Assessing market attractiveness for mergers and acquisitions:

The MARC M&A maturity index

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Abstract

This paper develops a new scoring methodology to determine a country's capability to develop and sustain mergers and acquisitions (M&A) activity on the basis of publicly available and continuously updated information. The study computes a theoretically grounded maturity index for M&A purposes (MARC M&A Maturity Index) using 36 factors in total which capture key legal, economic, financial, political, technological, and socio-cultural characteristics from a total of 175 countries based on information available at the end of 2009. The index is then used to classify different maturity stages of development in M&A activity, i.e., *mature*, *transitional*, and *emerging* markets.

The difference in score between the stages of maturity is found to be highest for the political and technological environments, suggesting that these areas of a country's development stage are prerequisites for M&A maturity. Tests show that it is only the socio-cultural environment that acts as a determinant of M&A activity within the mature markets group, whereas the economic, financial, political, and technological environments determine differences in M&A activity amongst countries in the transitional development stage. Interestingly, political factors appear to be inversely related to M&A activity in transitional markets, while technological and socio-cultural factors seem to slightly explain the scores obtained by emerging economies.

Key words: Country scores; Market development; Transitional economies; Emerging markets; Mergers and acquisitions.

JEL classification: F21, G34, G38, K20, O11, O57.

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1 Introduction

With the economic slowdown of the late 2000s still a painful reality in North America and Europe, the so-called emerging markets around the world are making headlines about fast economic recovery, strong consumer demand, and large-scale investments. For international companies it is no longer a question of whether to invest, but rather in which of these alternative markets to focus their investments and future growth. The prevalence of emerging markets in the global Mergers and Acquisitions (M&A) activity has grown from approximately 10% of total global activity in 1998 to more than 20% in 2009 (Figures 1 and 2; source: SDC Platinum database). In light of the increasing importance of emerging markets in the M&A environment, this paper develops a universal and replicable scoring methodology to determine a country's openness to M&A, an area which is yet relatively unexplored in the existing literature.

This research falls within the stream in the existing literature on finance and the rule of law, triggered by the seminal work of La Porta et al. (1998), that proposes theoretical arguments and empirical regularities on how differences in legal investor protection across countries determine investor confidence and ultimately market development. This growing research on cross-country variation in governance structures has linked legal shareholder protection, on one hand, to the development of stock markets around the world (La Porta et al., 1997), type of law (common/civil; La Porta et al., 1998), efficiency of capital allocation (Wurgler, 2000), firm valuation (La Porta et al., 2002), listing in the US (Reese and Weisbach, 2002), earnings management (Leuz et al., 2003), cash-holdings (Dittmar et al., 2003), and expropriation by corporate insiders (Djankov et al., 2008). La Porta et al.'s (1998) index has since been criticized (Cools, 2005, Vagts, 2002), revisited (Djankov et al., 2008), and given suggested alterations in subsequent literature (Spamann, 2009). Djankov et al. (2007) construct a legal index which focuses on creditor rights as opposed to shareholder rights.

The extensive research on the effects of the rule of law is both interesting and relevant when considering the area of corporate finance that is M&A. Despite the abovementioned body of research on country scores there is little evidence on how markets impact M&A activity, with the notable exception of two research papers. Rossi and Volpin (2004) test the relationship between shareholder/creditor rights and cross-country M&A and find that M&A activity is larger in countries with better accounting standards and stronger shareholder protection, with cross-border transactions playing a critical governance role by improving the degree of investor protection. Kose et al. (2010) further extend the research in this area by examining announcement returns in cross-border M&As by US acquirers and showing that their returns decrease with the level of creditor protection and increase with the quality of accounting standards. However, for target countries with strong shareholder protection, acquirers experience negative share price reaction around the deal announcement when the target is public and positive share price reaction when the target is private.

While prior research has established a link between the legal environment and its effect on M&A activity, there are other factors which may influence a country's ability to attract and sustain M&A activity that should be considered. This paper thus develops an M&A maturity index (MARC M&A Maturity Index) which determines a country's openness to M&A and includes 36 different factors organized in six major groups: 1) Regulatory factors (e.g., rule of law and regulatory quality; see DeLong et al., 2001 and Rossi and Volpin, 2004); 2) Economic factors (e.g., GDP growth and economic freedom; see Berthelemy and Demurger, 2000 and Liu et al., 2009); 3) Financial factors (e.g., stock market capitalization and access to financing; see Yartey, 2008 and Saborowski, 2009); 4) Political factors (e.g., political stability and corruption of officials; see Yartey, 2008); 5) Technological factors (e.g., R&D expenditure and innovation; see Porter, 1993); and 6) Socio-cultural factors (e.g., people, talent and labor skills; an area not explored in existing research). Based on quintile classification methodology, each country receives an index score of between 5 and 1, where 5 is the best score and 1 is the worst achievable score, in terms of maturity/development.

The ability to determine a country's openness to M&A can contribute to a better understanding of the capacity of a given country to develop and sustain M&A activity levels, and hence make it possible to forecast future long-term M&A activity in a given country. In addition, the index is used further in this paper to determine what factors drive M&A activity in three subsequent stages of development, *mature* (or developed), *transitional*, and *emerging*. The average index score for mature markets is found to be 4.2, whereas the transitional average score is 3.4, and the emerging average score is 2.5.

The analysis of what drives activity at various stages of M&A maturity interestingly reveals that although the advancement of a country's technological and political environment is a prerequisite for M&A maturity, these factors have virtually no differentiating effect on M&A activity at the mature level. Instead, it is the socio-cultural environment that is the critical determinant. At the transitional stage of development, the technological, economic, financial, and political factors all show a significant relationship with M&A activity. The political environment is found to be negatively related to M&A activity, meaning that more M&A deals tend to occur when political instability is high. This finding suggests that political instability provides opportunities for acquirers even though the risks are correspondingly high. As for emerging economies, only technological and socio-cultural factors seem to (weakly) explain their overall index scores. This paper thus adds to the existing literature by showing how the relationship between market development factors and M&A activity differs according to the level of maturity of the market.

Although the full index includes ratings for 175 countries, 10 countries have been used as case studies including Brazil, China, India, Mexico, Poland, Russia, South Africa, Turkey, Ukraine, and United Arab Emirates. These countries have been chosen to illustrate the 'emerging' M&A regions, Africa, Asia, Eastern Europe, Latin America, and Middle East. According to the results of the case study analysis, China and United Arab Emirates are the most receptive to M&A activity out of the group of ten countries with a score of 3.8. In the case of China, the favorable score is largely driven by an attractive environment in terms of economic, financial, and technological factors, while the favorable score received by the United Arab Emirates is due to the country's attractive investment climate in terms of economic, financial, and political factors. South Africa and Poland follow with a score of 3.7. For South Africa, the favorable score is largely driven by the country's financial, political, and technological environment, and for Poland the favorable score is driven by the large and skilled population (socio-cultural factors) as well as a stable political environment. Mexico receives a score of 3.5 positively driven by a high rate of technological advancements but dampened by political instability and a cumbersome regulatory environment. Brazil and Russia receive a score of 3.3. Brazil's level of maturity is worsened by a cumbersome regulatory system and Russia's prospectus of becoming a mature M&A market is negatively influenced by the country's high levels of corruption. India receives a score of 3.2, a reflection of the country's unreliable regulatory system and instable political environment as well as the low levels of skill in the workforce. Finally, Ukraine receives a score of 2.8 which is a reflection of the poor score in all factor groups except for the technological and socio-cultural environments.

The remainder of the paper is organized as follows: Section 2 provides a review of the literature on scoring measures. Section 3 describes the sample as well as the methodology used in the study. Section 4 discusses the empirical results and Section 5 concludes.

2 Literature Review

The factors included in the scoring table of this study are divided into six sub-groups which have been identified as important in developing and supporting an active M&A market.

Legal and political factors. Rossi and Volpin (2004) support the inclusion and emphasize the importance of legal factors. The authors find that the volume of M&A activity is significantly larger in countries with better accounting standards and stronger shareholder protection. In addition, the study shows that in cross-border deals, targets are typically from countries with poorer investor protection relative to acquirers, suggesting that cross-border transactions can play a disciplining role by improving the degree of investor protection within target firms. The relaxation of regulation rules as a stimulus for cross-border activity is explained by DeLong et al. (2001). The authors also find that mergers tend to be less frequent if information costs are high which supports the hypotheses that a more transparent business environment (e.g., protecting shareholder rights) fosters M&A activity. Location specific factors that can influence cross-border M&A activity are the size of the foreign market, trade relations, the presence of non-financial firms abroad, and the existence of barriers to entry. These findings also support the inclusion of political factors in the scoring table since the political environment, and particularly its stability, can greatly influence a country’s attractiveness for foreign investors. In addition, Guerin and Manzocchi (2009) argue that democracy does have a positive effect on the amount and probability of Foreign Direct Investment (FDI) flows from developed to developing countries.

