines Business Network, 2015). Security is another major obstacle in attracting foreign investments. As in the case of Iraq, foreign investment is lagging which the real obstacle to bring in foreign companies is its investment law. Despite their achievement in decreasing insurance rates incurred by foreign businesses in exchange for bringing their staff into Iraq, instability is still a major obstacle to investment. Many other countries have strived drawing in foreign investments due to strict capital controls which could affect the repatriation of profits, currency issues, failures in protecting the investors from the use of devious tactics by the government and private cohorts, and corruption (Altman, 2013).

To batter over these holdups in achieving competitive advantage globally, BPI of the different countries was analyzed and studied to find out the concealed dimension that enables countries to attract more foreign investors. It specifically aimed to describe the level of FDI inflows among developing and developed countries, describe and analyze the performance of the developing and developed countries regarding BPI, identify the factors that are highly correlated with BPI, and provide recommendations for possible interventions in improving the country’s attractiveness for investment.

Review of Literature

BPI published by Daniel Altman in Foreign Policy magazine, ranks markets for foreign investment based on asset growth, preservation of value, and repatriation of capital. Three general factors will affect the
ultimate success of a foreign investment: how much an asset’s value growth, the preservation of that value while the asset is owned, and the ease of bringing home the proceeds from selling the asset. Each of these factors requires a different kind of assessment. It’s not enough to worry only about rates of return, corruption, political stability, investor protection, or exchange rates alone. According to Altman (2013), economic growth alone doesn’t determine the returns to investing abroad; you have to worry about things like financial stability, physical security, corruption, expropriation by government, exploitation by local partners, capital controls, and exchange rates as well. Putting all of these factors together gives a better idea of how big the return will be when it finally reaches your pocket. BPI combines these factors into a summary statistic that conveys a country’s basic attractiveness for investment.

Asset is a resource with economic value that an individual, corporation or country owns or controls with the expectation that it will provide future benefit and are bought to increase the value of a firm or benefit the firm’s operations. You can think of an asset as something that can generate cash flow, regardless of whether it’s a company’s manufacturing equipment or an individual’s rental apartment (Defyimpossible, n.d.). Stable Asset Value portfolio seeks to preserve and increase the purchasing power value of investors over the long term through strategic investments in a broad array of different asset classes, regardless of current or future market conditions. The Stable Asset Value does not try to out-guess the markets or forecast future economic events, but rather commits a fixed percentage of its assets to six carefully chosen diverse and “low correlated” investment classes. Such diversification seeks to provide balance, liquidity and profit potential combined with the additional benefits of international diversification (Kendall, 2015).

The scenario envisioned by the BPI is about a five-year investment by a business or a saver-say, a private equity fund buying a stake in a foreign company. The BPI compares how local policies and conditions would affect the same investment in different countries. In other words, it asks how the value of the principal and the return will change depending only on where the investment is made. It also assumes that the investor reinvests the asset’s returns during the five-year period, then sells the asset and brings all the money home. In calculating the BPI, the first factor to consider is the growth of the asset’s value. The BPI starts with the International Monetary Fund’s forecasts for five years of economic growth, adjusted for inflation. The IMF’s primary purpose is to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with each other. The Fund’s mandate was updated in 2012 to include all macroeconomic and financial sector issues that bear on global stability (International Monetary Fund, 2004).

Implicitly, the BPI assumes that when an economy grows, a given chunk of that economy expands in equal proportion. Then the BPI discounts the asset’s value by the risk of a financial crisis or security issues that could hamper the investment. In other words, a default on sovereign debt or a civil war could derail economic growth enough to put a dent in the value of the investment’s principal and return. These risks are measured using Standard and Poor’s sovereign debt ratings and the World Bank’s Worldwide Governance Indicators for political stability and rule of law. Standard and Poor’s Dow Jones Indices are the world’s largest, global resource for index-based concepts, data and research. Home to iconic financial market indicators, such as the S&P 500 and the Dow Jones Industrial Average, S&P Dow Jones Indices has over 115 years of experience constructing innovative and transparent solutions that fulfill the needs of institutional and retail investors (Mc GrawHill, 2015).
Conceptual Framework

BPI is a contemporary tool used today to measure the country’s attractiveness to foreign investments. This index simply attempts to identify the relationship between the costs and benefits of a proposed investment. The BPI which drives the country to attract foreign investments is ultimately affected by the different factors as cited by Altman (2013) reflected in Figure 1. It includes corruption, physical security, capital control, financial stability, expropriation by the government, economic growth, exploitation by local partners, and exchange rate.

