Riders on the storm: measuring and managing nonmarket risks
The Esade Center for Global Economy and Geopolitics (EsadeGeo) performs research on economic globalization and its interactions with geopolitics and global governance, creating knowledge on the links between business, economic and social leadership, social realities, and global governance. Its staff, including expert researchers, also provides an interdisciplinary forum where scholars and political, business, and social leaders actively debate international matters and their local impact.

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FTI Consulting, Inc. is a global business advisory firm dedicated to helping organizations manage change, mitigate risk, and resolve disputes: financial, legal, operational, political & regulatory, reputational, and transactional. With more than 5,800 employees located in 27 countries, FTI Consulting professionals work closely with clients to anticipate, illuminate, and overcome complex business challenges and make the most of opportunities.

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The world is living through times of turmoil. Climate change is felt and economic adjustments are needed now in order to guarantee humanity’s survival without major disruptions. The long-term response given to the economic effects of the ongoing Covid-19 crisis may determine the future of global trade flows for a whole generation. This creates a challenge for companies, which find it increasingly difficult to operate in circumstances in which certainty seems a thing of the past and an attitude change as regards the energy transition is required.

Firms and businesses are first and foremost economic agents. Nevertheless, they also play significant social, political and environmental roles in the societies in which they operate, and this has become increasingly relevant to multinational companies in recent years. There are multiple reasons for this, including trade tensions and state capitalism, the end of the neoliberal consensus, climate change and the energy transition, as well as external shocks to the economy like the recent coronavirus outbreak. These give way to challenges but opportunities too; to losses, but gains too.

Politics has become polarized in recent years, and challenges of large proportions have appeared to the liberal world order: from the rise of Twitter politics to Brexit, WTO paralysis or the appearance of strongman politics throughout the globe and across different political systems, and, in the case of democracies, ideologies too. Covid-19 has undoubtedly become a defining moment for this century, too.

While this turmoil poses great risks for businesses, these will vary depending on an industry, a firm’s size, its strategy, and markets. The changing and uncertain landscape may also present some opportunities even.

Taking this into account, businesses tend to carefully define and implement their nonmarket strategies, defined as a way of pursuing strategic goals through political and social leverage. While lobbying is certainly a part of a company’s nonmarket strategy, this strategy also includes corporate social responsibility, sustainability, risk management, reputation and values. It must consider both the company’s actions, and the regulatory frameworks in which it operates.

Research shows that political uncertainty is important to business because it reduces economic activity (Harford, 2020). Political uncertainty tends to delay business decisions, as companies try to avoid it. Faced with two possible scenarios, business will avoid the more uncertain. Similarly, businesses faced with uncertainty will adopt a “wait and see” strategy prior to making significant choices — such as carrying out big investments, entering a new market or adopting new internal sustainability rules.

Business recognizes the relevance of nonmarket uncertainties. Indeed, nine of the Top 10 Business Risks identified by the World Economic Forum for the year 2020 are political nonmarket risks. These include governance failure, fiscal crisis, natural catastrophes and interstate conflict.

Evidently, business recognizes the relevance of nonmarket uncertainties. Indeed, nine of the Top 10 Business Risks identified by the World Economic Forum for the year 2020 are political nonmarket risks. These include governance failure, fiscal crisis, natural catastrophes and interstate conflict. Though not all, many nonmarket risks are associated to the rise of geopolitical tensions. While interstate cooperation dominated global politics during the liberal order, zero-sum games are increasingly common at the international level.

In light of this, FTI Consulting and the Esade Center for Global Economy and Geopolitics (EsadeGeo) decided to join forces and expertise to provide answers to businesses on which are these nonmarket risks, which ones cause bigger concerns to them, and how nonmarket risks can be managed. We have attempted to identify the main nonmarket threats to businesses, formulate the challenges that these represent to a business’s operations, and analyze what opportunities arise from them in light of these changes to the global nonmarket context.

This report, the result of said collaboration, attempts to give an answer to the following questions:

→ What are the main nonmarket risks faced by Spanish multinational companies?

1 See http://markets.ft.com/research/Lexicon/Term?term=non_market-strategy for further details.
→ What nonmarket risks apply to each of the countries in which they operate?
→ What nonmarket strategies are being adopted by Spanish multinational companies to manage these risks?

Our first and third questions have been addressed qualitatively through the conduction of a series of interviews with leading Spanish multinational companies, all world leaders in their fields. In these interviews, we asked them what their main nonmarket worries were, what strategies they were adopting to handle their nonmarket risks, as well as the operational and decision-making structures within their companies behind these strategies. The sample includes firms in the insurance, banking, energy, infrastructure management, telecommunication and heavy industry sectors, and the people interviewed have been a combination of chief risk officers, strategic planners, public affairs managers and/or communication officers.

Our second question has been addressed quantitatively through the creation of our own, open-sourced Nonmarket Country Index, which aggregates existing indicators from internationally reputed sources. These indicators have been aggregated in light of the main nonmarket risks identified by us, our sample, as well as other international sources. We thus aimed to build a parsimonious open-source nonmarket-centered index.

While a draft index was created to present during our interviewees, the final one has been refined to bring their input on board. The Nonmarket Country Index covers and ranks all world countries by variable (i.e. each nonmarket risk) as well as across the board. Higher overall values mean better governance, more political stability and more legal certainty. The rationale behind the creation of a new Index is twofold: on the one hand, we want to ensure its availability to firms and the general public by making it open-source; on the other hand, while many issue-specific indexes already exist, to the best of knowledge there is no all-encompassing index for nonmarket risks yet. Furthermore, it is our intention to extend our sample to multinationals from other companies in future editions, thus improving our current metrics by considering the qualitative preferences of other countries’ multinational companies. Ultimately, we see our index evolving to become a global, trustworthy and widely used measure of a country’s nonmarket stability for firms operating all around the world.
Executive summary

The EsadeGeo/FTI Global Nonmarket Management Report presents three major contributions: it identifies the main nonmarket risks perceived at the global level by Spanish multinational firms; it presents an open-source Nonmarket Country Index based on the main risks and issues previously identified; and it produces a study into how major Spanish multinational companies strategically manage global nonmarket issues.

Major global nonmarket risks

The qualitative component of our analysis identified the following main risks:

→ Fragile political environment and especially political uncertainty in developed economies: This is particularly relevant for utilities and infrastructure development firms. The growth of populism and sovereigntists are very salient political risks.

→ Polarized politics, linked to social unrest (as is the case across Latin America), is also a present risk. Firms described how these situations were negatively affecting their business in Chile or Colombia.

→ Companies also highlighted authoritarian politics and regional competition as another source of risk. Egypt, Libya and the Arab peninsula are cases in point.

→ Trade governance uncertainty as per the use of sanctions (including secondary ones) and tariffs, as well as the WTO Appellate Body’s paralysis. This presents a clear disruption to the global value chains and operations.

→ New transversal regulatory waves related to climate change and to digital/data governance are both of high priority to firms.

→ Related to the digital/data governance policies stated above, cyber security and data breaches also attract lot of attention at the highest level in interviewed firms.