Economic factors. Berthelemy and Demurger (2000) discuss and confirm the fundamental role played by FDI in provincial economic growth in China, and stress the importance of the potential for future growth in foreign investment. This line of thinking is also supported by Liu et al. (2009), who observe a two-way causal relationship between trade, inward FDI, inward M&A, and economic growth for most of the economies analyzed in the study. It is evident that the presence of economic growth and business trade is a necessary condition for an M&A market to develop, which supports the inclusion of economic factors in the database.

Financial factors. The development of domestic capital markets is a key driver of M&A activity since investment requires capital and it is easier and more cost-effective to source capital from the local market. Therefore, the development of stock markets is of high importance. Yartey (2008) argues that macroeconomic factors such as the income level, gross domestic investment, banking sector development, private capital flows, and stock market liquidity are important determinants of the degree of stock market development in emerging market countries. His results also show that political risk, law and order, and bureaucratic quality are all important factors for the development of stock markets because they enhance the viability of external finance. This result suggests that the reduction of political risk can be an important factor in the development of stock markets in emerging economies. Saborowski (2009) shows evidence that the exchange rate appreciation effect of FDI inflows is indeed attenuated when financial and capital markets are larger and more active. The main implication of these results is that one of the main dangers associated with large capital inflows in emerging markets – the destabilization of macroeconomic management (due to a sizeable appreciation of the real exchange rate) – can be partly mitigated by developing a deep financial sector. This idea is relevant in the context of this study since it highlights the importance of developed capital markets and a stable financial system to the ability to sustain

M&A activity, thus supporting the inclusion of financial factors in the database. The issue of financial systems in emerging economies is further discussed by Smith and Valderrama (2008) who argue that net foreign asset positions can be explained by financial system inefficiencies in underdeveloped financial markets. These inefficiencies raise the cost of debt financing for domestic firms, which in turn leads to distinct effects, among which is the limitation on the purchase of foreign firms.

Technological and Socio-cultural factors. Following Porter (1993), the issue of a country's social development as well as the level of technical innovation and entrepreneurship are of high importance for the formation of a sustainable M&A market. If unemployment is high and the workforce is highly unskilled, there will be little scope for development of businesses and little interest to grow in the country. Similarly, if no appetite or support for R&D or technological development exists, the country will stagnate internally and will not be able to sustain M&A activity. All these factors provide a rationale for the inclusion of technological and socio-cultural factors in the database.

3 Data and Methodology

The scoring method is designed as a tool which makes it possible to evaluate the capacity of a given country to attract and sustain M&A activity, based on the areas identified in the literature, with a resulting total of 36 legal, economic, financial, political, technological, and socio-cultural factors.

The scoring system of the database ranges between 5 and 1, where 5 is the best score and 1 is the worst achievable score, in terms of maturity/development. All 36 sub-factors were equally weighted to determine the factor group score. Subsequently, each factor group's score was equally weighted to determine the overall score for the country. The regulatory factor group consists of twelve sub-factors (Table 1), the economic factor group includes seven sub-factors (Table 2), the financial factor group consists of five sub-factors (Table 3), the political factor group includes four sub-factors (Table 4), the technological factor group includes three sub-factors (Table 5), and the socio-cultural factor group includes four sub-factors (Table 6).

To determine the correct score for each sub-factor, this paper makes use of publicly available data from sources or reports with a continuous updating process. Since the aim of the scoring database is to create a useful tool for academics and practitioners with an interest in emerging markets, it is important that the data sources are available for all countries and that updates are available as changes occur or these countries develop. The idea is to use the methodology in this paper (with option for tailored alteration) and apply it to the country in question at a specific point in time. As the sources are referenced and the thresholds are stated, further analysis can easily be performed for other markets.

In terms of the thresholds (scores of 5 to 1), a semi-subjective approach has been adopted. This paper argues, in line with La Porta et al. (2002), Djankov et al. (2007), Djankov et al. (2008), and Spamann (2010), that whilst following a strict classification methodology can be beneficial and robust for many types of research, the 'openness to M&A' is not a black and white subject, but rather the classification should leave some room for subjectivity. Nevertheless, in general, for each factor a widely recognized survey, report, or database (sourced from international institutional bodies, e.g., IMF) was identified and quintiles were calculated based on the full sample of the particular dataset, and then assigned a score of 5-to-1. The decision to use quintiles is based on the notion that for many of the factors the potential scale is indefinable and distribution of countries is not even, or normal, and consequently the calculation of quintiles has been made depending on distributions rather than full (potential) scale. For example, the total stock market capitalization for each country could potentially take a value of 0 to infinity, however clusters of low developed markets vs.

highly developed markets are clear. It is therefore a more accurate estimation to use quintile classification.

It should be noted that the country characteristics chosen for the factor database rely mostly on quantifiable data, as qualitative data would undermine the objectivity of the database. One potential drawback of the study is the fact that some factor rankings rely on surveys. For example, Enterprise Surveys' data cover mainly manufacturing and certain services for registered firms with more than 10 employees. Other sectors are covered on a smaller scale, with the exception of the banking sector. Data for several countries are not available in Enterprise Surveys, and, as a result, those sub-factors were left blank when no data could be obtained. Lastly, the focus of the study is to determine the environment for M&A where the target is located within the specified countries. Investors and companies within these countries also purchase companies and assets outside of their country and these deals are not included. However, it should be noted that such deals might impact the overall growth of the domestic market.

Following Rossi and Volpin (2004), M&A volumes have been restricted to only include deals where control is transferred from one firm to another, i.e., excluding minority purchases, purchase of remaining interest, LBOs, spin-offs, recapitalization, self-tenders, exchange offers, repurchases, and privatization. In addition, only completed and withdrawn deals have been included.

4 Results

This section provides the results organized by the classification of the stages of development using the score methodology developed in the paper, the determinants of M&A activity, and the drivers of the overall scores.

4.1 Scores and Stages of Development

To determine the stages of development in relation to M&A maturity, the sample of 175 countries is divided into three groups, mature, transitional, and emerging markets. The traditionally active M&A markets, i.e., North America, Western Europe, Japan, and Australia, form the initial 'mature' market classification. 'Transitional' markets form the top third of the maturity index (excluding mature markets), and 'emerging' markets make up the remaining two thirds of countries rated in the index. Table 7 illustrates the scores of 40 selected countries as well as the median scores for each stage of development. The discriminant analysis confirms that the initial classification process classifies 92% of all countries at the correct level of maturity using prior probabilities proportional to the percentage of countries in each group (see Table 8 for more details). China, originally classified as a transitional market, achieves a score of 3.8, which is worse than, for example, the Czech Republic and Chile, but it is still classified as a mature market by the discriminant analysis model. China is interesting in this respect, as the country receives a relatively poor score rating for the regulatory and political environment, compared to other mature markets. However, as the remaining factor scores, economic, financial, technological and socio-cultural, are closer to those in the mature market classification group, it is considered to have reached a mature level for M&A purposes by the model. Other countries which the model considers mature for M&A purposes include South Korea, Singapore, Hong Kong, Malaysia, and Israel.

4.2 Determinants of M&A Activity

Multivariate regression analysis is performed to determine which factor groups explain the differences in M&A activity between countries. The M&A data (logged volume) is regressed against the six factor groups and the results are shown in Table 9. The results show that, in line with other authors, economic (Berthelemy and Demurger, 2000; Liu et al., 2009), financial (Yartey, 2008; Saborowski, 2009), and technological factors (Porter, 1993) are determinants of M&A activity (domestic and in-bound). This paper adds to the existing literature by proving a positive relationship between M&A activity and a country's socio-cultural development, i.e., population size, population growth, level of education, and labor skills. Notably, the findings do not provide support for the development of the regulatory environment as a determinant of M&A activity, which contradicts the findings of Rossi and Volpin (2004) in what concerns the importance of strong shareholder protection to attract M&A (see also DeLong et al., 2001). Political factors do not seem to determine M&A activity, as previously argued by Yartey (2008). For countries which have reached the mature stage, the only factor group which is found to have a significant relationship with M&A activity is the socio-cultural factor group. In the transitional stage of development, economic, financial, political, and mostly technological advancements are found to explain the differences in M&A activity between countries. It should be noted that the relationship between political factors and M&A activity in the transitional stage is negative. At the transitional stage of development, countries such as Russia, China, India and Brazil, are often in the transition of moving from a closed to an open market system. As argued by DeLong et al. (2001), the relaxation of regulation rules can function as a stimulus for cross-border activity. However, if no adequate system to protect the assets is in place, corruption will also increase as a result of the relaxation. It seems more plausible that the negative relationship between the political environment and M&A activity is a result of the characteristics of a transitional market rather than a reflection of M&A activity being driven by a poor political environment. In emerging markets only technological and socio-cultural factors seem to (weakly) determine M&A activity, reflection of little variation within the other factor scores.