Corruption involves paying of bribes to corrupt government officials in exchange of getting favors in processing permits, investment licenses, tax assessments, and police protection—is viewed as an additional cost of doing business. Corruption can affect FDI directly by tarnishing the perception of stability and quality of a potential investment in host countries.

Physical security is the protection of human resources, infrastructure, networks, and information from physical conditions and dealings that could cause severe losses or destruction to an agency, enterprise or institution. It includes fortification from unwanted turn of events such as fire, natural disasters, burglary, theft, vandalism, and terrorism (TechTarget, 2015). Meanwhile, capital control restricts a certain investment for entering the country. Capital control restricts a certain investment for entering the country. Financial openness index is used to determine the level of restrictions on a certain investment for entering the country. Financial openness index is used to determine the level of restrictions on a certain investment for entering the country. Countries that are most financially open have unlocked foreign capital inflows and outflows in the domestic economy.

Financial stability is viewed as the ability to facilitate and augment the trade and
industry developments, manage threats and perils, and absorb distress. It is considered a continuum: changeable over time and consistent with multiple combinations of the constituent elements of finance (International Monetary Fund, 2004). The investors tend to be attracted when there is the set of policies and agencies designed to stop or reverse extensive, disintermediation from depositories, losses in, bank wealth, and bank failures constitute and the safety net system.

The investors also examine the expropriation of the government if the government may just take away the investment. Economic growth tends to attract investors as the market potential is present and the strength inflation measured by GDP price deflator. According to Richard E. Haskell in Real and Nominal GDP References, unlike some price indices, the GDP deflator is not based on a predetermined vat of goods and services. The basket is allowed to change with people’s consumption and investment patterns. GDP price deflator determines the country’s ability to reduce the price levels. Another factor that influenced the attractiveness of a country to foreign investment is the exploitation by local partners. Exploitation is the way the minority investors are protected inside the company whether partners from the host country are sincere and honest.

The exchange rate however also affects the country’s attractiveness. When a country’s domestic price level is escalating (i.e., a country experiences inflation), that country’s exchange rate must devalued in order to return to PPP (Purchasing Power Parity). Unless a country is a high inflation country, its PPP will tend to change slowly over time. Month-to-month changes in comparative price levels are more likely to be the result of exchange rate fluctuations (OECD, 2014). Purchasing Power Parity (PPP) was used to find out if the country has low inflation rate or high purchasing power. There are predicaments that constrained the countries in attracting foreign investments as based on their conditions, practices, and regulations. To scuffle over these, strategies and policies of the countries that are highly attractive to foreign investors were studied and analyzed based on these different factors that affect the foreign investment attractiveness. Such strategies are the basis of stemming down the concealed dimensions in attracting foreign investments. Adopting such through formulating recommendations for policy interventions will aid in building a global competitive advantage.

Methodology

Data Collection and Variables

This study mainly used secondary data which include FDI, BPI, CPI, GDP price, political stability and violence/terrorism index, financial openness index, IPRI, and PPP index (Table 1). The sources of data are the United Nations Conference on Trade and Development (UNCTAD) (2015), Foreign Policy Magazine (2015), Transparency International (2015), International Monetary Fund (2015), World Bank (2015), Chin-Ito, International Property Rights Index (2015), and the University of British Columbia, Sauder School of Business (2015), respectively. These factors drive the country to attract foreign investments based on the concept of BPI. This study did not include the data for financial stability and exploitation by local partners due to constraints of data availability. There were 110 countries used in the study as per data availability.