→ Coronavirus, both as a pandemic creating a public health threat, and as one of the most significant economic disruptions of our time.

Among these, trade wars, climate change and cyber security are the most salient risks, identified as significant by virtually all our interviewees.

Nonmarket Country Index

Partly based on the risks identified by the firms we spoke to, we have produced a new index to measure nonmarket risks by country throughout the globe. While many indexes and indicators already provide valuable information, we believe in the need for a new index because of two reasons: firstly, because most risk indexes are not open-source and are thus difficult to access; secondly, because the current ones are usually issue-centric and too specific, or too broad and general. Methodology-wise, score calculations tend not to be clear, and often rely on an index’s foundation on surveys in which it is impossible to overcome bias. Keeping all this in mind, we have strived to create an index that captures all variables we believe to be of importance for international business, while guaranteeing the index’s parsimony.

This is the Nonmarket Risk Index’s structure:

→ Socio-institutional sub-index: crime, rule of law, corruption and legal certainty.

→ Infrastructure sub-index: connectedness, investment, climate and cyber vulnerability.

→ Economic sub-index: social exclusion, market growth, macro-economic stability and fiscal robustness.

The ranking shows useful insofar as it provides empirical proof of countries’ nonmarket security for international businesses, and the results are oftentimes different to what members of these businesses’ boards claim to have expected.

On top of ranking all countries in the world for which data exist (a minimum of 125 countries in each of the index’s twelve components), we apply it to four groups of two comparable countries, in which all eight are amongst Spain’s top trade partners outside of the EU bloc:

→ Group 1: Major powers in the developing world (China and Russia)

→ Group 2: Mediterranean powers (Morocco and Turkey)

→ Group 3: Latin American regional powers (Mexico and Brazil)

→ Group 4: Major powers in the developed world (United Kingdom and United States)
We observe that, overall, both countries in each of the four groups show similar behavior in their overall scores and sub-index trends.

From best to worst:

→ Overall index: US, UK, China, Russia, Turkey, Brazil, Morocco, Mexico.
→ Socio-political sub-index: UK, US, Morocco, China, Brazil, Russia, Turkey, Mexico.
→ Infrastructure sub-index: US, China, Russia, Turkey, UK, Mexico, Brazil, Morocco.
→ Economic sub-index: US, UK, China, Russia, Mexico, Turkey, Brazil, Morocco.

Different trends can be observed between 2011 and 2018. On aggregate, the groups come evenly distributed. Morocco’s higher ranking than either Mexico or Brazil may account because of the latter’s geographic position and trade integration with the European Union.

The socio-political sub-index shows worrying trends, as all countries’ scores decrease within that period, except for Morocco which shows a slight upward trend – though its 2018 score is also lower compared to 2017.

Infrastructure sub-index scores show the better performance of China, Turkey and Russia with respect to the UK, whose infrastructure could at first value be assumed to be more resilient. With Brazil as an outlier, market and geographic size seem to have a positive impact on ranking.

Finally, economic sub-index scores mostly correlate economic development and size, though once again Brazil underperforms because of its complicated political situation and its lack of economic openness.

Strategies and tools to deal with nonmarket risks

The qualitative fieldwork sheds light on several strategies used by major Spanish internationalized firms. A key strategy is geographic portfolio management. We find three main types of portfolio management strategies: The enduring strategy, where firms are quick to take advantage of opportunities and seldom exit a country; the balancing strategy, where firms diversify their portfolio by limiting exposure to certain countries (in some cases by using joint-ventures with a domestic player); and the avoidance strategy, where the firm does not enter certain environments or exits them when deterioration happens.

Other strategies used by firms to manage the international nonmarket environment are transferring risks via swaps or insurance; the virtual relocations of regional HQs; engaging in public policy not only at the country level but also at the global governance level; and participate in supranational business associations and international business fora.

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Lastly, the study looked at the tools that firms use to identify and analyze risks. One key distinction is whether the firm has a strong inhouse research unit or not. In those firms that had, these units would produce three types of intelligence: macro-economic, political, and social scenarios; precise measures for financial risk premiums; and reports regarding specific public policies. These different products feed into different management processes such as planning, investment decisions, or public affairs.

External sources of intelligence include generic economic and political news outlets; reports by think tanks and multilateral organizations; sector-specific publications; political risk and intelligence firms; public affairs and strategic communications firms; and, lastly, informal information gathering with experts or peers.
The structure for managing global nonmarket risks

In exploring how firms strategically manage the above nonmarket risks and issues, we particularly zeroed in on how the firms organized themselves. Several units directly manage these risks.

*Business unit managers are the primary manager of nonmarket risks*, as they can identify monitoring and acting on the risk.

Three basic support units are also fundamental in managing nonmarket risks: *communications, public affairs, and legal services*. These either support business units in managing nonmarket risks or manage some of these risks directly on their own. Interestingly, we found two main structural models in relation to these units: either public affairs joined up with communications but separate from the legal department, or public affairs joined up with the legal department but separate from communications. For multinational organizations, personnel and operational *Security Units* are also important in managing the nonmarket risks.

Enterprise risk management (ERM) identifies all risks, prioritizes them, and assigns a manager/owner of each risk. It constitutes the firm’s second “defense line” and serves as an integrating system related to all risks. We find two types of structural fit: ERM closely linked to the nonmarket corporate functions of communication, public affairs and so forth. And another one where ERM is subordinated to finance.

Overall, our findings point to a pretty well-established division of responsibilities between HQ and regions or country leadership. Everything national is led and managed nationally. On the contrary, cross-national issues are led by headquarters.

While there often is a lack of formalized structures for nonmarket risk management, these trends are cross-cutting and can be observed in most surveyed companies.

We also identify those mechanisms and units which bring it all together and integrate the different moving parts and the diverse knowledge, and thus help coordinate the firm’s responses. The C-suite (Management/Steering/Executive Committee) and the Board are central to the management of the issues we cover in this report. These two decision-making unit have the last say in investment decisions, risk management, and strategy-making. Another key role played by board and management is that of taking a holistic view of the nonmarket environment.

Additional coordination and integration mechanisms include: the use of committees that help coordinate transversally across business units, corporate units, and other support units. Dotted reporting lines are used to approximate matrixial coordination, where a manager has a vertical solid line to the country manager and dotted line to a support or horizontal function (such as risk or public affairs). Informal coordination also occurred often, in particular between corporate units and business units.
This report

The report is structured as follows:

**Part 1** presents the nonmarket risks identified during the interviews with top managers (Chief risk, public affairs, communications officers). These findings partly informed the construction of the Nonmarket Country Index.

**Part 2** presents the Index, made up of three sub-indexes, each of which has four components. They are all based on open-source data, and cover as many countries as we have data for (a minimum of 130 in all cases). This part also presents the application of this index’s values to eight case studies, all among Spain’s largest non-EU trading partners: the United States, the United Kingdom, China, Russia, Turkey, Morocco, Mexico and Brazil.