4.3 Drivers of the Overall Scores

Table 10 shows the results of univariate tests to determine amongst all factors those that drive the overall score for each type of country, *mature*, *transitional*, and *emerging*. As shown in the table, the difference between the stages of development, mature vs transitional vs emerging, is greatest for the political and technological factor groups. This result indicates that a favorable political and technological environment is a prerequisite for a market to reach the mature development stages, supporting the work of Guerin and Manzocchi (2009), Yartey (2008), and Porter (1993).

4.4 Case Study Country Scores

This section discusses ten case studies using the methodology developed in the paper: Brazil, China, India, Mexico, Russia, Poland, South Africa, Turkey, Ukraine, and United Arab Emirates. Table 11 shows the individual scores for each case and Appendix A elaborates on each country at length.

4.4.1 Brazil

Brazil is seen by many as one of the most interesting markets for future M&A activity. The country is resource-rich, has a large population, and has attracted a large volume of foreign investment. However, the cumbersome regulatory environment, in particular the labor regulations, is a major constraint for the general business environment.

Brazil scores 3.3 in the index. The Economist Intelligence Unit (EIU) Country Report for February 2010 reports on continuous promotion for increased private-sector participation in traditionally state-controlled industries, e.g., ports and airports, which are in need of infrastructure development. This factor should stimulate M&A activity in the coming year, as should the continuous interest in Brazil's energy sector.

4.4.2 China

China's transformation into an economic super-power during the last decade has attracted a large number of foreign firms to the country, as well as having spurred domestic M&A activity. With China emerging stronger than ever as other markets are still recovering slowly after the global credit crisis, this trend is likely to continue.

The country scores 3.8 in the index, a score which is positively driven by its favorable economic, financial and technological environments, but hampered by the regulatory and political environments, which still pose severe challenges to doing business.

4.4.3 India

India is an exciting market, boasting a large population, a growing middle class and an entrepreneurial business environment. However, the country remains unstable politically and its regulatory environment is challenging. These areas will need to develop further for the country to become a 'mature' M&A market. India currently scores 3.2 in the index.

4.4.4 Mexico

Mexico's strategic location as the common ground between North and Latin America makes it an attractive market in the region. Mexico is highly dependent on North America to stimulate growth, and its economic environment is set to improve as Canada and the US regain strength after the global recession.

The country scores 3.5 in the index. Its politically unstable environment, driven by a high rate of violence in connection to combat the drugs trade, will need to improve significantly in order to make Mexico a more 'mature' market for M&A purposes.

4.4.5 Poland

Poland’s skilled workforce and stable political environment makes it an attractive market for M&A purposes. However, the regulatory environment remains challenging as it is still highly bureaucratic. The country also risks losing its innovative business environment as only a very small proportion of GDP is spent on R&D. The domestic financial environment will need to develop further in order to enable credit for domestic business, which will encourage growth.

Poland receives a score of 3.7 in the index.

4.4.6 Russia

Russia’s large economy and population, as well as its powerful position in the world political scene, makes it an attractive market. However, difficult regulatory and political environments pose a challenge for foreign firms, as confirmed by the low proportion of incoming cross-border deals in 2009 (10%), giving an M&A maturity score of 3.3.

4.4.7 South Africa

South Africa was seen as an exciting market for future economic growth long before the nation successfully hosted the FIFA World Cup during June and July 2010. The country is arguably the most advanced nation in a continent which is rich in resources but underdeveloped due to its violent history and legacy of colonization.

The country scores 3.7 in the index. According to the EIU Country Report of February 2010, large investments in infrastructure projects are expected during 2010/11 which should stimulate general business activity.

4.4.8 Turkey

Turkey provides an interesting marketplace in which to conduct business, mostly due to its strategic geographical and political position between the East and West. The country's economy grew at an average of 7% between 2003 and 2007 according to the EIU Country Report for March 2010, but was badly affected by the global recession and contracted by 5-5.5% in 2009, according to the same report.

Turkey scores 3.3 in the index. Notably, the political environment will need to stabilize before the country can reach more 'mature' levels for M&A purposes.

4.4.9 Ukraine

Ukraine has long been followed with great interest as its size and strategic location favors it becoming a business hub of the CEE/CIS region. The population is large and skilled, which should stimulate economic growth in the longer term. However, the country's cumbersome and unpredictable regulatory environment, coupled with a very challenging political situation with high levels of corruption, results in its relatively poor ranking of 2.8 in the index. Political stability as well as economic and regulatory reform is seen as key to Ukraine's development.

4.4.10 United Arab Emirates

The United Arab Emirates (UAE) is an attractive market for investment due to the large amounts of domestic capital, generated by the federation's oil resources, and the recent establishment of Dubai and, to a lesser extent, Abu Dhabi as globally recognized financial centers. The UAE have made a name as a net cross-border acquirer, i.e., they have invested more money abroad acquiring assets as part of their strategy to diversify than that which foreign investors have spent in the UAE. However, the index indicates that the UAE is relatively mature for domestic and inbound cross-border M&A purposes with a score of 3.8.

5 Conclusion

The paper provides a proprietary methodology to measure a country's M&A maturity, the 'MARC M&A Maturity Index.' A country's regulatory, economic, financial, political, technological, and socio-cultural environments are measured to provide an overall index score. The index includes scores for 175 countries with 40 selected country scores being illustrated in the paper. In addition, ten countries, representing key emerging regions, have been discussed in detail as case studies: Brazil, China, India, Mexico, Russia, Poland, South Africa, Turkey, Ukraine, and United Arab Emirates. This scoring system thus provides a robust illustration of M&A maturity on a country level and may function as a starting point for a discussion around deal-making in lesser known markets.

By studying the factor scores at different stages of development it can be concluded that a country's political and technological advancements are prerequisites to becoming a mature market for M&A purposes. The findings of the paper also provide support to previous studies regarding macro- and micro-economic determinants of M&A activity, proving that economic, financial, technological, and socio-cultural factors are significantly related to M&A activity. The paper goes one step further and analyzes the drivers of M&A activity in different stages of a country's development. The results show that it is the socio-cultural advancements which drive M&A activity in mature markets. In transitional markets, it is instead the economic, financial, political, and technological factors which are significantly related to M&A activity. Interestingly, the political environment is negatively related to M&A activity, which could be a reflection of characteristics of the transitional markets. Finally, only technological and socio-cultural factors seem to explain, albeit not very significantly, the scores obtained by emerging economies in the index.

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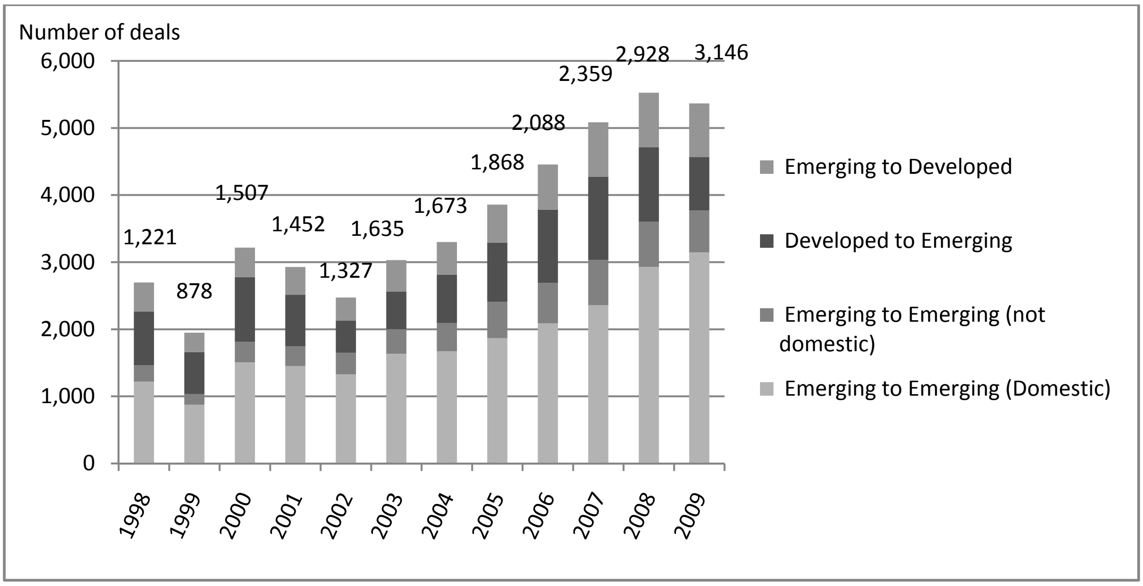
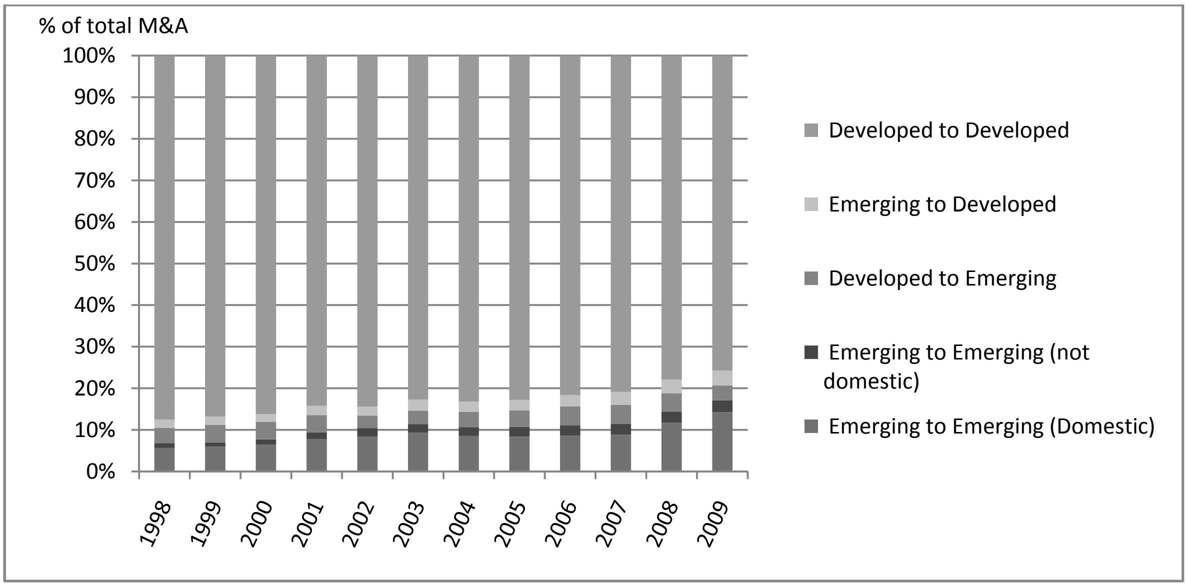
Figure 1: M&A activity involving emerging markets from 1998 to 2009 (No. of deals)