Data Presentation and Analysis

Descriptive analysis was carried out to determine the trend of FDI inflows and compare the amount of FDI inflows between developed and developing countries. Presentation and comparison of FDI inflows among ASEAN countries were also done as well as the distribution of developed and developing countries that are attractive
Table 1. Variables and its corresponding index measures used in the study.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Index Used</th>
<th>Definition</th>
<th>Source of Data</th>
</tr>
</thead>
<tbody>
<tr>
<td>FDI</td>
<td>FDI</td>
<td>Influx of foreign direct investments to the host country measured in terms of US$</td>
<td>UNCTAD</td>
</tr>
<tr>
<td>BPI</td>
<td>BPI</td>
<td>Relationship between the costs and benefits of a proposed project or investment. A ratio of 1.0 is plausibly the lowest acceptable measure on the index while any value lower than 1.0 indicates that the investment’s Present Value is less than its initial investment.</td>
<td>Foreign policy magazine (<a href="http://foreignpolicy.com/">http://foreignpolicy.com/</a>)</td>
</tr>
<tr>
<td>Corruption</td>
<td>Corruption Perception Index (CPI)</td>
<td>Measured how corrupt their public sector is perceived to be. A country’s territory score signifies the perceived level of public sector corruption on a scale of 0 to 100, where 0 is perceived as highly corrupt and 100 as “very clean” or least corrupt.</td>
<td>Transparency International (<a href="http://www.transparency.org/cpi2012/">http://www.transparency.org/cpi2012/</a>)</td>
</tr>
<tr>
<td>Economic Growth</td>
<td>Gross Domestic Product (GDP)</td>
<td>Reflects up to date expenditure patterns. Lower index value presages that the country has high ability to reduce the price levels. The smaller the value for this index, the better.</td>
<td>International Money Fund (World Economic Outlook Database) (<a href="http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/index.aspx">http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/index.aspx</a>)</td>
</tr>
<tr>
<td>Physical Security</td>
<td>Political Stability and Violence/Terrorism Index</td>
<td>Measured perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism (Worldbank, 2015). The index provides estimates on the quality of governance of a country which ranges from approximately -2.5 (weak) to 2.5 (strong governance performance).</td>
<td>Worldbank (World Governance Indicator (WGI) Project) (<a href="http://info.worldbank.org/governance/wgi/index.aspx#home">http://info.worldbank.org/governance/wgi/index.aspx#home</a>)</td>
</tr>
<tr>
<td>Capital Control</td>
<td>Financial Openness Index</td>
<td>It is used to measure a country’s degree of capital account openness. Positive value for capital control indicates that the country is most financially open and negative value specifies as least financially open.</td>
<td>The Chin – Ito Index (<a href="http://web.pdx.edu/ito/Chinn-Ito_website.htm">http://web.pdx.edu/ito/Chinn-Ito_website.htm</a>)</td>
</tr>
<tr>
<td>Expropriation by Government</td>
<td>International Property Rights Index (IPRI)</td>
<td>Measured in terms of the International Property Rights Index (IPRI) published by Property Rights Alliance Organization. Higher scores for this index denotes high protection of international property rights where private properties are only expropriated for public purposes in a non-discriminatory manner with reasonable compensation and in accordance with established principles of international law. Lower index values indicate otherwise.</td>
<td>International Property Index (<a href="http://internationalpropertyrightsindex.org/">http://internationalpropertyrightsindex.org/</a>)</td>
</tr>
<tr>
<td>Exchange Rate</td>
<td>Purchasing Power Parity (PPP) Index</td>
<td>Exchange rates impact, and are impacted by global trade in a free-market constitution that enables to maintain a balance of trade and balance of investment. High index values signify a low inflation rate and high purchasing power and low value indicates otherwise.</td>
<td>The University of British Columbia, Sauder School of Business, Pacific Exchange Rate Service (1996) (<a href="http://fx.sauder.ubc.ca/PPP.html">http://fx.sauder.ubc.ca/PPP.html</a>)</td>
</tr>
</tbody>
</table>
and unattractive to foreign investments measured regarding BPI. BPI values of ASEAN countries were also presented to compare the countries’ level of attractiveness to foreign investments. Correlation analysis among BPI and corruption, economic growth, physical security, capital control, exchange rate, and expropriation by the government was applied to determine if there exist a relationship between BPI and its factors. Cross-correlation was also done to determine the relationships among the factors. Spearman's rank-order correlation technique was used as normal distribution was not observed in some variables and linearity did not exist. Correlation used average values of the indices (from 2013 to 2015). Qualitative assessment was also used to examine the general characteristics of the countries (either developing or developed) with similar behavior based on the index values of each factor. These factors were studied and qualitatively analyzed to discern the commonalities of the countries and spot the practices, local policies, and strategies employed that made them highly attractive to foreign investments.