**Part 3** is divided into two sections: the first one analyzes the nonmarket strategies adopted by our sampled companies, delving into their main concerns and reasons for doing so. The second one looks at how companies adopt, implement and follow up on their nonmarket strategies and at the organizational structures set up by our sampled companies. These two chapters are mostly descriptive for the time being, but may evolve into recommendations in future editions, as our sample increases its size and diversity.
1. Global uncertainties: a qualitative analysis of corporate views

In this first section we present part of the qualitative analysis we have carried out to understand which are the nonmarket uncertainties and risks that global businesses have in the top of their agenda.

We have conducted interviews\(^2\) with the chief risk, public affairs and/or communications officers of [15] IBEX-35 Spanish owned companies with a global footprint\(^3\), which develop their activity in the energy, infrastructure, telecommunications, construction materials, and insurance space.

What are the most pressing risks according to business?

Through interviews, we explored the main nonmarket risks that each of the firms in our sample encountered, according to their own internal criteria. The results vary in accordance to each of the interviewee’s context and sector. Nevertheless, the following across-the-board risks emerged from our interviewees, giving us a good picture of the main nonmarket risks considered by Spanish multinational companies.

Political instability in both developed and emerging countries entails risks for the firms we interviewed. However, the most pressing risks according to our interviewees, at least in the medium to long-term, involve the increasing significance of trade wars, particularly between the United States and China, and the incidence of climate change in business operations.

It is worth noting that the latter one refers to natural disasters linked to global warming, rather than energy transition processes.

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\(^2\) Prior to our interviews we analyzed the company’s (i) revenues by location, in order to explore their main markets throughout our discussion; (ii) organizational structures, corporate boards and risk management practices—when available from public sources such as the companies’ corporate profiles, web pages, annual reports and regulatory disclosures. All the interviews were conducted in semi-structured form, following the indicative interview questionnaire found in Annex II.

\(^3\) The companies interviewed are listed in IBEX 35, except for one Latin American multinational company with strong presence in Spain. All these companies are large players with a high degree of internationalization and with a relevant position in their respective sectors.
The following four risks stood out:

1. **Trade governance**: primary and secondary US sanctions, unilateral increase in tariffs and retaliation by world economies and their unpredictability, given some businesses’ exemptions to said sanctions and tariffs. More particularly, surprise tariffs and retaliation may affect businesses as collateral damage in the fight between sovereign entities, who can no longer rely on the continuity of export regulations. Because these tariffs are used to score political points, businesses may be left unprotected by both regulatory entities (home and host).

2. **New regulatory waves**: climate change regulations, digital governance and data management. These affect all industry sectors and all markets. The effects of these legislative packages may be unpredictable, especially if they diverge across markets. The European Union in particular is adopting ambitious energy transition, data protection and cyber management bills into law, while big business perceives that not enough time is given to them to adapt to the new regulatory framework. While some of these laws will be softened down in light of the Great Lockdown, others may appear.

3. **Cyber-security**: in a world where most of business is conducted and all data is stored online, cyber security flaws and data breaches were a concern for senior managers at all the firms we interviewed. Vulnerability to hacks and cyber-attacks is of particular importance now, when more and more of these companies’ businesses is conducted online because of the 2020 coronavirus pandemic.

4. **A fragile political environment**: political uncertainty in developed economies, polarization and social unrest in Latin America, authoritarianism and regional competition in the Middle East and North Africa. The general perception is that nothing is certain anymore, and that regulations affecting exports and imports as well as production may change overnight. Adding to the unpredictability, governments may not be expected anymore to necessarily keep corporate interests in mind for the economy’s sake, with Realpolitik calculations being back in the picture.
2. Mapping risks quantitatively: the Global EsadeGeo/FTI Nonmarket Country Index

We have designed and constructed a Nonmarket Country Index to quantify and be able to compare different nonmarket environment dimensions exhibited by every country.

Despite the abundance of indexes and country-level metrics—both open and proprietary—a simple, parsimonious, open-source nonmarket index is missing. Thus, we aimed to build an index, based on primary open-source indicators that was methodologically parsimonious while avoiding sophisticated econometric data treatment, and with all the dimensions we believe are appropriate and necessary to grasp a country’s nonmarket environment.

The construction of EsadeGeo/FTI Nonmarket Country Index

Our index is designed using a 2-Tier approach: at a first stage, we build three individual sub-indexes—socio-political, infrastructure, and economic—using a total of 26 relevant primary indicators; at a second stage, they are synthetized in a single score: the Global EsadeGeo/FTI Nonmarket Country Index.

In line with our aim of keeping the index and sub-indexes as parsimonious and simple as possible, each sub-index has the same weight when aggregated to construct the overall index. That is to say, each sub-index weighs a third of the total score.

In turn, sub-indexes are subdivided into four pillars each, apart from the infrastructure sub-index, which has three pillars. Each block or pillar within the sub-indexes is made up of one to four indicators (mostly two or three) of equal weight per block. This means that indicators have an overall weight in the final index ranging from 2.3 percent to 9.1 percent. These differences in the indicators’ weights is due to two factors: the availability of open source indicators, the expertise of this project’s research team, and lastly running correlation, covariance and VIF tests.

To construct each sub-index, we have checked, analyzed and used a myriad of existing indexes, indicators and databases.

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*The first full index consisted of 30 indicators. A final review using correlation, covariance, and VIF tests showed four indicators added little value to the overall Index.

*We executed a collinearity analysis between the three sub-indices to discard collinearity between them.
from reputable sources from all around the world to select the most suitable indicators to compile our own index. These include, among others, the World Economic Forum, the Organization for Economic Cooperation and Development, the International Monetary Fund and the World Bank indexes. These indexes are divided into three types of categories:

- Quantitative indicators, which reflect counts, frequency or rates—such as crime rates or trade openness.
- Qualitative, survey-based indicators, which aggregate responders’ views or expertise, such as the right to information indicator.
- Composite indexes, taken collectively from other sources, such as the Cyber Vulnerability Index.

For each sub-index, as well as the aggregate index, a correlation analysis is provided. This compares Spain’s EsadeGeo/FTI Global Nonmarket Country Index scores to the World Economic Forum’s Global Competitiveness Index relevant components, showing that (a) the Global Nonmarket Country Index is more reactive to evolution, better capturing trends, and (b) that the Global Nonmarket Country Index still responds to data shown by WEF.

### The socio-political sub-index pillars: fundamental rights, rule of law, crime and corruption

<table>
<thead>
<tr>
<th>Socio-political sub-index</th>
<th>Fundamental rights</th>
<th>Rule of law</th>
<th>Crime</th>
<th>Corruption</th>
</tr>
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<tbody>
<tr>
<td>→ Political stability and absence of violence/terrorism</td>
<td>→ Government powers are effectively limited by the judiciary</td>
<td>→ Crime rate</td>
<td>→ Corruption Perception Index</td>
<td></td>
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<tr>
<td>→ Press freedom</td>
<td>→ Due process is respected in administrative proceedings</td>
<td>→ Crime is effectively controlled</td>
<td>→ Government officials in the legislative branch do not use public office for private gain</td>
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<td></td>
<td>→ The government does not expropriate without lawful process and adequate compensation</td>
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<td></td>
<td>→ Civil justice is effectively enforced</td>
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The socio-political sub-index measures a country’s degree of institutional development, including aspects such as fundamental rights - social stability, press freedom and right to information; rule of law to reflect the legal certainty for businesses; crime rate, its investigation and control; and the level of corruption.