Source: SDC Platinum
Note: Developed markets have been defined as North America, Western Europe, Australia, New Zealand, and Japan. Emerging markets include all other countries.

Figure 2: M&A activity involving emerging markets from 1998 to 2009 (% of all deals)



Source: SDC Platinum
Note: Developed markets have been defined as North America, Western Europe, Australia, New Zealand, and Japan. Emerging markets include all other countries.

Table 1: Scoring methodology and sources – Regulatory factors

Rule of Law	Data was obtained from the World Bank's *'Governance Matters 2009'*. Ranking based on the Governance Matters 2009 report on 'Rule of Law' (2008 data). Scores were developed by quintile classification based on the full dataset.
Regulatory Quality	Data was obtained from the World Bank's *'Governance Matters 2009'*. Ranking based on the Governance Matters 2009 report on 'Regulatory Quality' (2008 data). Scores were developed by quintile classification based on the full dataset.
Merger Control	Ranking based on the Global Law Intelligence Unit's survey on *'Leveraged Mergers and Acquisitions'* from 2010. 'Merger control' deals with merger filing obligations. The scores (1-4) have been assigned by lawyers practicing in the country in question. For consistency across all index components, the score were subsequently converted into 5-1 by reversing the index and exchanging all ratings of 4 to 5 and 3 to 4.
Foreign Investment Approval	Ranking based on the Global Law Intelligence Unit's survey on *'Leveraged Mergers and Acquisitions'* from 2010. 'Foreign investment approval' deals with whether there are any legal limitations applying to a foreign company purchasing, or acquiring an indirect interest in, a company in the jurisdiction concerned. The scores (1-4) have been assigned by lawyers practicing in the country in question. For consistency across all index components, the score were subsequently converted into 5-1 by reversing the index and exchanging all ratings of 4 to 5 and 3 to 4.
Labor Regulations	Ranking based on the World Bank's Enterprise Surveys, '% of Firms Identifying Labor Regulations as a Major Constraint' (data corresponding to last year available). Scores were developed by quintile classification based on the full dataset.
Business Licensing and Permits	Ranking based on the World Bank's Enterprise Surveys, '% of Firms Identifying Business Licensing and Permits as Major Constraint' (data corresponding to last year available). Scores were developed by quintile classification based on the full dataset.
Completion Formalities	Ranking based on the *'Doing Business 2010: A record in business regulation reform'* report by the World Bank, under the heading 'Starting a Business'. Scores were developed by quintile classification based on the full dataset.
Protecting Investors	Ranking based on the *'Doing Business 2010: A record in business regulation reform'* report by the World Bank, under the heading 'Protecting Investors'. Scores were developed by quintile classification based on the full dataset.
Registering Property	Ranking based on the *'Doing Business 2010: A record in business regulation reform'* report by the World Bank, under the heading 'Registering Property'. Scores were developed by quintile classification based on the full dataset.
Paying Taxes	Ranking based on the *'Doing Business 2010: A record in business regulation reform'* report by the World Bank, under the heading 'Paying Taxes'. Scores were developed by quintile classification based on the full dataset.
Trading Across Borders	Ranking based on the *'Doing Business 2010: A record in business regulation reform'* report by the World Bank, under the heading 'Trading Across Borders'. Scores were developed by quintile classification based on the full dataset.
Enforcing Contracts	Ranking based on the *'Doing Business 2010: A record in business regulation reform'* report by the World Bank, under the heading 'Enforcing Contracts'. Scores were developed by quintile classification based on the full dataset.

Table 2: Scoring methodology and sources – Economic factors

GDP Size	Data was obtained from International Monetary Fund's *'World Economic Outlook Database'* April 2010. Ranking based on average size of GDP (PPP in international dollars) between 2009 and (estimated) 2015. Scores were developed by quintile classification based on the full dataset.
GDP Growth	Data was obtained from International Monetary Fund's *'World Economic Outlook Database'* April 2010. Ranking based on average growth rate of GDP between 2009 and (estimated) 2015. Scores were developed by quintile classification based on the full dataset.
Economic Freedom	Data was obtained from The Heritage foundation's *'Index of Economic Freedom'* 2010. Ranking based on the '2010 Index of Economic Freedom'. Scores were developed by quintile classification based on the full dataset.
Investment Climate	Data was obtained from The World Economic Forum's *'Global Competitiveness Report'* 2009-2010. Ranking based on the 'Global Competitiveness Report' 2009-2010. Scores were developed by quintile classification based on the full dataset.
Inflation	Data was obtained from International Monetary Fund's *'World Economic Outlook Database'* April 2010. Ranking based on average rate of inflation (average consumer prices) between 2009 and (estimated) 2015. Scores were developed by quintile classification based on the full dataset.
Current Account Balance	Data was obtained from International Monetary Fund's *'World Economic Outlook Database'* April 2010. Ranking based on average current account balance (as % of GDP) between 2009 and (estimated) 2015. Scores were developed by quintile classification based on the full dataset.
Economic Structure Risk	Ranking based on the Economist Intelligence Unit Country Risk Service: Risk ratings summary (latest Q available). Economic Structure Risk: A risk rating of AAA to AA- gives a score of 1, A+ to A- gives 2, BBB+ to BBB- gives 3, BB+ to B- gives 4, and CCC+ and below gives 5.

Table 3: Scoring methodology and sources – Financial factors

Development of equity market	Ranking based on the total Market capitalization of listed companies (current US$). Data source is the World Bank's 'World development indicators'. Scores were developed by quintile classification based on the full dataset.
Development of bond market	Data was obtained from Bloomberg. Ranking based on the total outstanding bond issuance (current US$). Scores were developed by quintile classification based on the full dataset.
Availability of domestic banking credit	Data was obtained from World Bank's *'World Development Indicators'*. Ranking is based on the Domestic credit provided by banking sector (% of GDP). Scores were developed by quintile classification based on the full dataset.
Currency Risk	Ranking based on the Economist Intelligence Unit Country Risk Service: Risk ratings summary (latest Q available). Currency Risk: A risk rating of AAA to AA- gives a score of 1, A+ to A- gives 2, BBB+ to BBB- gives 3, BB+ to B- gives 4, and CCC+ and below gives 5.
Access to Finance	Ranking based on the World Bank's Enterprise Surveys, '% of Firms Identifying Access to Finance as a Major Constraint', latest year available. Scores were developed by quintile classification based on the full dataset.

Table 4: Scoring methodology and sources – Political factors

Political stability	Ranking based on the Governance Matters 2009 report on 'Political Stability No Violence' (2008 data). Scores were developed by quintile classification based on the full dataset.
Sovereign debt rating	Ranking based on an average of S&P's long-term foreign currency debt rating and long-term local currency debt rating (as at 15/03/2010, data obtained from Bloomberg). Rating: A risk rating of AAA to AA- gives a score of 1, A+ to A- gives 2, BBB+ to BBB- gives 3, BB+ to B- gives 4, and CCC+ and below gives 5.
Corruption of officials	Ranking based on Transparency International's *'Corruption Perceptions Index'* 2009. Scores were developed by quintile classification based on the full dataset.
Control of corruption	Ranking based on the Governance Matters 2009 report on 'Control of Corruption' (2008 data). Scores were developed by quintile classification based on the full dataset.