Results and Discussion

Flow of Foreign Direct Investments

Results show that developed countries have a relatively higher surge of FDI inflows from 1990 to 2013 (Figure 2). Countries with developed economies absorbed more than half of the world FDI inflows during these years. However, in 2014, developing countries started to draw in more FDIs. Developing economies captured around 57.74% ($681,386M) of the world FDI inflows during this period. There is an increasing trend of the influx of FDI both for developing and developed economies except in 2014. It was then that developed economies experienced a decline in FDI inflows (UNCTAD, 2015).

Many countries are trying to attract foreign investments in an attempt to uphold economic growth, leading to liberal changes in legislation of the respective countries aiming to make the process easier for foreign companies (World Economic Journal, 2013). Global FDI inflows declined sharply in 2001. World Inflows fell by 50% ($679,144M) which was due to slow down of fiscal activity in major industrialized economies and a jagged decrease in their stock market activity (UNCTAD, 2013). These combined to slow down new international investments particularly the cross-border mergers and acquisitions (M&A). Developed countries have borne the brunt of declining FDI influx of 59% ($664,500M), but developing countries have suffered only by relatively small 7% ($16,622M). In 2008, there was a sudden drop by 40% ($467,227M) of FDI inflows of the developed countries brought about by the global financial crisis. However, the
developing countries brought an increase of about 11% ($57,111M) in the same year. Although it experienced a reduction of around 21% ($122,010M) in 2009, it was able to recuperate after a year. There was an increasing trend of FDI inflows among ASEAN countries (Figure 3). From 1990-2014, it captured an average of 6% ($48,257M) of the global FDI inflows which started to draw in more in 2010 and after that with the highest influx in 2014 of 11% ($132,833M) (Figure 4).

Singapore by and large exhibited the highest amount of FDI inflows among ASEAN countries during these years. Singapore is very attractive to transnational corporations because of its strategic location and situated at the main crossroads of the world. It has excellent reputation, good network and infrastructure, employed a sophisticated banking system, and it has strong legal framework and attractive tax scheme (Trade Chakra, n.d).

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![Figure 4. The World and ASEAN FDI Inflows from 1990 to 2014. (Source: UNCTAD (2015))](image)

**Comparison of BPI Levels among Countries**

Developing countries are more attractive to foreign investments than the developed countries as per 2013 and 2015 data (Table 2 and Figure 5). In 2013, more than half (51%) of the developing countries have BPI values of at least 1.0 while only 47% for the developed. Developing countries are becoming increasingly attractive investment destinations because they can offer investors a range of created assets (Mallampally and Sauvant, 1999). One of the major criteria of transnational corporations in investing is the combination of cost, larger markets, and these so-called “created” assets that can help them maintain a competitive edge. Naturally, policies must be placed in the perspective of these created assets which include excellent communications infrastructure, improved marketing networks, technological change, and innovative capacity. These assets are vital for the firms to preserve their competitiveness in a very dynamic world. The rising importance of such assets is probably one of the most main shifts that have occurred among the economic indicators of FDI in open and globalized world economy. However, in 2014, more developed countries had improved their foreign investment attractiveness constituting 53% and only 43% for the developing. In 2015, more and more developing countries (61%) have improved BPI compared to the developed ones. India even surpassed Qatar which has the highest BPI of 1.34 (Foreign Policy Magazine, 2015). Among all developed countries, Italy has the lowest BPI from 2013 until 2015 among all developed countries while Venezuela is the most unattractive among all countries.

India became a top destination for foreign
Table 2. Frequency distribution of BPI of the developing and developed countries.*

<table>
<thead>
<tr>
<th>Economy</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>BPI &lt; 1.0</td>
<td>≥ 1.0</td>
<td>BPI &lt; 1.0</td>
</tr>
<tr>
<td>Developing</td>
<td>26 (49%)</td>
<td>27 (51%)</td>
<td>32 (57%)</td>
</tr>
<tr>
<td>Developed</td>
<td>27 (53%)</td>
<td>24 (47%)</td>
<td>25 (47%)</td>
</tr>
</tbody>
</table>

* Frequency distribution between developing and developed countries were computed based on the BPI values sourced from Foreign Policy Magazine (2015) (www.foreignpolicy.com) presented by Daniel Altman. ** Only 7 ASEAN member countries are included in 2013 and 2014 as per data availability. Cambodia has no data for 2015.