The primary indicators are integrated within its pillar using the same weight for each. In an analogous manner, pillars are also aggregated using equivalent weight to build the socio-political sub-index.
Our sub-index behaves similarly to the World Economic Forum Global Competitive Index 1st Pillar “Institutions” with an 89 percent correlation; to the WEF GCI Pillar 11 with a 57 percent correlation and the overall WEF GCI with a 82 percent—no statistical significance. Our index shows greater sensitivity than the other comparable ones. While this may overstate changes, it allows to visually identify variations in scores.

The infrastructure sub-index

The infrastructure sub-index reflects whether the economy is able to (i) logistics; (ii) attract investment with a proper balance between public-private participation; and (iii) resilience. All these are indicators of how efficient a country’s infrastructure is for conducting business.

A country’s connectivity, linked to its resistance to external shocks and threats emanating from climate change and from cyber issues are also relevant since, as the Covid-19 is proving in other levels, better performing economies are usually more resistant to shocks. The indicators in the infrastructure sub-index combine directly quantifiable variables with questionnaire-based indicators, in which panels of experts were questioned.

In today’s world, where more and more business is conducted online, particularly in the wake of the surge in remote working following the Great Lockdown, the safe storage of data, communications and financial flows is paramount. As such, resilience to cyber-attacks is a necessity for most businesses, and the right infrastructure and legal framework provided by countries to this effect can go a long way.

Similarly, with climate change having been identified as the fight of our century, given its long-term implications that are far more consequential than even Covid-19, the resilience of countries to climate-related disasters, both natural...
and man-made, is of consequence of business decisions. Furthermore, as businesses embark down the road to net zero, appropriate regulatory and infrastructure frameworks in which to do will become of greater importance in quite a short period of time.

The indicators’ data we have used come from the International Monetary Fund (IMF), the World Bank, as well as the primary sources that nourish these organisms, including the International Energy Association (IEA), the International Civil Aviation Organization (ICAO), the International Railroad Union (IRU) or the International Telecommunications Union (ITU).

A special mention is needed for the two Cyber security and Climate change indicators, which are in fact indexes themselves. The Global Cybersecurity Index, elaborated by the ITU and based on surveys, aims at quantifying the efforts and commitment of countries. Conceptually, it is based on the Cybersecurity Global Agenda’s five pillars (legal, technical, organizational, capacity-building, and cooperation).

The Climate Change Risk Index is provided by the Index For Risk Management, in turn supported by the European Commission. It quantifies the climate change risks faced by countries. It is based on probabilities of different events occurring.

The infrastructure sub-index evolution for Spain between 2011 and 2018 is shown in Figure 2.5, which reflects an upward trend from 2011 to 2018. Comparing the yearly variations, the sub-index has an erratic correlation with the World Economic Forum Global Competitive Index 2nd Pillar “Infrastructure”—and no statistical significance. This is most probably due to the fact that our infrastructure index incorporates two indicators in the third pillar which the WEF index doesn’t. These indicators are the ones related to climate change and cyber security. These are included in different pillars in the WEF’s GCI.

The economic-financial sub-index

The economic-financial sub-index consists of a battery of variables that allow to measure the degree of development – human development index, purchasing power and unemployment rates, the dimension of the economy (GDP) and its growth, its degree of openness – trade level and foreign direct investment (FDI) and stability – foreign exchange rates, inflation, level of debt.

The index should measure the overall economic sustainability of a country through the analysis of macroeconomic and financial variables that are obtained through public statistical series directly observable. These indicators are available at the International Monetary Fund, the Bank for International Settlements, the United Nations Development Program and the World Bank. The data have been extracted through the primary sources, as well as through Bloomberg.
As depicted above, the variables that make up this sub-index cover the key economic dimensions of a country, such as economic growth and its distribution, the labor market, monetary stability and the international economic and financial situation.

Validity: We observe a correlation between the annual change of the proposed economic sub-index and that of the World Economic Forum’s 4th and 9th pillars, which measure macroeconomic stability and financial system robustness respectively, that is moderate and strong (34 percent and 62 percent respectively—no statistical significance).

The Global EsadeGeo/FTI Nonmarket Country Index

The Global EsadeGeo/FTI Nonmarket Country Index is a bottom-up aggregation using means. All indicators are equally weighted to produce the pillar scores, which in turn are equally weighted to produce the sub-index score. Lastly, the overall index is an average of the three sub-indexes.

The overall index year on year changes correlates -18 percent with the WEF GCI Index.
3. The trends according to the Global EsadeGeo/FTI Nonmarket Country Index

We have run the Global Index as well as the three sub-indexes for the period between 2011 and 2018, for all countries where data is available, identifying the top performers.

Global Index

Unsurprisingly, the 2018 top performers according to our index are among the richest and most prosperous economies in the world. 6 out of the 10 are European Union Member States, while 3 are located in Asia and one in North America. One is an island nation and one is landlocked.

Unlike for other indexes, the large number of indicators that make up the EsadeGeo/FTI Nonmarket Country Index mean that no country is anywhere close to achieving a perfect score of 10 out of 10.

If we take a look at the Global Nonmarket Index trend between 2011 and 2018, we observe that all European countries, as well as Hong Kong indexes exhibit a V-curve in the period. The economic sub-index seems to drive the overall trend, emphasizing the effect the 2012 sovereign debt crisis had on Eurozone countries.

Also, America’s overall score trend is upwards. Once again, its strong economic recovery following the 2008 financial crisis drives the overall upward trend, as its economic scores seem to show, and makes up for the fall in sociopolitical scores since Trump reached office.

Singapore and Japan have somewhat erratic but overall stable trends which oscillate the mid-7 range. For the city-state, a rise in socio-political scores is compensated by a fall in economic ones; for the insular power, a rise in infrastructure scores, in the aftermath of the Fukushima disaster, is compensated by a fall in socio-political scores, potentially driven by Shinzo Abe’s reforms.

Also, unsurprisingly, the bottom performers in our index are all least developed countries (LDCs). 8 of them are in Sub-Saharan Africa, while one is in the Middle East and another one in Oceania. Three of them are island nations, and three are landlocked. Most are considered failed states, and many of them have ravaging wars and ongoing conflicts— in fact, all of them save for Eritrea, one of the world’s most totalitarian regimes, Comoros and São Tomé e Príncipe, very small and isolated island nations, and Gambia, a small state surrounded by regional power Senegal.

Ireland and Iceland started off in 2011 submerged in very serious economic and financial crises. Both managed to recover and by 2018 they were dynamic, thriving economies with resilient banking sectors. Lithuania followed a similar path, joining the euro in 2015.