Table 5: Scoring methodology and sources – Technological factors

High-Technology Exports	Data was obtained from World Bank's *'World Development Indicators'*. Ranking based on High-technology exports (% of manufactured exports). Scores were developed by quintile classification based on the full dataset.
R&D expenditure	Data was obtained from *World Bank's 'World Development Indicators'*. Ranking based on Research and development expenditure (% of GDP). Scores were developed by quintile classification based on the full dataset.
Innovation	Ranking based on the number of patents granted in 2008, per country or origin, as reported in the *'World Patent Report: Statistical Review'*, World Intellectual Property Organization. Scores were developed by quintile classification based on the full dataset.

Table 6: Scoring methodology and sources – Socio-Cultural factors

Population Size	Data was obtained from World Bank's *'World Development Indicators'*. Ranking based on data for total population. Scores were developed by quintile classification based on the full dataset.
Level of education	Data was obtained from World Bank's *'World Development Indicators'*. Ranking based on the ratio of children of official school age based on the International Standard Classification of Education 1997 who are enrolled in school to the population of the corresponding official school age. Scores were developed by quintile classification based on the full dataset.
Labor Skill	Ranking based on the World Bank's Enterprise Surveys, '% of Unskilled Workers', latest year available. Scores were developed by quintile classification based on the full dataset.
Level of training offered	Ranking based on the World Bank's Enterprise Surveys, '% of Firms Offering Formal Training', latest year available. Scores were developed by quintile classification based on the full dataset.

Table 7: Index scores for 40 selected countries

Country	Index score	Regulatory factors	Economic factors	Financial factors	Political factors	Technological factors	Socio-cultural factors
Mature Markets							
Canada	4.6	4.0	4.3	4.2	5.0	5.0	5.0
United Kingdom	4.6	4.9	4.0	4.0	4.8	5.0	5.0
United States	4.5	4.4	4.1	4.0	4.8	5.0	4.5
France	4.4	3.9	4.0	4.0	4.8	5.0	5.0
Germany	4.4	3.7	4.3	4.2	5.0	4.7	4.3
Japan	4.4	3.6	4.3	4.0	4.8	5.0	5.0
Australia	4.3	4.3	4.0	3.8	5.0	4.7	4.0
Mature Markets Average	4.2	4.0	4.0	3.8	4.6	4.7	4.0
Transitional Markets							
Singapore	4.3	4.8	4.4	3.4	5.0	5.0	3.0
South Korea	4.3	3.8	4.3	4.0	4.0	5.0	4.8
Hong Kong	4.1	4.8	4.4	3.6	4.0	4.7	3.0
Chile	3.9	3.9	4.0	3.5	4.8	3.7	3.5
Czech Republic	3.9	3.2	3.9	3.2	4.0	4.3	4.7
Israel	3.9	3.6	4.1	3.4	3.8	5.0	3.5
Malaysia	3.9	3.8	4.3	4.2	3.8	4.0	3.3
China	3.8	2.6	4.3	4.3	3.0	5.0	3.7
United Arab Emirates	3.8	3.7	4.0	4.0	4.7	3.0	3.5
Poland	3.7	2.7	3.7	3.3	4.0	3.7	5.0
South Africa	3.7	3.5	3.3	4.4	3.8	3.7	3.5
Thailand	3.6	3.6	4.1	3.7	2.8	3.7	3.7
Mexico	3.5	3.1	3.6	3.8	3.0	4.0	3.5
Qatar	3.4	3.3	4.5	3.5	5.0	1.5	2.5
Brazil	3.3	2.3	3.1	3.2	2.8	4.3	4.0
Russia	3.3	2.5	3.1	3.2	1.8	4.3	4.7
Saudi Arabia	3.3	3.5	4.0	2.8	3.8	2.3	3.5
Turkey	3.3	3.2	3.1	3.3	3.0	3.7	3.3
India	3.2	2.8	3.6	4.0	2.5	4.0	2.7
Kazakhstan	3.2	3.0	3.1	2.8	2.5	3.7	4.3
Colombia	3.1	2.8	3.6	3.3	2.5	2.7	3.5
Kuwait	3.1	3.3	3.8	2.8	4.3	2.0	2.5
Philippines	3.1	3.0	3.1	3.7	1.8	3.3	3.8
Vietnam	3.1	2.8	2.7	3.5	2.3	2.7	4.7
Argentina	3.0	2.3	3.0	2.5	2.5	3.7	4.0
Transitional Markets Average	3.4	3.4	3.4	3.2	3.5	3.4	3.4
Emerging Markets							
Indonesia	3.0	3.1	3.6	3.5	1.8	2.7	3.3
Egypt	2.9	3.1	3.4	3.2	2.3	2.3	3.3
Ukraine	2.8	2.2	2.1	2.7	2.0	4.0	4.0
Nigeria	2.3	2.6	3.4	2.3	1.5	1.5	2.5
Emerging Markets Average	2.5	2.6	2.5	2.7	2.2	2.0	2.7

Table 8: Discriminant analysis

Actual EM Flag	Group Size	Predicted EM Flag		
		0	1	2
0	24	21	3	0
		(87.50%)	(12.50%)	(0.00%)
1	51	6	41	4
		(11.76%)	(80.39%)	(7.84%)
2	100	0	1	99
		(0.00%)	(1.00%)	(99.00%)

Note: ‘EM Flag’ is 0 for *mature*, 1 for *transitional*, and 2 for *emerging* markets.

Table 9: Determinants of M&A activity

Variables	All markets	Mature markets	Transitional markets	Emerging markets
Constant	-5.03***	-11.18*	-2.39	-1.82
Overall index	2.45***	3.95***	1.71**	1.16**
R-Squared	0.63	0.49	0.15	0.08
Number of observations	129	24	45	60
Constant	-5.56***	-10.39	-3.15**	-2.06
Regulatory factors	-0.00	0.74	-0.14	0.04
Economic factors	0.63***	1.65	0.90***	0.13
Financial factors	0.74***	1.61	0.83***	0.19
Political factors	-0.04	0.12	-0.68**	0.04
Technological factors	0.70***	-1.23	0.88***	0.53*
Socio-cultural factors	0.60***	1.33***	0.15	0.36*
R-Squared	0.73	0.78	0.67	0.19
Number of observations	129	24	45	60

Note: ***, **, and * represent significant at the 1%, 5%, and 10% significance level, respectively. Robust standard errors.

Table 10: Univariate tests

	MARC Score	Regulatory factor score	Economic factor score	Financial factor score	Political factor score	Technological factor score	Socio-cultural factor score
(1) Mean index value All markets	3.0	3.0	3.0	3.0	2.9	2.8	3.1
(2) Mean index value Developed economies	4.2	4.0	4.0	3.8	4.6	4.7	4.0
(3) Mean index value Transitional economies	3.4	3.4	3.4	3.2	3.6	3.5	3.4
(4) Mean index value Emerging economies	2.5	2.6	2.5	2.7	2.2	2.0	2.7
Tests (2), (3)	0.8	0.6	0.6	0.6	1.1	1.3	0.6
Tests (3), (4)	0.9	0.8	0.8	0.5	1.4	1.4	0.7
Tests (2), (4)	1.7	1.4	1.4	1.1	2.4	2.7	1.3

Note: The t-tests are all significant at the 1% significance level.

Table 11: Case study country scores

Country Factsheet	Brazil	China	India	Mexico	Poland	Russia	South Africa	Turkey	Ukraine	United Arab Emirates	'Mature' market median	'Transitional' market median
GDP growth 2009 - 2015*	3.90%	9.60%	7.80%	2.80%	3.60%	2.80%	3.20%	2.50%	1.70%	3.30%	1.30%	3.30%
Patents granted in 2008**	582	48,815	1,282	325	1,611	22,871	402	439	2,670	25	4,514	78
Population size***	192.3m	1,325.6m	1,140.2m	106.5m	38.1m	141.2m	48.4m	73.9m	46.2m	4.5m	13.5m	7.6m
MARC score	***3.3***	***3.8***	***3.2***	***3.5***	***3.7***	***3.3***	***3.7***	***3.3***	***2.8***	***3.8***	***4.2***	***3.4***
Regulatory environment	2.3	2.6	2.8	3.1	2.7	2.5	3.5	3.2	2.2	3.7	4.0	3.4
Economic environment	3.1	4.3	3.6	3.6	3.7	3.1	3.3	3.1	2.1	4.0	4.0	3.4
Financial environment	3.2	4.3	4.0	3.8	3.3	3.2	4.4	3.3	2.7	4.0	3.8	3.2
Political environment	2.8	3.0	2.5	3.0	4.0	1.8	3.8	3.0	2.0	4.7	4.6	3.5
Technological environment	4.3	5.0	4.0	4.0	3.7	4.3	3.7	3.7	4.0	3.0	4.7	3.4
Socio-cultural environment	4.0	3.7	2.7	3.5	5.0	4.7	3.5	3.3	4.0	3.5	4.0	3.4

*GDP growth is average GDP growth from 2009 to 2015 (estimated). Source: IMF's 'World Economic Outlook Database' April 2010.