Investments in 2015 and was ranked as sixth and 5th among all other countries in 2013 and 2014, correspondingly (Foreign Policy Magazine, 2015). In 2014, India had drawn 83.6% ($34,416M) of all South Asia’s FDI inflows, 5.1% of that of the total FDI inflows of developing economies, and covered 2.8% of the global FDIs (UNCTAD, 2015). As reported by Viswanathan (2015), the country has low inflation rate, business in their country is easy, there is a better domestic stability, it has a favorable external environment, and their research and development are booming. Meanwhile, Italy’s high level of public debt, negative economic growth, and rising sovereign debt yields caused it to lag behind many industrialized nations as a recipient of FDI (Bureau of Economic and Investment Affairs, 2013). In the intervening time, Venezuela’s economic and political uncertainties, history of actual and vulnerable nationalizations, increasing state intercessions in the financial system, and an increasingly limiting and solid legal framework made its investment climate considerably less welcoming. Italy’s FDI inflows from 2013 to 2015 accounted only at 0.01% ($92.5M), 3.6% ($25,004M), and 2.3% ($11,450M) of the total FDI inflows of the developed economies, respectively (UNCTAD, 2015). In the interim, all countries who are members of ASEAN perform better in drawing in foreign investments in 2015 as indicated by their BPI values (Figure 6). Singapore topped among them from 2013 to 2015 with highest BPI in 2015 of 1.22 and ranked as third all-inclusive. The Philippines is at the bottom list. It shows that the Philippines lagged behind attracting the influx of foreign investments.

As reported by the US Department of State (2015) on its investment climate, the country’s bureaucracy is difficult and opaque, business registration and procedures are slow and burdensome. Investors are mostly concerned about the foreign ownership restrictions, poor infrastructure which includes very high power costs, and corruption. As Manila’s main airport operates at maximum capacity, traffic and port congestion added to this oppression. Only in 2014 that the Philippines was able to exceed Indonesia. Nevertheless, all ASEAN members in 2015 have BPI exceeding 1.0. In the same year, only Singapore and Malaysia made it to the top 10. It did not include Cambodia in 2015 due to unavailability of data as noted by Altman (2015). ASEAN countries started to draw in more FDIs starting 2009 and became a top destination for foreign investments as companies have enjoyed the advantage of lower labor cost compared to their home countries.
Table 3. Spearman’s correlation of BPI and its Factors.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Spearman’s Correlation</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>BPI*Corruption</td>
<td>0.323</td>
<td>0.001**</td>
</tr>
<tr>
<td>BPI*Physical Security</td>
<td>0.297</td>
<td>0.001**</td>
</tr>
<tr>
<td>BPI*Exchange Rate</td>
<td>0.034</td>
<td>0.83</td>
</tr>
<tr>
<td>BPI*Capital Control</td>
<td>0.29</td>
<td>0.002**</td>
</tr>
<tr>
<td>BPI*Expropriation by Government</td>
<td>0.283</td>
<td>0.002**</td>
</tr>
<tr>
<td>BPI*Economic Growth</td>
<td>-0.171</td>
<td>0.072</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level **Correlation is significant at the 0.01 level

Correlation of BPI and its Factors

Correlation analysis reveals that among the factors, corruption, physical security, economic growth, and the government expropriation have high association with BPI (Table 3). It shows that there is a positive correlation between BPI and corruption, physical security, capital control, and expropriation. It signifies that a country perceived to be clean of corruption is more attractive to foreign investors. Countries labeled as “very clean” including Denmark, Finland, Sweden, New Zealand, Norway, Netherlands, Switzerland, Singapore, Canada, Germany, United Kingdom, Australia, and Iceland have taken actions to combat corruption. These countries employed hard punishments against inducement of government officials as well as those accepting bribes are strictly imposed. They are also signatories to the United Nations (UN) Convention against corruption and the Organization for Economic Cooperation and Development (OECD) Anti-Bribery Convention. Also, their national governments have strongly amended their own anti-corruption measures (Bureau of Economic and Business Affairs, 2015). These countries have successfully lowered down government’s dishonesty and made it attract more foreign investments except for Switzerland and Iceland. The taxation in Switzerland is more burdensome at the cantonal levels than at the federal level. It implies that the country has an oppressive regulatory scheme which discourages offshore investments. It could affect the openness to financial inflow which limits and restrict the capital control of the country (The Heritage Foundation, 2016).

