Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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Why Foreign Capital Doesn't Come?

Foreign capital is preferable to borrowing for a country that does not have enough savings for investment to meet its needs. Obviously, certain requirements must be met to bring in these funds.

Unfortunately, the governments of most developing countries tend to misidentify the factors that could attract foreign capital.

According to them, allowing foreign investors to establish a company in one day or granting them certain privileges is enough to attract their funds.

Such governments tend to prefer giving out privileges rather than providing reforms in crucial areas of life, such as democracy and a free market economy.

It is quite delusional to expect foreign capital to flow into the country due to mere tax reforms or speeding up company establishments without implementing structural reforms first.

So, instead of wondering "how do we attract foreign investors?", the real question that we should ask ourselves is "why won't foreign investors come?"

To answer this question, we should first start with the risk perception of international investors.

New risks

The risk factors ranked by international investors from 1 to 10 change every year, or one factor becomes more or less important than the other. While "climate change" or "war" risks remain important, new risks are added to the list.

Today, the challenges that international companies describe as "10 important global risks" have changed since the first years of the millennium.

Unemployment, for instance, appears to have become the most important risk factor according to global companies, who, in the past, used to not care about it.

Now, they have become wiser because as the army of the unemployed grows mal, it becomes more difficult to sell goods and services. Because, demand is gradually slowing.

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The second important risk which is feared by all investors is the "governance problem", involving weak governance zones, the government’s inability to deal with problems correctly or adequately, and the progressive weakening of the separation of powers.

The fact that the political system is not fully established in some developing countries, the inadequacies that arise from time to time in governance, and efforts to govern all activities from a single centre sadly result in an atmosphere that scares global investors away.

Energy dependence is another risk factor that makes investors think twice as to whether they should invest in a developing country.

Investors agree that their business will be hindered, or even worse, stopped if energy prices rise dramatically due to these countries’ high dependence rate on imported resources.

Should such a dramatic rise ever happen, it would also cause further current account deficit, inflation and other disruptions.

The financial crisis risk

The financial crisis risk enters the list in fourth place. The risk refers to a crisis arising from a budget deficit and government that will crumple the system and cause investments to turn into losses. A justified concern indeed.

The financial troubles that Latin America went through throughout history are a substantial example of this.

The government's increasing need for cash and the fact that it fixes its gaze upon private savings to finance it seems to be what foreign investors worry the most about.

They are afraid of not being able to take back the money they brought when they need it, and they are not wrong.

The fact that high technology was introduced into our lives and company operations rely on digital backbones is causing the "cyber-attack" risk to rank 5th on the list.

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International investors are concerned about any potential interception of sensitive data by ill-intentioned parties, sudden interruption, manipulation or abuse of the systems in a manner that could bring unfair advantage to others.

The evolution of global supply chains and payment systems into multi-cloud automation is leading investors to question the reliability of developing countries' security infrastructures against cyber-attacks.

They even doubt the legal system of the country with investment potential in terms of how sensitive the country's legislation is regarding these risks.

However, intense efforts by developing countries to comply with modern standards in these areas do not go unnoticed.

Turkey and Nigeria, for instance, are two leading countries in mobile banking, along with several countries from Southeast Asia.

Not-so-serious risks

Now, let's check out other risks that are not as serious as others yet bear considerable importance.

International investors and business people consider social unrest one of the biggest dangers to business.

The protests, rallies and social movements that have taken place in many of the countries considered fit for investment in recent years are among the factors that deter investors from putting their money at risk.

Social unrest, which is generally seen in Latin America, North Africa, the Middle East, Sub-Saharan Africa and Southeast Asia, has today spread to the EU member countries, such as the "yellow vests movement" in France and farmers' protests across Europe, not to mention the fact that the Democratic governors of nine US states have recently called for federal action on immigration and border reform.

In addition to the risks highlighted above, we could list the failures in payment, money and credit mechanisms, among other serious risks. By mechanisms, I mean banks and non-bank financial institutions.

The payment processes and money-credit functions are mostly carried out by banks in developing countries, therefore it is important to pay close attention as to whether these institutions comply with the standards in place, whether they have adequate capital or not, whether their ratio of non-performing loans to total loans increase or not.

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As disruptions in the financial sector also mean collection risk, it is one of the biggest fears of foreign investors.

It is a known fact that the financial system is not working properly in some North African, Latin American and Asian countries.

The fact that governments pay more attention to the financial sector than the real sector in these countries is subjected to heavy criticism, but I have to say that there is no other option.

Another potential risk is the possible “collapse of critically important infrastructure”. The proper function of infrastructures such as transportation, communication, energy and sewer systems are some of the main factors that influence investing decisions.

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Weaknesses in regional and global governance tend to reduce investors’ risk appetite. Because disputes that may potentially turn into a war endanger the safety of investors.

Every investor wants to visit the place where they invest, but does not want to invest in regions where they are reluctant to travel.

Terrorist attacks

The final risk on the list is "terrorist attacks". Today, there is not one country in the world that is not a potential target of terrorism.

Unfortunately, terrorism can find people anywhere. Either at an important ceremony or celebration, while you’re driving your car or walking on the street, or while you’re enjoying a concert or good food at a restaurant.

Studies say that most of these attacks are carried out by people who act independently from an organisation, people with no prior police records.

It is not easy to carry on when you know that innocent people, who have perhaps never touched a gun once in their lives, might lose their precious lives due to horrific terror attacks.

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I find it very hard to think about the possibility that people could fall victim to a terrorist attack while they are on their way to work, riding on a train or in a car, enjoying their flight, having fun at some concert, or at a match of their favorite team, enjoying a meal at a restaurant, on New Year’s Eve, on holidays, in holy places, or even while they are spending time at home with their families.

Investors want countries to take real and serious measures to protect their citizens from any harm.

Investors avoid countries that support or ignore terrorism. They pay attention to leaders’ attitude and stance towards this unlawful use of violence. They know that terrorism must be fought not only with weapons, but also with intelligence and wisdom.

Some of these risk factors have become quite tangible in many countries. To improve their situation, these countries have to have a reliable and realistic narrative they can present to investors.

If they can do this, things could get a lot easier for them. I think demonstrating their faith in the market economy and democracy would be a good start.