On the opposite end, Brazil’s deteriorated political and economic outlooks saw to it being one of the biggest losers in our index. Venezuela also saw a net decrease in its scores because of the difficult political situation in the country, which has resulted in economic mismanagement and a humanitarian crisis.

Some unexpected countries find themselves among the top 30 performers, including Estonia because of its strength in digital economy, or Chile because of its world-class infrastructure. They leave behind regional powers like Turkey, South Africa or even Mexico, for reasons including sluggish economies, bad governance and poor connections to the rest of the world.

Socio-political scores

Though part of the economic sub-index and not the socio-political one, there is a very strong correlation between Human Development Index scores and socio-political scores in our index. With the exception of Singapore, they all are consolidated democracies. All European states on the list are central and northern.
Figure 3.1. Top and bottom performers according to our Global Nonmarket Country Index in 2018.
The bottom scorers are both least developed and developing nations, and are spread out geographically: three in Central America, two in South America, one in North Africa, two in Sub-Saharan Africa and two in South Asia. They include countries ravaged by conflict, like Afghanistan and the DRC, and relatively stable countries like Egypt or Bolivia.

The bottom performer is Hungary, whose rule of law status has deteriorated very fast since Orbán won the 2010 elections and completely overhauled the constitution in 2011. Ten years later, the country is now classified as partly free and rule of law concerns arise from its treatment of the covid-19 crisis.

Liberia is the country whose socio-political score improved the most between 2011 and 2018. In 2011 the country was still struggling to recover from its second civil war, while in 2017 it underwent its first democratic and peaceful passing of government powers following an election in decades. That was the first election entirely overseen by the government since the start of the civil war in 2003.

Infrastructure scores

All the top scorers in the infrastructure sub-index are air and maritime transport hubs, well-connected to global trade routes and important exporters in the global economy. They are both big and small, more and less populated, developed and emerging. Malaysia is boosted by its maritime infrastructure, while Italy is dragged down by low overall investment. Importantly, all countries at the top here are populous countries minimally integrated in the global economy.

All the bottom scorers are either ravaged by conflict or far away from global trade routes, some being landlocked and some being isolated island nations. The exception to this is Eritrea, whose totalitarian leader has politically disconnected the country from the rest of the world. All of these states are underdeveloped.

In terms of changes, Denmark experienced a jump in its score due to a spectacular improvement in its Cybersecurity Indicator from 2014 (1,29) to 2015 (8,66). Iceland’s improvement is related to its investment (both private and general) gradually improved from a low due to the financial crisis.

On the other hand, Libya took a toll on its infrastructure scores because of the ongoing civil conflict. Surprisingly, countries at peace like Equatorial Guinea and Brazil take a tumble that is almost as significant as Libya’s—perhaps because of their lack of world trade integration.

Economic-financial scores

The top performers in this index are—as expected, given the indicators GDP/capital and openness to FDI—The Western European and the US.

Probably, the main surprise in this section is the Czech Republic, which had a jump in its trade and openness pillars in 2016 and 2017. All top performers are in the developed world.

The bottom scorers are all submerged in conflict and great political instability, with the partial exception of Gambia. Most are located in Sub-Saharan Africa, but also the Middle East and South America.

In terms of main changes during this time period, Serbia’s convergence and trade integration with the EU pulls up the country, as does strong y-o-y GDP growth in Romania due to EU membership benefits. Latvia reaped the benefits of longer-term EU membership and euro adoption.

Lebanon’s current economic plights have been coming for a long time, as this variation in our index’s economic scores proves. Other countries on this list include Venezuela, Angola and Saudi Arabia, all of which are oil producers. Oil’s steep fall in price may have contributed to this downward trend.

Case studies: China, Russia, Morocco, Turkey, Mexico, Brazil, UK and US

We have selected eight countries, in four groups of two alike countries, to illustrate our index. These countries are:

→ Group 1: China and Russia
→ Group 2: Morocco and Turkey
→ Group 3: Mexico and Brazil
→ Group 4: United Kingdom and United States
The first three groups are made up of emerging economies, while the fourth group is made up of non-EU developed economies. Four of these countries are OECD members while the other four are not. All are some of Spain’s biggest trade partners outside of the European Union, and all count with the presence of some of Spain’s most important multinational companies. The UK and the US serve both as economic control group. Because of the European Single Market’s nature, no EU member states have been included in this selection of case studies. In the following figures, graphs showing the evolution of scores for the eight case studies are showing. For the sake of convenience when visualizing trends, y-axis have been adjusted to a different restricted scale for each graph.

Aggregate scores

The positions of these eight countries relative to one another vary little between 2011 and 2018 or, indeed, in any of the analyzed years. It is no surprise that the United States and the United Kingdom, developed nations and keen exporters and importers, top the selection’s ranking, while Mexico, with a rapidly deteriorating economy, comes in last, although very close to Morocco and Brazil, the latter showing the steepest fall.

Interestingly, the group distribution we carried out seems to hold—be it for geographical, developmental or sociocultural reasons, both members of Groups 1, 2, 3 and 4 rank together with similar scores to one another.

Sociopolitical scores

With the exception of Morocco, none of these countries show significant gains between 2011 and 2018 and, indeed, for some of them, there are clear losses. All of these countries, again with Morocco’s exception, have faced an increase in political polarization in recent years and all seven are now ruled by populist leaders. This is a marker of generalized institutional deterioration across much of the world, be it developed or developing.
Infrastructure scores

The three top performers’ scores follow upward trends, the bottom two performers’ scores follow downward trends, while the middle three have stable scores throughout the analyzed years.

Economic-financial scores

All countries reach a bottom score during the aftermath of the global financial crisis, and start pacing up as their economies recover. Mexico and Morocco are the only two countries that have a lower economic score in 2018 than in 2011, while Brazil stays the same and the other five improve. Though a general V-curve could be envisaged, score variations per country are too random to identify a proper trend evolution.

Surprisingly, authoritarian emerging regimes like China, Turkey and Russia perform consistently better than the United Kingdom, an established democracy and developed economy, even before Brexit became an issue.
4. Managing nonmarket risks: strategies and governance

In the report’s second section, we address management of nonmarket issues. To do this, we report on our findings from the qualitative work referring to what are organizational structures and functions businesses use, as well as the strategies they follow.

Strategies and tools to deal with nonmarket risks

Strategies and actions

A key element when managing nonmarket risk is the decision to enter a country. This business decision is key to strategically manage risk.

Our sample included firms with different geographic (entry) strategies, which may be distilled into three basic types.

1. Firms that do not limit their expansion and cope with any risk that may follow a business opportunity. These firms are active in many countries and seldom exit.
2. Firms that only operate in highly developed environments, e.g. only in OECD countries. These firms have limited internationalization.
3. Finally, there is a group of firms that carefully balance their international exposure to political risk. Some of these firms manage this by balancing their global portfolio, considering both level of risk and level of exposure—thus effectively capping overall exposure to high political risk. Others used joint ventures with a domestic player when entering extreme socio-politically unstable countries. Additionally, if a country enters a political tailspin, these firms will exit.

In any case, according to interviewees, given that the entry/exit decision is a Management Committee decision, there is always certain flexibility and subjectivity included in the ultimate decision.