**Number of patents granted is per country of origin. Source: World Intellectual Property Organization's *World Patent Report* 2008.

***Population size is total population. Source: World Bank's *World Development Indicators.*

Appendix A: Case Studies

I. Brazil	
i. Country outlook	***ii. Regulatory environment***
Brazil is seen by many as one of the most interesting markets for future M&A activity. The country is resource-rich, has a large population and has attracted a large volume of foreign investment. However, the cumbersome regulatory environment, in particular the labor regulations, is a major constraint for the general business environment. Brazil scores 3.3 in the index. The Economist Intelligence Unit (EIU) *Country Report* for February 2010 reports on continuous promotion for increased private-sector participation in traditionally state-controlled industries, e.g., ports and airports, which are in need of infrastructure development. This should stimulate M&A activity in the coming year, as should the continuous interest in Brazil's energy sector.	Brazil's regulatory system is fragmented and many areas are in need of reform. According to the EIU, the resolution of pending issues such as tax, pension and labor market reforms will depend on the outcome of the general election in October 2010. The report states that more progress is expected should Mr Serra win (see the 'Political environment' section below). Brazil has a highly unfavorable regulatory environment for M&A purposes, with a score of 2.3. Most notably, according to the World Bank's *Enterprise Survey*, 57% of firms in Brazil identify labor regulations as a major constraint, which is the highest percentage of the 125 countries surveyed worldwide.
iii. Economic environment	***iv. Financial environment***
Brazil is the largest economy in Latin America with a GDP of $1,638 billion in 2008 (EIU, Brazil *Country Report,* February 2010). EIU forecasts Brazil's real GDP to grow by 5% in 2010; however longer-term forecasts are more prudent. According to the IMF, Brazil's economy will grow at an annual average of 3.9% between 2009 and 2015. The score for Brazil's economic environment is 3.1, boosted by the country being one of the largest economies in the world, but hampered by the poor score for economic freedom as reported in the Heritage Foundation's *Index of Economic Freedom 2010*.	Brazil receives a score of 3.2 for its financial environment, at par with the transitional market average. Brazil has a developed equity and bond market (measured by stock market capitalization and the number of outstanding corporate bonds), however more than 56% of Brazilian companies identify access to finance as a major constraint, according to the World Bank's *Enterprise Survey*. One explanation is the country's high interest rates. The Selic rate (central bank rate) is currently set at 8.75% but is forecast to increase by 275 basis points to 11.5% by the end of 2011 (EIU *Country Report*, February 2010).
v. Political environment	***vi. Technological environment***
Brazil will have a general election in October 2010 and it will be the end of popular president Lula da Silva's term. His preferred successor is Dilma Rousseff. Her main rival is José Serra, who, if he wins, is expected to give the government a less prominent role in economically productive sectors than Ms Rousseff. Due to the impending election, many policy issues have been put on hold until after October. However, according to the EIU, monetary policy is expected to be tightened regardless of which candidate takes office as macroeconomic stability remains high on the agenda. Brazil scores 2.8 for its political environment in the index, which is worse than the transitional market average. The World Bank's *Governance Matters 2009* reports a relatively poor score for political stability in Brazil and, according to the Transparency International's *Corruption Perceptions Index 2009*, corruption in Brazil is at a medium level.	Brazil is found to have a favorable technological environment, with a score of 4.3. A country's technological advancements are found to drive M&A activity in markets at a transitional development stage, as a high level of R&D spending and technology exports signifies a thriving entrepreneurial business environment, attracting M&A of know-how and intellectual expertise. The World Intellectual Property Organization reported 582 patents granted to firms of Brazilian origin in 2008, which is significantly higher than the average for transitional markets albeit still lagging behind the yearly average for mature markets.
vii. Socio-cultural environment	***viii. Recent FDI and M&A activity***
Much of Brazil's economic growth is driven by its large population of 192.3 million (as reported by the World Bank), which drives its socio-cultural score of 4.0, at par with the mature market average. However, education and labor skills are still at low to medium levels and will need improvement to sustain M&A activity in the longer term.	According to figures from the United Nations Conference on Trade and Development [UNCTAD]'s *World Investment Report 2010*, the net Foreign Direct Investment [FDI] was an inflow of $36 billion in 2009, driven by an inflow of approximately $26 billion and a negative outflow of $10 billion. In the same year, the number of M&A deals[1] recorded in the SDC database where the target was a Brazilian company was 181.

[1] See the Sample and Methodology section for definition of the deal data.

II. China	
i. Country outlook	***ii. Regulatory environment***
China's transformation into an economic super-power during the last decade has attracted a large number of foreign firms to the country, as well as having spurred domestic M&A activity. With China emerging stronger than ever as other markets are still recovering slowly after the global credit crisis, this trend is likely to continue. The country scores 3.8 on the index, a score which is positively driven by its favorable economic, financial and technological environments but hampered by the regulatory and political environments, which still pose severe challenges to doing business.	China's regulatory environment is colored by state control. Recent rule changes favoring local businesses, part of the government's 'indigenous innovation' program, have worsened the outlook for foreign companies. China receives a score of 2.6 for its regulatory environment, reflecting the difficulties faced by foreign investors and the central-local strains which exist within the government, increasing the risk of corruption and delaying policy implementation. According to a recent survey conducted by the Global Law Intelligence Unit (GLIU) at Allen & Overy LLP in London, China receives the most unfavorable rating possible in terms of foreign direct investment regulations and those related to merger control (private companies).
iii. Economic environment	***iv. Financial environment***
China has emerged from the global recession growing at the impressive rate of 8.9% (estimated real GDP growth in 2010, (EIU *Country Report*, December 2009)). The country's economic environment rates 4.3 on the index, which is better than the mature market average. This favorable score is driven by its large GDP size, now said to have surpassed that of Japan,[2] continued high forecast growth, low levels of inflation and large surplus current account balance.	To avert the global downturn of 2008-2009, China loosened its credit policy and increased public spending, a strategy which has proven successful. However, cheaper credit has led to a boom in bank lending, causing the threat of an asset price bubble (EIU *Country Report*, December 2009). The Chinese government has started to increase interest rates, a policy trend which is expected to continue. The Chinese financial environment receives a favorable score of 4.3, largely driven by the availability of finance through a developed equity and bond market, as well as cheap banking credit. However, as reported in *The Economist*,[3] Chinese workers' expectations and power are rising, and companies will need to increase their level of pay in coming years, which will increase costs of production.
v. Political environment	***vi. Technological environment***
China's political situation has worsened due to violent outbreaks in regions with ethnic minority groups and other problems concerning social unrest. In addition, tension between China and the US is increasing as both sides pursue investigations about unfair trade practices (EIU *Country Report*, December 2009). China's score for its political environment of 3.0 is worse than both mature and transitional market averages. This unfavorable score is driven by a relatively poor 'political stability' rating, as reported by the World Bank's *Governance Matters 2009*, and medium to high levels of corruption. However, the EIU reports that corruption investigations are set to rise, which could improve the general business environment through better protection of assets.	China's technological environment is found to be highly favorable for M&A, receiving a score of 5.0. The country invests 1.5% of its GDP into R&D according to World Bank. This stimulates domestic innovation as shown by the high number of patents granted to companies of Chinese origin, approximately 49,000 in 2008 according to the World Intellectual Property Organization, placing China in the top five innovative countries worldwide, only surpassed by Japan, the US, South Korea and Germany. According to the EIU, improved protection of intellectual property in the pharmaceutical sector, together with government-sponsored incentives to move R&D to China, has spurred international firms to invest in R&D in the country and other sectors are expected to follow suit.
vii. Socio-cultural environment	***viii. Recent FDI and M&A activity***
China's large population is an attraction to foreign firms, especially as its middle-income bracket grows, but also because of the high supply of workers. The World Bank's *Enterprise Survey* reports that China has a high percentage of unskilled workers (87%) but also that Chinese firms are now the best of all countries surveyed at providing formal training to their workers (85%), indicating that the general level of skills at the workplace should increase. China's socio-cultural environment receives a score of 3.7.	UNCTAD reports a net inflow of FDI into China of $47 billion in 2009. The M&A data from the SDC Platinum database shows that 402 deals where the target company was Chinese were announced in 2009.

