How global political tensions have affected the venture capital and private equity landscape

Selected countries see a boost in attractiveness as investors turn away from powerful giants and conflict zones.



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- **Countries such as South Korea, India and Brazil perform well as investors**

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turn away from countries facing political uncertainty and security issues.

- **Central Eastern Europe is also seeing a boom, with Czechia (the Czech Republic), Latvia, Croatia, Lithuania and Romania moving forward strongly.**
- **Spain, although moving down a spot, continues to be in the top quarter and shows consistent stability over the past five years.**

The United States and the United Kingdom remain the most attractive private capital markets, according to the 11th edition of the Venture Capital (VC) and Private Entity (PE) Country Attractiveness Index. At the same time, the report suggests investors should pay attention to selected other countries — particularly in Central Eastern Europe, the Middle East and Asia, as well as India and Brazil — and turn away from countries facing political uncertainty and security issues.

For almost 20 years, IESE Business School has tracked the socioeconomic and institutional developments of 125 economies, ranking a majority of the world's countries according to their investment attractiveness. The countries are given a score based on a large quantity of "available, transparent and aggregated socioeconomic data." The ranking criteria are based on academic literature, surveys of institutional investors and econometric analyses covering six key drivers:

- Economic activity (economy's size, GDP growth, employment)
- Depth of capital markets (market size, access to alternative funding routes, lending and IPO activity, health of banking system)
- Taxation of the corporate sector
- Investor protection and corporate governance (property rights protections, quality of legal enforcement)
- Human and social environment (education, labor practices, corruption)
- Entrepreneurial culture and deal opportunities, especially important for a VC environment (innovation, scientific output, ease of starting a business, corporate R&D)

Notable changes from 2021 report

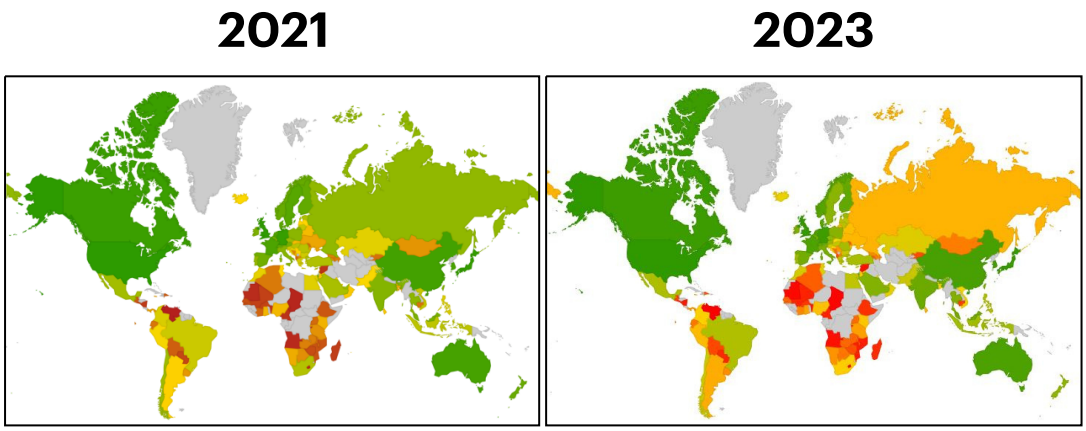
The U.S. has retained its No. 1 ranking and a score of 100, which it has held in all previous index editions. On the other hand, the U.K., while also maintaining its No. 2 spot, has seen a continuous decrease in its score since Brexit — from 95.5 to 88, narrowing the gap with No. 3 Japan (86.8) and No. 4 Canada (86.6). And Spain, although moving down a spot (to No. 21),

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continues to be in the top quarter, showing consistent stability over the past five years.

A notable rising star among the top 10 countries is South Korea, which moved up to rank No. 6 (from No. 9), placing itself above Singapore, China and Australia. South Korea is traditionally strong in innovation and entrepreneurial culture, and is currently switching from an emerging economy to an institutional capital one (typically countries that are home to a significant number of institutional investors who allocate capital to PE and VC funds).

India has significantly improved its position, rising by eight ranks to No. 18. According to the index, it's faring better than many other emerging economies. Central Eastern Europe is also seeing a boom right now, with Czechia, Latvia, Croatia, Lithuania and Romania moving forward strongly.



Geopolitics affects how investors behave

Many of the results from this year's index mirror what we see in the news.

The past few years have been filled with coverage of armed conflicts, territorial disputes and political uncertainty from many corners of the world. Regions are more polarized than at any other point in recent history, and that can have far-reaching economic, geopolitical and security effects.

In turn, investors may prefer to take their capital elsewhere — particularly to selected countries that are staying away from international conflicts, such as Vietnam, South Korea, Thailand, Indonesia and Japan. Australia is also seeing spillover effects from the Southeast Asian region, and it is gaining attraction.

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In Latin America, political constraints and corruption remain obstacles in drawing VC and PE interest. Most countries performed worse this time around than in the previous index, with Brazil being the exception, which moved up eight spots in the ranking to be at No. 39, right behind Mexico.

At the end of the day, different countries may attract investors for a variety of different reasons — whether it's tax incentives, a strong entrepreneurial culture or extensive business deal opportunities. The index provides data for decision-makers to analyze, drawing from their own experiences in their corresponding fields.

About the report

The Venture Capital & Private Equity Country Attractiveness Index, along with its accompanying report, is prepared by IESE's Heinrich Liechtenstein, Karsten Lieser from eXapital, and independent researchers Markus Biesinger and Alexander Groh. The report's interactive website can be used to learn more about the individual countries — with graphs, in-depth analyses and benchmarking tools.

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