Specific strategies used by firms include:

→ Acquiring swaps to protect dividends paid out in euros when revenues are in a different currency (i.e. sterling).

→ Virtually relocating regional headquarters (e.g. in the case of Brexit).

→ Starting to track forthcoming issues at the highest supranational level (UN agencies and other international institutions that generate soft rules and best practices).

→ In extreme circumstances, conducting direct communication between a CEO and a Head of State may occur.

→ Influencing supranational institutions to put pressure on a given country seeking access to that same institution.

→ Using national business associations when a collective signal is to be sent. Otherwise, these associations do not add much value to the larger firms.

→ Being present in international associations is much more interesting for these international firms as they are composed of other global firms, provide often better and more rigorous information. Similarly, international CEO-level or generalist (non-sectoral) fora are also more attractive to these firms, particularly given the relational potential they offer and their reputational effects. However, most of the work done at this supranational level is “soft” advocacy dealing with corporate social responsibility and framing narratives.

→ Particularly for European operations, conducting hard advocacy (focused on regulation and legislation) and influencing directed at the EU institutions.

Sources of information

Sources of information used by companies include:

→ Generic economic and political news outlets: e.g. The Economist, Politico, The Hill, Governing, etc.;

→ Think tanks and multilateral organizations: e.g. Brookings Institution, IMF’s World Economic Outlook, etc.;

→ Sector specific publications: e.g. Infrastructure intelligence;

→ Public affairs and political risk firms;

→ Informal information gathering: Risk officers informally seek out information from colleagues within the firm in frontline business units as well as with external contacts such as policymakers, analysts and business association professionals.
Functional units dealing with nonmarket risks

In exploring how firms conduct strategic management of the abovementioned nonmarket risks, we zeroed in on how the firms organized themselves. We identified the units involved in managing these risks. These units can be considered to be the first line of defense in traditional risk management models.

Risk management involves identifying, monitoring and controlling the risk.

We also identified those mechanisms and units, which bring it altogether and integrate the different moving parts with the diverse knowledge, and thus help coordinate the firm’s responses.

Country and business unit managers

Business unit managers possess deep knowledge on the firms’ markets and are hence best suited to identify the nonmarket factors that may constitute potential risks. These managers are responsible for handling and owning the risks most closely related to operations. An example of this is a plant manager navigating through local regulations and establishing relationships with local authorities, or when a plant manager interacts with the local community—via community engagement and stakeholder management. These practices have generally been decentralized and not much institutionalized.

Communications, Public affairs, Legal services

We find two basic configurations regarding the following three corporate functions: Communications, Public Affairs, and Legal Services. Public Affairs was highlighted by interviewees as important for political, geopolitical and nonmarket risk, particularly since this unit has the relationships with and the knowledge on the public sector. It is Public Affairs units who provide the organization as a whole information on and connections to the political environment. Communication is a central asset to reach out to stakeholders and cater social legitimacy. Legal Service directors—aka general counsel or secretary generals—are important political assets in Spanish companies as many are State Lawyers on leave and have thus high knowledge of the government’s inner working procedures. Moreover, they tend to be secretaries of the board, and are therefore able to leverage on the board’s resources.

In some instances, communications is housed together with public affairs. In others, these two functions are separate and public affairs is housed with legal services.

Security services

Interviewees pointed at security service units as being important for multinational corporations to provide an understanding of and managing the political environment. These units deal mostly with personnel and operational security and possess detailed information on the social and political dynamics of all those countries of relevance to the organization’s operations and staff.

We found no common pattern as to where security is housed in organizations. In some cases, it is under legal services, under HR and staff management; in other cases it is placed under operations.

Integration & structure

A key challenge in risk management is being able to integrate the different units and knowledge existing in the firm. Political risks are often interrelated among them but have multiple externalities that affect different parts of the organization, and involve a diverse set of organizational units, as seen above.

Board and top management

Eventually, the puck stops at the C-suite (Management/Steering/Executive Committee) and the Board. These units are central to the management of the risks we cover in this report.

These two decision-making units have the final say on investments, risk management, and political strategy-making. The necessary and vital link between risks and strategy crystallizes at this top level. It is this uppermost level that sets both strategy and the company’s appetite for risk. Consequently, board or executive committee decisions on where and how to operate should take into consideration both risks and strategy.

Another key role played by board and executive committees is that of taking a holistic approach to risk. Hence, the overall business portfolio and its global risk is monitored and thought of at this level. The aggregate view of the firm’s risk and the management for the entire portfolio occurs at this level too.

Enterprise risk management

Enterprise risk management (ERM) identifies all of a company’s risks, prioritizes them, and assigns a manager/owner of each risk.
We identify two types of organizational choices regarding ERM, according to whether it is dependent on the finance unit or not.

One of them clearly separates this from the business functioning and distinguishes it from the finance unit. Those that do so place ERM closer to the audit function, with a strong hierarchical dependence on the board while linked operationally to the CEO or a corporate affairs department. In one case, the ERM was housed together with the Public Affairs, Communications, Corporate Social Responsibility and Sustainability departments. This type maximizes the risk management unit’s independence but—according to some interviewees—sacrifices its contribution to business functioning, since it tends to focus on ex-post accountability. Thus, this type is more of a repository tool than an operational one. This model is a policy-policing model, where business units can only operate within the risk policies established by risk management, and their activities are monitored by risk, audit, and compliance functions.\(^9\)

In contrast, a second choice was to place ERM within the finance department. This reduces its independence but may make the risk function more operational. In this type, the relationship is akin to a partnership, where business units and risk management jointly evaluate and resolve risk management issues and share common goals and objectives. The relationship between line and risk functions becomes more like that of a client and consultant.

In both types, ERM provides a formal (albeit rigid) system to recover information, assign priorities and responsibilities, and monitor progress. The ERM provides a taxonomy of risk for other units internal to the corporation to use, including categories such as strategic risk, operational, political, macroeconomic, sustainability, or sector risks. It also standardizes risk/return matrices which are used by different units. Often, the ERM sets the threshold limits at which risks need to be dealt with in one way or another.

The headquarters/subsidiary divide: autonomy and coordination

An important aspect of nonmarket and political risk is the headquarters/subsidiary relationship, i.e. who does what and how.

Overall, our findings point at a pretty well-established division of responsibilities between headquarters and regional or country leadership. Anything national is lead and managed nationally. Most firms have a centralized risk information system, but risk is managed locally whenever possible, given the contingent nature of political and social risk. Headquarters set the basic rules of engagement—in particular compliance and legal assurance—but the first political risk officer tends to be the country manager. The country manager may have in turn a risk, public affairs or legal officer who may then have a dotted line (as in reporting to but not subordinate to) to the headquarters.

Headquarters only manage those risks which are shared to more than one country, or those that are clearly geopolitical in nature: i.e. when risks are due to confrontation between two or more countries. Additionally, in those firms which are more active, headquarters manage and lead the supranational engagement with such institutions as the International Energy Agency, G20, OECD and so forth.