While many countries are contesting corruption, others were labeled as “very filthy” where corruption is immense and raging. These include Nigeria, Bangladesh, Kenya, Papua New Guinea, Uganda, Congo, Congo DR, Cambodia, Venezuela, and Angola where implementation of anti-corruption laws is very feeble. The level of the attractiveness of these countries is also very low except for Bangladesh, Kenya, and Uganda. Despite having a highly corrupt government, they were still able to attract more foreign investments. Uganda remains to be attractive as there is no minimum capital requirement (Oling, 2014). While Kenya’s economy which is dubbed as one of Africa’s most developed countries has gradually emerged from political instability and the economic slowdown. Developments to improve management of public investment and boost regulatory efficiency have continued. Therefore, it can be deduced that although there are countries who perceived to be highly corrupt, they still managed to attract foreign investments because of their friendly regulatory scheme to foreign investors in starting up a business.

Similarly, a country with strong governance denotes higher attractiveness to foreign investors. Physical security also coerced one country’s attractiveness to foreign investments as investors avoid taking risks investing in countries where there is physical violence (rallies) and investment dispute settlements. Countries such
that of New Zealand, Barbados, Austria, Finland, Switzerland, Iceland, Singapore, Canada, Norway, and Hong Kong have implemented strong competition laws that investigate anti-competitive conduct that prevents, restricts or distorts competition. Their government asserted the recognition and enforcement of a secured interest of real property and intellectual property, implemented legislation for the World Intellectual Property Organization (WIPO), and maintained the stability of political violence (Bureau of Economic and Business Affairs, 2016). Amongst all, Singapore is still the most attractive, followed by Hong Kong, Canada, and New Zealand where Barbados and Switzerland are still not as attractive as others. Hong Kong has been an eye-catching destination because their legal system is trusted, tried and tested by international business. Switzerland however, is still hampered by its burdensome regulatory scheme and obtaining necessary permits for offshore businesses remains time-consuming in Barbados. Therefore, it is not an assurance for the country to attract more foreign investors by having strong governance only; it must also consider other factors such as clear legal and regulatory framework for foreign investments.

On the contrary, Russia, Congo, Ecuador, Nigeria, Belarus, Papua New Guinea, Italy, Lebanon, Angola, Congo DR, Argentina, and Venezuela have very weak governance. These countries have no competition law, and law is weak per se, the dispute settlement is slow, Intellectual Property (IP) protection is weak, and politically unstable. Also, India, Israel, Turkey, Colombia, Ethiopia, Kenya, Egypt, Lebanon, Nigeria, Congo DR, and Pakistan also faced with the main challenges in implementing the Competition Law as this lack of enforcement capacity and stability on political violence is poor such as terrorism and related rebellious movements. Nonetheless, India was still able to attract high inflows of FDI despite these constraints due to its better management of public finance and improved business and investment environment (The Heritage Foundation, 2016). It implies that a country with weak governance but financially stable and with friendly investment climate could still attract foreign investors.

At the same time, Venezuela, Congo DR, Kazakhstan, Turkey, Costa Rica, Barbados, Angola, Argentina, Dominican Republic, Zambia, and Ethiopia are experiencing political turbulence that led foreign businesses to limit their operations. The weak rule of law remains a powerful disincentive to expanding economic activity (Bureau of Economic and Business Affairs, 2015). Among these countries, Sweden and Ireland remained to be attractive. According to Salam (2010), Sweden’s strength lies greatly in its governance because of its being a successful social welfare-oriented country. People have much consciousness about keeping their values which include democracy and human rights as well as much interest for global issues. Meanwhile, Ireland’s low corporation tax of 12.5% has been central to encouraging trade investment. Loose tax residency requirements also made Ireland a common destination for intercontinental firms seeking to avoid taxation. Regardless of having too low purchasing power among these countries, still they were able to attract more foreign investments because of strong governance, secured investment environment, and low-level taxation.