[2] 'Chinese economy eclipses Japan's', www.ft.com, 16 August 2010

[3] 'The rising power of the Chinese worker', The Economist, 29 July 2010

III. India	
i. Country outlook	***ii. Regulatory environment***
India is an exciting market, boasting a large population, a growing middle class and an entrepreneurial business environment. However, the country remains unstable politically and its regulatory environment is challenging. These areas will need to develop further for the country to become a mature M&A market. India currently scores 3.2 in the index.	India receives a score of 2.8 for its regulatory environment, which is worse than the transitional market average. Its unfavorable score in this area of development is driven by a cumbersome regulatory process as well difficulties in protecting assets (measured by the number of formalities which need to be completed when starting a business and the ability to enforce contracts, both from the World Bank's report, *Doing Business 2010: A record in business regulation reform*). According to the recent (2010) M&A regulatory survey, *Leveraged Mergers and Acquisitions*, conducted by GLIU (Allen & Overy, London), there is currently no obligation for private companies to obtain approval for any merger, however the rules are expected to change in order that all mergers will need approval from the Competition Commission of India (CCI), with a waiting period of up to a 210 days for the CCI to pass the order.
iii. Economic environment	***iv. Financial environment***
India has emerged strongly from the global downturn, with the EIU (*Country Report*, January 2010) forecasting a growth in real GDP of 7.1% for the fiscal year 2010/11. The EIU also forecasts a steady increase in the growth of private consumption in 2009/10-2010/11, following a low point of 2.9% in 2008/09. According to the index, India's economic environment is more favorable for M&A purposes than the transitional average, with a score of 3.6. A large, fast-growing economy is attractive to foreign investors but will also increase domestic deal activity. However, economic freedom, as reported by the Heritage Foundation's *2010 Index of Economic Freedom*, is low to medium and the country's forecasted inflation from 2009-2015 is high at 6.5% (IMF's *'World Economic Outlook Database'* April 2010), which worsen its score.	India scores slightly better than the mature market average in the index for the country's financial environment, with a score of 4.0. This favorable score is driven by a relatively well developed stock market and the availability of domestic credit from banks and through the bond market. In addition, labor wages are still low in India, which keeps production costs low for firms. To curb the immediate threat posed by recent food price inflation, driven by the poor monsoon in 2009, the Reserve Bank of India (RBI) has raised interest rates four times since March 2010.
v. Political environment	***vi. Technological environment***
India's large geographical size and its history of diversification between regions make governing difficult. However, the EIU (*Country Report*, January 2010) predicts that the Congress ruling party, the United Progressive Alliance, faces no immediate threat to its rule and is expected to serve a full second term, ending in 2014. India's regulatory environment receives an unfavorable index score of 2.5, indicating that there are several areas which need development in order to become mature for M&A purposes. The political scene remains unstable, driven by regional unrest, federal vs regional governmental tension and the recent food price inflation which sparked anti-government protests. In addition, political strains between India and China, due mainly to several border disputes,[4] are an additional risk to trade stability.	India is known to be a technological hub, driven by a thriving telecommunication sector and by the many students educated at India's several high-profile technological universities. In the index, India's technological environment receives a score of 4.0, which is better than the transitional market average. Although the 1,282 patents granted to companies of Indian origin (as reported by the World Intellectual Property Organization's *World Patent Report*) is a high number compared to all of the countries in the world, it is much lower than the mature market average of 4,514 patents filed. Also, the percentage of R&D investment and the quality of technology produced could improve in order to stimulate the domestic business environment.
vii. Socio-cultural environment	***viii. Recent FDI and M&A activity***
Although India's large working population presents an attractive supply of labor resources for firms, the general level of skills in the workforce is poor and the level of training provided by firms needs to increase in order to increase efficiency. This area of development for India receives a score of 2.7 according to the index, indicating that improvements are needed to reach a mature stage for M&A purposes.	According to the SDC Platinum database, 255 deals targeting Indian companies were announced in 2009. The same year, the net inflow of FDI was $19.7 billion according to UNCTAD.

[4] 'A Himalayan rivalry', *The Economist*, 19 Aug 2010

IV. Mexico	
i. Country outlook	***ii. Regulatory environment***
Mexico's strategic location as the common ground between North and Latin America makes it an attractive market in the region. Mexico is highly dependent on North America to stimulate growth, and its economic environment is set to improve as Canada and the US regain strength after the global recession. The country scores 3.5 in the index. Its politically unstable environment, driven by a high rate of violence in connection to combat the drugs trade, will need to improve significantly in order to make Mexico a more mature market for M&A purposes.	Mexico's regulatory environment receives an index score of 3.1, positively driven by medium to high levels of investor protection, although dampened by the poor rule of law, as reported by the World Bank's *Governance Matters 2009*. According to the recent survey by GLIU (Allen & Overy LLP) on the regulatory M&A environment for private takeovers, merger control regulations are rated as strict in Mexico. Filings to the Antitrust Commission might be required if certain thresholds, based on consideration paid, percentage being acquired, size of target post-transaction and size of other relevant parties, are exceeded.
iii. Economic environment	***iv. Financial environment***
Mexico remains highly dependent on the US economy, which caused a severe retraction of real GDP growth of 7.1% in 2009 (estimate reported in the EIU *Country Report*, November 2009), in the midst of the global recession. The same EIU report forecasts a return to positive growth in real GDP of 3% during 2010. The index rates Mexico's economic environment better than the transitional market average with a score of 3.6, positively driven by the large size of the economy and the relatively high level of economic freedom, as reported by Heritage Foundation's *2010 Index of Economic Freedom*. The score is negatively influenced by the sluggish GDP growth forecast and rising inflation.	The financial environment in Mexico is relatively favorable for M&A, rating at par with the mature market average on the index, with a score of 3.8. According to the World Bank's *Enterprise Survey*, only 15% of firms in Mexico identify finance as a major constraint. The score is also driven by the relatively well developed stock and bond market. However, according to the EIU, small to medium-sized firms are more restricted with regard to financing options, reflected in the medium level of availability of domestic credit, another sub-component of the index.
v. Political environment	***vi. Technological environment***
Mexico's political environment has worsened with the rise in violence and political unrest, a result of the struggle between drug cartels and the government. The EIU predicts that this unrest and the consequent increased rates of crime will hamper the appetite for foreign investment and tourism in some parts of the country. On an international level, the current government is showing signs of trying to reduce its dependence on the US. A recent example is the proposed strategic partnership with Brazil, where the two countries' state oil companies would collaborate (EIU *Country Report*, November 2009). According to the index, Mexico's political environment, with a score of 3.0, is rated worse than the transitional market average. In addition to political instability, which makes the environment unfavorable for M&A, corruption in the country is at a medium level.	Mexico is a large exporter of high technology (as a percentage of GDP) and, according to the World Bank's *World Development Indicators*, the country rates in the top 30 worldwide. With 325 patents granted in 2008 to firms of Mexican origin (World Intellectual Property Organization's *World Patent Report*), the rate of innovation is set as medium to high. A higher percentage of government spending invested in R&D would increase the score for the technology environment however, as it would stimulate domestic innovation even further and could attract foreign companies to invest in R&D in the country. The index rates Mexico's technological environment better than the transitional market average, giving it a score of 4.0.
vii. Socio-cultural environment	***viii. Recent FDI and M&A activity***
Mexico's large population of 106.5 million (The World Bank's *World Development Indicators*) is an attraction for foreign firms and also stimulates domestic growth. However, according to the World Bank's *World Development Indicators*, the general level of education is medium to low and the level of training offered by employers will have to increase in order to sustain the currently high level of skilled workers. Mexico's socio-cultural environment scores 3.5 according to the index, which is slightly better than the transitional market average.	Mexico's net inflow FDI figure was $4.9 billion in 2009 according to UNCTAD. In addition, 62 deals were recorded in the SDC Platinum database as including a Mexican target in 2009.