Internal coordination

In terms of internal coordination of the management of nonmarket country issues we find three important mechanisms. Firstly, there seem to be several coordination mechanisms used to make the information flow and correct decisions regarding political risk.

Secondly, the use of specific social, regulatory or political committees is common, where business unit managers and planning officers take part, together with managers from risk management, communications, legal services, public affairs, security and so forth. These committees are mostly recurrent, but some might be set up ad hoc to deal with an investment decision or a crisis.

Third, as mentioned above, headquarters/subsidiary coordination often happens with weak matrices, where staff in the field report directly to a country manager but with a dotted line to risk, public affairs, or regulatory staff.

Informal coordination also occurred often, particularly between corporate units and business units. Some interviewees expressed their wish to formalize coordination in those cases where it is fully informal.

Research units

Some companies have powerful research units, others do not. For the former, research units are central players in gauging and managing risk. Research units provide three kinds of information important for managing sociopolitical risk.

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\(^9\) Unlike the offense versus defense model, where the relationship between line and risk functions is strictly adversarial, the relationship under the policy and policing model is more like one of government and citizenry.
First, they provide knowledge and scenarios regarding macro-economic, political and social scenarios; Second, these units often provide calculations regarding risk levels, risk premiums, cost of capital, and other financial parameters for specific projects. In doing so, research units must consider sociopolitical contexts; Third, they may produce studies and reports regarding specific policies and regulations, which may feed into the work of the public affairs or communications departments, when establishing relationships with policy makers or taking part in policy discussions.

Overall structural typologies

Taking the previous two dimensions a 2x2 matrix arises. On the one hand, there are firms where risk management tends to be independent, while in others it is operational (i.e. it is subordinated to the finance department). On the other hand, we find firms where public affairs functions are subordinated to communications, while in others they are located close to the board via its secretary.

Companies operating in sectors with reputational issues related to ESG (environmental, social and governance), will tend to structure their nonmarket units independent from the department of Finance. This produces a strong outward signal to investors that risk is taken seriously as to give its management large autonomy. Companies in other sectors, however, will manage nonmarket issues closer with their operations, linking it closer to Finance dept.

Regarding giving the board a greater oversight of certain nonmarket functions depends on whether the company is a complex multinational one, operating in diverse contexts through multiple corporate subsidiaries, or not. The requirement for accountability yet autonomy to adapt to local contexts justifies a greater role of the board.

Despite the lack of a single model structure for all firms, nonmarket risk management seems to be inherently linked to Board decision-making for global issues, but mostly to country managers alone for domestic issues.

Figure 4.1. Matrix of risk management governance models

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<th>Independent (ERM ≠ Finance)</th>
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The first round of interviews with Spanish businesses was conducted in late 2019. In the wake of the COVID-19 pandemic, we decided to contact our interviewees again with a second set of questions related to the disruptions and changes caused by coronavirus.

The responses we received show a few common trends:

The **relevance of the identified risks**. Indeed, some of these risks have been enhanced. Cybersecurity has become more important than ever during the Great Lockdown, as many businesses have migrated most of their communications and work to domestic networks at their employees’ homes. An open commercial confrontation between the United States and China is now all but a certainty, and the November presidential election in the United States shows just how significant the instability of political governance still is to businesses.

**National responses to a global pandemic.** The companies in our sample have market implantation all over the globe, including Asia, Europe and Latin America, which have been the areas most affected by COVID-19, together with the United States. Nevertheless, and with one exception that implemented a coronavirus response for all its global operations in mid-February, all the other interviewees described how local branches reacted in line with the national authorities of each country in which they operate. Business responses were nationally contingent.

**Operational, rather than strategic, challenges.** All companies interviewed introduced modifications to their operational processes, both at domestic and at global level. Operational changes include adopting public health safety measures, responding to supply chain disruptions, and deepening the remote working for non-essential employees. All companies are waiting to see how the pandemic evolves before introducing strategic changes and publishing their renewed corporate strategies.

**The endurance of nonmarket strategies.** Trends observed in interviewed companies include an increase in public-private cooperation, the reinforcement of their company’s ESG, including stakeholder engagement and the communication of ESG efforts.

In that sense, it will be interesting to repeat the questionnaires in the study’s next iteration, throughout 2021.

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Annex II: A review of political indexes, indicators, and databases

Our first step was to analyze a large battery of databases, as well as composite indexes with high recognition and global reputation. On the basis of our analysis, we constructed an index, which compiled diverse indicators on different nonmarket dimensions that were observed in the majority of indexes we analyzed.

**WEF- GCI Index**

The World Economic Forum develops a competitiveness index every year that is composed by different pillars that determine the productivity level of a country.

These pillars are made up of a battery of indicators whose average configures the aggregate. The index is calculated using information publicly available and the Executive Opinion Survey, a survey made by the World Economic Forum together with a network of associated institutes that includes leading institutions in research and business organizations throughout the countries included in the report.

The WEF Global Competitiveness Index 4.0

- 1st pillar: Institutions;
- 2nd pillar: Infrastructure;
- 3rd pillar: ICT adoption;
- 4th pillar: Macroeconomic stability;
- 5th pillar: Health;
- 6th pillar: Skills;
- 7th pillar: Product market;
- 8th pillar: Labor market;
- 9th pillar: Financial system;
- 10th pillar: Market size;
- 11th pillar: Business dynamism;
- 12th pillar: Innovation capability.

**OECD FDI Index**

The OECD produces several indexes, some of which are the Services Trade Restrictiveness Index; the Indicators of Regulatory Policy and Governance; and the FDI Index.

The FDI Index measures the rule restrictions of a country by observing the four main types of restrictions to foreign direct investment (FDI):

- Limitations of foreign capital;
- Mechanisms for detecting or approving regulations in a discriminatory method;
- Restrictions on the use of foreigners as key personnel;
- Operational restrictions such as restrictions on ramification and the repatriation of capital or land ownership.

The FDI Index, prepared by AT Kearney, is an annual survey that tracks the impact of plausible political, economic and regulatory changes in the intentions and preferences of direct foreign investment of the CEO, CFO and other high executives of Global 1000 firms.

**European Commission and Center for Systemic Peace - State Fragility Index**

This global index tries to monitor key trends in armed conflicts, governance and development of the social system assessing the performance and fragility of the system in the globalization era. In this sense, the composition of the index consists of four categories:

- Social indicators:
  - Demographic pressures;
  - Refugees or internally displaced;
  - Group complaint;
  - Human flight and brain drain.
- Economic indicators:
  - Unequal economic development;
  - Poverty and economic decline.
- Military and political indicators:
  - State legitimacy;
  - Public services;
  - Human Rights and Rule of Law;
  - Security apparatus;
  - Fractured elites;
  - External intervention.

**Bloomberg**

Bloomberg produces, among others, two sets of country indicators: financial risk and economic risk.

The Financial Risk Index consists of the following indicators:
→ 5 Year Credit Default Swaps (CDS);
→ Yield;
→ Duration;
→ Equity Index Price Change (%);
→ Index Returns To Global Avg (Z-Score);
→ Next Period FX Forecast (%Chg);
→ Historical 3 Month Volatility;
→ 3 Month Implied Volatility.