### Cross-Correlation of the Independent Variables of BPI

Results of cross-correlation among the independent variables of BPI show that corruption has strong link with physical security (Table 4). It indicates that when a country is very corrupt, its physical security is worst or poor. According to Carnegie Endowment for International Peace (2014), corruption also called as “elite bargains” is seen by many analysts as constituting factor of stability. The security implications of acute corruption are likely to outweigh its potential advantages. One of the major threats of
Table 4. Spearman’s correlation among independent variables.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Spearman Correlation</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corruption*Physical Security</td>
<td>0.792</td>
<td>0.000**</td>
</tr>
<tr>
<td>Corruption*Exchange Rate</td>
<td>-0.181</td>
<td>0.246</td>
</tr>
<tr>
<td>Corruption*Capital Control</td>
<td>0.789</td>
<td>0.000**</td>
</tr>
<tr>
<td>Corruption*Economic Growth</td>
<td>-0.653</td>
<td>0.000**</td>
</tr>
<tr>
<td>Corruption*Expropriation</td>
<td>0.827</td>
<td>0.000**</td>
</tr>
<tr>
<td>Physical Security*Exchange Rate</td>
<td>-0.215</td>
<td>0.166</td>
</tr>
<tr>
<td>Physical Security*Capital Control</td>
<td>0.976</td>
<td>0.000**</td>
</tr>
<tr>
<td>Physical Security*Economic Growth</td>
<td>-0.51</td>
<td>0.000**</td>
</tr>
<tr>
<td>Physical Security*Expropriation</td>
<td>0.632</td>
<td>0.000**</td>
</tr>
<tr>
<td>Capital Control*Economic Growth</td>
<td>-0.515</td>
<td>0.000**</td>
</tr>
<tr>
<td>Capital Control*Expropriation</td>
<td>0.622</td>
<td>0.000**</td>
</tr>
<tr>
<td>Capital Control*Exchange Rate</td>
<td>-0.237</td>
<td>0.127</td>
</tr>
<tr>
<td>Exchange Rate*Economic Growth</td>
<td>0.326</td>
<td>0.033*</td>
</tr>
<tr>
<td>Exchange Rate*Expropriation</td>
<td>-0.146</td>
<td>0.352</td>
</tr>
</tbody>
</table>

*Correlation is significant at the 0.05 level **Correlation is significant at the 0.01 level

this as cited by Carnegie Endowment for International Peace (2014) which is often underestimated is that it can ignite its victims and the likelihood that some will express that rage in violence or destabilizing ways. Every country that docks a radical mutiny today suffers from kleptocratic governance including such apparent outliers as the Philippines and Thailand.

Capital control likewise has a strapping link with physical security and corruption. Results suggest that a country with strong governance are most financially open which means that the inflow and outflow of foreign funds in the domestic economy is open while those with weak governance are least financially open with tight or limited capital control. Same is true with corruption. Countries that are highly corrupt are least financially open while those that have low levels of corruption are most financially open. In the study conducted by Forbes (2007), firm’s ability in some countries to evade the capital controls was widespread which resulted in increased corruption and lowered economic efficiency. Countries with weak institutions, especially a weak rule of law and high levels of corruption would less likely be able to implement and enforce capital controls. Capital control can increase incentives for corruption and undermine institutions if the government officials have the opportunity to collect rents.

A high correlation was also observed for economic growth with physical security, capital control, and corruption wherein these three factors are highly associated with each other as mentioned. As reported by The Heritage Foundation (2016), countries that have the openness to global trade and investment improved their economic growth. In the same report, it was also noted that a country with free of corruption provides strong shield of property rights and supports the rule of law which consequently lead to improving the economy. Those countries such as that of Venezuela, Congo DR., Kazakhstan, Argentina, and many others which are experiencing political turbulence are lagging behind economic growth. According to the Bureau of Economic and Business Affairs (2015), the weak rule of law remains a powerful disincentive to expanding financial activity.

Government expropriation is also found to be highly correlated with corruption, physical security, and capital control. As mentioned, those countries that have a very low or negative expropriation index have very low protection of the property rights of the foreign
investors. However, exchange rate shows no significant relationship with BPI and all other factors included in the analysis except for economic growth. It explains that there is a positive connection between exchange rate and economic growth. As cited by Rodrik (2008), a high real exchange rate fuels economic growth particularly for developing countries. Poorly managed exchange rates could hamper the economic growth of the country.