On the other hand, the Economic Risk Index consists of the following indicators:

→ GDP YOY%;
→ Next Period GDP Forecast (%Chg);
→ GDP Per Capita;
→ CPI Actual;
→ Unemployment;
→ Budget Surplus/Deficit (% GDP);
→ Total External Debt (% GDP);
→ Current Account (% of GDP);
→ World Fuel Imports To Country;
→ World Fuel Exports From Country;
→ Currency Reserves (% GDP);
→ Currency Reserves Change (%);
→ Total Reserves To Imports;
→ Total Foreign Claims On Country;
→ Foreign Direct Investment.

World Bank - Ease of Doing Business

The Ease of Doing Business Index, created and curated by a group of World Bank economists, serves as an objective benchmark of quantitative measures of business regulations throughout the world. Using a unified set of variables for 190 world jurisdictions, it ranks them according to the difficulties of conducting business, as well as setting up and closing down a company. The variables used are as follows:

→ Starting a Business: the number of procedures, time, cost and paid-in minimum capital requirement for a small- to medium-size limited liability company to start up and formally operate in each economy’s largest business city.
→ Dealing with Construction Permits: the procedures, time and cost to build a warehouse—including obtaining the necessary licenses and permits, submitting all required notifications, requesting and receiving all necessary inspections and obtaining utility connections.
→ Getting Electricity: the procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse.
→ Registering Property: the steps, time, and cost involved in registering a property, assuming a standardized case of an entrepreneur who wants to purchase land and a building that is already registered and free of title dispute.
→ Getting Credit: two aspects of access to finance are covered—the strength of credit reporting systems and the effectiveness of collateral and bankruptcy laws in facilitating lending.
→ Protecting Minority Investors: the strength of minority shareholder protections against misuse of corporate assets by directors for their personal gain as well as shareholder rights, governance safeguards and corporate transparency requirements that reduce the risk of abuse.
→ Paying Taxes: the taxes and mandatory contributions that a medium-size company must pay or withhold in a given year, as well as the administrative burden of paying taxes and contributions.
→ Trading across Borders: the time and cost associated with the logistical process of exporting and importing goods.
→ Enforcing Contracts: the time and cost for resolving a commercial dispute through a local first-instance court, and the quality of judicial processes index, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the court system.
→ Resolving Insolvency: the time, cost and outcome of insolvency proceedings involving domestic legal entities.

World Justice Project- Rule of Law Index

The World Justice Project is an independent nonprofit organization that seeks to raise public awareness on the foundational relevance of the rule of law and promotes and stimulates different governmental reforms to that effect. Among its mechanisms of divulgation is the Rule of Law Index, an indicator that measures a series of dimensions based on public surveys:

→ Restrictions about governmental powers;
→ Corruption;
→ Transparence- Governmental openness;
→ Fundamental rights;
→ Order and security;
→ Normative compliance;
→ Civil justice;
→ Criminal justice.

Other

Bertelsmann Stiftung – BTI:

→ Bertelsmann Stiftung bases its activity in the research and development of projects that serve to promote the reform process and the principles of business commerce
in order to promote advances in the regulation of the political, economic and social system. Based on these principles, it annually develops the Bertelsmann Stiftung Transformation Index (BTI), which globally assesses the quality of democracy, the market economy and the political design of a country.

The fund for peace- Fragile State Index:

→ The State Fragility Index (FSI) of the Fund for Peace organization reveals interesting results about the social and economic pressures that are experienced globally. It is calculated by the American Study Center Fund for Peace and measures 12 factors, in aspects such as security threats, economic decline, human rights violations, refugee flux, lack of provision of basic services, criminality and corruption, intervention of external forces or the lack of sovereignty in the national territory.

Databases

→ IMF: Through the Open access data program makes available a wide selection of indicators in matters of economy and finance.
→ World Bank: Through the World Bank Open Data, their high quality global databases can be explored.
→ United Nations: The United Nations Statistics Division has one of the most comprehensive multidisciplinary databases of global reach.
→ CPIA World Bank: Database of property rights and rule-based government, quality of the quality of budgetary and financial management, the efficiency of mobilization of revenue, the quality of public administration and the transparency, accountability and corruption in the public sector. Its elaboration is based on the scoring of several criteria by expert panels.
→ World Economics and Politics (WEP) Dataverse, Niehaus Center for Globalization and Governance, Princeton University: Complementary to the previous ones, the variables of this source allow adding academic variables about geographical, social, economic and political tendencies that could trigger risk events for the companies.
→ World Health Organization: The World Health Observatory (GHO) is WHO’s gateway to a battery of themes and data organized to be able to track progress towards the achievement of the Sustainable Development Goals (SDGs).
→ Freedom House: This is a non-governmental organization based in Washington D.C. It measures the state of political rights and civil liberties in all countries of the world. Its database offers coverage about the levels of democracy in the institutions from the coverage of the press news to capture adverse events.
→ ICSID: Statistics portal that allows to measure and evaluate the number of international investment disputes, the basis of the consent invoked by the plaintiffs, the distribution of cases in geographical and economic sectors, the results of the procedures, and the nationality of arbitrators and conciliators.
→ Gothenburg University, V-Dem Institute and Notre Dame University: Data on perceived corruption that can lead to political polarization divided in 3 categories composed of both quantifiable data as well as surveys.
→ ParlGov: It is a database developed by political scientists from the University of Bremen, in collaboration between the British newspaper The Guardian and different political science researchers with the support of both the Social Science Research Institute of Amsterdam as well as the Research Group on extremism and democracy of the European Consortium for Political Research (CERP). The platform collects data on the elections, parties and compositions of governments around the world.
The main risks identified during the interviews are: political uncertainty in developed economies; political radicalization; authoritarian politics; sanctions (including secondary) and tariffs; climate change and digital regulations; cyber security; and recent supply-chain disruptions caused by Covid-19.

Our Nonmarket Country Index is structured as follows: Socio-institutional (crime; rule-of-law; corruption; radical politics); Infrastructure (connectedness; investment; climate vulnerability; cyber vulnerability); and Economic (exclusion; market growth; macro stability; fiscal robustness).

Business unit managers are the prime manager of nonmarket risks.

Three basic support units are also fundamental in managing nonmarket risks: Communications, Public affairs, and Legal services.

The C-suite (Management/Steering/Executive Committee) and the Board are central to the management of the risks.

Enterprise risk management (ERM) constitutes the firm’s second “defense line” and serves as an integrating system for all risks.

Division of responsibilities between HQ and regions or country leadership are well established: Anything national is led and managed nationally.

Additional integration mechanisms used to govern nonmarket risks include: committees; dotted reporting lines; and Informal coordination.

A key strategy is geographic portfolio management, which may adopt an enduring strategy, a balancing strategy, or an avoidance strategy.

Other strategies used by firms to manage the international nonmarket environment are: transferring risks; the virtual relocations; engaging in public policy and global governance level; and participate in supranational business associations.