Conclusion

The countries must recognize the importance and real essence of foreign investment as it helps the competitiveness of the economy as a source of newly developed technologies, capital, and management expertise. Some of the developing and developed countries excelled and demoted regarding foreign investment as their individual intervention strategies affect the attractiveness positively and negatively. BPI assesses the attractiveness of a country in terms of foreign investment. The employed strategies of countries that are highly attractive in the setting of BPI are the basis for the policy interventions to increase the FDI inflows of a certain country and in building global competitive advantage. Corruption, physical security, capital control, and expropriation by the government directly affect one country’s attractiveness to foreign investments.

Recommendations

The employed strategies, local policies, and practices of those countries that are highly attractive to foreign investments were used in developing recommendations to alleviate the country’s attractiveness to foreign investments. The realm should impose strong implementation or execution of anti-corruption laws. These laws must strongly be executed where there must be massive actions wherein the people and other countries recognize and feel the solemn of government power by suppressing high officials and huge money laundering. Hard penalties must be toughly enforced to threaten and slacken the criminals and manage to have effective international legal instruments against corruption like the United Nations Convention against Corruption and the OECD (Organization for Economic Cooperation and Development) to have support and in advance new corruption measures internationally. By this, the country eradicates the corruption concerns and can be a stimulus to other countries that are still struggling against the latter said. Secondly, a country should have a presence of effective competition laws and Intellectual Property protection laws. The government must secure the safeness and peace of the people in the country as it affects the foreigners as well as investors in considering by entering the country. For the security of investors, the country must have an effective and efficient competition laws initiated that investigate anti-competitive conduct that prevents, restricts or distorts competition (monopoly). The government makes out and should also strongly recognize the secured interest of real property and intellectual property or implementing the legislation of the World Intellectual Property Organization (WIPO). The government should also protect the private property rights in which only expropriated for the public principles (eminent domain) in a fair manner with sensible compensation and by principles of international law. The government must maintain the stability, steadiness, and solidity of the regime power in which there must be no political violence like the coup, disagreement between high-ranking leaders and parties in national elections, horrible rallies and others. There must be an effective competition laws that will focus on preventing the anti-competitive concerns and in preventing monopoly in the market. Thirdly, a country must establish a clear policy and legal framework for investments. There must be a ratification and implementation of binding international
arbitration instruments for the settlements of investment disputes. The government is encouraged to be a signatory of the major international arbitration conventions such as Washington and New York Conventions and regional arbitration conventions (such as Olivos Protocol for the Settlement of Disputes in Mercosur, the ASEAN Protocol on the Dispute Settlement Mechanism). The national legislation, regulations, and enforcement systems should be put in place so that parties can choose to commit themselves irrevocably in arbitrating international disputes and so that foreign arbitral awards are recognized and enforced by local courts without undue delay. The government should also promote transparency of international arbitration without compromising the confidential businesses and government information.

Fourthly, a country must maintain the stability of the financial system. The Central bank of the regime could be the primary regulator of the money and banking system and the supreme authority for framing the policies for the regulation and supervision of all financial services and markets in the country. A well-developed crisis management arrangement for handling distressed financial institutions must be established such that public confidence in the financial system is not diluted. The government must impose strategies to regulate its financial system. A country must also recognize the international standard in financing (i.e., The International Accounting Standards Board (IASB)) and its predecessor, the International Accounting Standards (IASC) which mandated to develop International Financial Reporting Standards (IFRS)).

Fifthly, burdensome regulatory system and restrictions on foreign exchange dealings must be controlled and limited. The capital control of a particular country should have a legal framework and clear public policies that are favorable toward foreign investors. There must have no laws or practices that discriminate against foreign investors by prohibiting and limiting or conditioning foreign investment. There should be a certain government authority responsible for investment that will focus on foreign investment. The government should also thrive to establish Foreign Trade Zones and manage to be a colleague of the World Trade Organization (WTO). Regulations of foreign investments should be open to international standards. A country must also employ a simple taxation system or loosen tax residency to encourage offshore businesses. A country must also establish efficient and competitive regulatory and registration system with no minimum capital requirement. Lastly, a country should be able to offer well-developed and improved infrastructure.

The recommendations presented could be used as a basis in framing policy interventions to increase inflows of FDI of the host country and help the country build global competitiveness. These are based on the issues identified that hinder the country from pulling in foreign investors in the context of BPI.

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