V. Poland	
i. Country outlook	***ii. Regulatory environment***
Poland's skilled workforce and stable political environment makes it an attractive market for M&A purposes. However, the regulatory environment remains challenging as it is still highly bureaucratic. The country also risks losing its innovative business environment as only a very small proportion of GDP is spent on R&D. The domestic financial environment will need to develop further in order to enable credit for domestic business, which will encourage growth. Poland receives a score of 3.7 in the index.	Poland's regulatory environment remains cumbersome and bureaucratic. Notably, the country's labor regulations and formalities for obtaining licensing or permits for construction projects as well as when paying taxes is rated as very poor by The World Bank's *Enterprise Survey* and *Doing Business 2010 - Economy Rankings*. The 2.7 score for Poland's regulatory environment is worse than the transitional market average and unfavorable for M&A purposes for the reasons listed above. The score is improved somewhat by the medium to strong rule of law and protection for investors, as well as the relative openness to foreign direct investment as reported by GLIU (Allen & Overy LLP).
iii. Economic environment	***iv. Financial environment***
Poland was the only country in the European Union which escaped a retraction of GDP during 2009, growing at 1.2%,[5] and is set to grow at an average of 3.6% over the next five years (The IMF's 'World Economic Outlook Database'). According to the index, Poland's economic environment is ranked halfway between the transitional and the mature market averages, with score of 3.7. The size of the economy is large but growth is forecast at a medium level.	The financial environment in Poland is rated as medium to poor for M&A purposes on the index. Its score of 3.3 is only slightly better than the transitional market average. Even though only 22% of Polish firms identify the availability of finance as a major constraint according to the World Bank's *Enterprise Survey*, the stock and bond market in particular needs to develop further. Equally, the level of domestic credit available from the banking sector is at a medium to low level.
v. Political environment	***vi. Technological environment***
Poland's political environment is slowly recovering after the death of its president Lech Kaczynski in a plane crash in early April 2010. The election which followed in July was won by Bronislaw Komorowski, running as a candidate for the Civic Platform party, the same party as Prime Minister Donald Tusk. However, his narrow win has left the ruling party weak and the government will refrain from any major reforms before next year's elections.[6] Poland's political environment receives a score of 4.0, better than the transitional market average. Poland scores medium to well for both corruption level indicators and political stability indicators (reported by the World Bank's *Governance Matters 2009* and Transparency International's *Corruption Perceptions Index 2009*).	The technological environment in Poland is an emerging area of development. According to the EIU's *Telecoms Industry Report* on Poland in October 2009, it is the largest communications market in central Europe, measured by service revenue. With 1,611 patents granted in 2008, as reported by the World Intellectual Property Organization, its level of innovation is rated as favorable in the index. However, the score for its technological environment of 3.7 is worsened by the medium to low levels of investment in R&D and, as a result, the low level of high-technology exports.
vii. Socio-cultural environment	***viii. Recent FDI and M&A activity***
Poland's socio-cultural environment is one of the country's strengths. With a population of 38.1 million, it is the third largest in the CEE/CIS region[7] after Russia and Ukraine. One of the legacies of the communist era was the development of the educational system, resulting in 94% of children enrolling in secondary school. This high proportion of education and a highly skilled workforce, as reported by The World Bank's *Enterprise Survey*, makes Poland attractive for investment and also helps develop its domestic business environment. The World Bank's *Enterprise Survey* also reports that 61% of firms in Poland offer formal training to their employees. All of these favorable development indicators give a score average of 5.0 for Poland's socio-cultural environment, better than the mature market average.	The net inflow of FDI was $8.5 billion during 2009 according to UNCTAD and in the same year the number of deals involving Polish targets was 125 according to the SDC Platinum database.

[5] 'Horse power to horsepower', *The Economist*, 28 January 2010
[6] 'Komorowski elected Polish president', *www.ft.com*, 4 July 2010
[7] See the Sample and Methodology section above for a definition of regions.

VI. Russia	
i. Country outlook	**ii. Regulatory environment**
Russia's large economy and population, as well as its powerful position in the world political scene, makes it an attractive market. However, difficult regulatory and political environments pose a challenge for foreign firms, as confirmed by the low proportion of incoming cross-border deals in 2009 (10%), giving a M&A maturity score of 3.3.	Russia's unfavorable score of 2.5 for its regulatory environment is strongly related to the country's political problems, especially its high level of corruption. The World Bank's *Governance Matters 2009* rates Russia within the bottom 50 worldwide when considering the rule of law. In addition, its business regulations in connection to labor and cross-border trade are cumbersome according to the *Doing Business 2010 - Economy Rankings* report. According to the recent survey by GLIU (Allen & Overy LLP) on private takeover regimes worldwide, Russia's regulations on filings in connection with mergers are strict, however the foreign investment approval needed is rated relatively favorable as approval is needed only when the target is a Russian company active in industries with 'strategic significance for national security and defense'.
iii. Economic environment	**iv. Financial environment**
Russia has been severely affected by the global economic downturn, with a contraction of GDP of 7.9% in 2009.[8] The economic environment in Russia is rated as poorer than the transitional market average, i.e,. less favorable for M&A purposes with a score of 3.1. The unfavorable score is driven by a sluggish economic growth forecast, estimated at a 2.8% yearly average from 2009 to 2015 by the IMF, and the high rate of inflation. In addition, the Heritage Foundation's *Index of Economic Freedom 2010* rates the level of economic freedom in Russia as relatively poor, which further reduces the score in this development area. However, with an underlying GDP size of $1,229 billion in 2009 (EIU *Country Report*, February 2010), the country remains an economic power and an attraction to foreign investors.	According to the World Bank's *Enterprise Survey*, 35% of companies in Russia view availability of finance as a major constraint. This, coupled with the low level of domestic credit made available by the banking sector, gives Russia a score of 3.2 for its financial environment, at par with the transitional market average. Due to the global crisis, lending levels are low even though the Russian Central Bank (RBC) cut its refinancing rate by a total of 425 basis points between April and December 2009 to 8.75%, according to the EIU. It should be noted that the country's capital markets are relatively well developed when compared to countries worldwide.
v. Political environment	**vi. Technological environment**
There is as yet no sign of widespread social unrest in Russia, despite the severity of the recession. The EIU (*Country Report*, February 2010) reports on some evidence of tension between Russia's two leaders, President Dmitry Medvedev and Prime Minister Vladimir Putin, although the report points out that an open split between them is unlikely, at least until the run-up to the 2012 election. There are also signs of a thawing political relationship with the US, most notably with the two countries signing a new Strategic Arms Reduction Treaty (START) in April 2010. The improved relationship between Russia and the US is a positive indication for the business environment in Russia, which remains challenging due to political problems. According to the index, Russia scores 1.8 for its political environment, a highly unfavorable score. This is largely driven by the high levels of corruption within the country. Although recent initiatives by the government to curb corruption, such as President Medvedev's promise to reform Russia's police service,[9] is a positive sign, much reform is needed in this area for Russia to become more attractive and mature as an M&A market.	Russia's business environment is rated as highly innovative, with 22,871 patents granted to firms of Russian origin in 2008 according to the World Intellectual Property Organization, placing it seventh highest in the world ranking. A score of 4.3 for its technological environment places Russia between the transitional and mature market averages.
vii. Socio-cultural environment	**viii. Recent FDI and M&A activity**
Russia's socio-cultural environment receives an index score of 4.7, indicating that this is an area of development which is favorable for M&A purposes. Russia's large population of 141.2 million drives economic growth and makes the country attractive for foreign companies. Also, the general level of skill of the labor force and the training offered by firms to staff is reported as high by The World Bank's *Enterprise Survey*.	Russia's FDI flow was negative in 2009 according to UNCTAD, at -$7.3 billion ($38.7 billion inward FDI less $46.1 billion outward FDI). The number of deals involving Russian targets was 1,022 in 2009 according to the SDC Platinum database, a high number which was largely driven by domestic deals (90%).

[8] Figures given by RosStat, the Federal State Statistics Service, and reported by the EIU country report in February 2010.

[9] EIU *country report*, February 2010

VII. South Africa

i. Country outlook

South Africa was seen as an exciting market for future economic growth long before the nation successfully hosted the FIFA World Cup during June and July 2010. The country is arguably the most advanced nation in a continent which is rich in resources but underdeveloped due to its violent history and legacy of colonization.

South Africa receives a score of 3.7 in the index.

According to the EIU *Country Report* of February 2010, large investments in infrastructure projects are expected during 2010/11 which should stimulate general business activity.

ii. Regulatory environment

South Africa's regulatory environment is ranked 3.5 in the index, marginally better than the transitional market average. However, the process in relation to import and export trade is rated as costly and time-consuming. Also, the law on pre-merger filings is strict, according to the recent *Leveraged Mergers and Acquisitions* survey by GLIU (Allen & Overy LLP). According to the EIU's *Country Report* in February 2010, the anti-competition laws in South Africa were set to become even stricter in 2010, which could hamper foreign investment interest.

iii. Economic environment

South Africa was badly affected by the global recession, with the GDP declining in 2009 by 1.8% according to the EIU *Country Report* of February 2010. The same report forecasts a return to a positive growth figure of 2.8% in 2010.

The economic environment score of 3.3, slightly better than the transitional market average, reflects a large economic size (GDP) and a relatively favorable economic freedom and investment climate, but is hampered by the relatively sluggish economic growth forecast (estimated at 3.2% as a yearly average from 2009 to 2015 by the IMF), high inflation and a large current account deficit.

iv. Financial environment

South Africa's financial environment is rated as 'well developed' for M&A purposes. Its score of 4.4 is better than the mature market average and is mainly driven by the widespread availability of finance. As reported by the World Bank's *Enterprise Survey*, only 16% of South African firms identify finance as a major constraint to doing business. Also, the availability of domestic banking credit is high according to the World Bank's *World Development Indicators*. Labor costs are rated as medium to high, which worsens the index score marginally.

v. Political environment

Political stability in South Africa has been tarnished recently by the dispute between the South African Communist Party (SACP) and the African National Congress Youth League (ANCYL). SACP is part of the tripartite alliance alongside the ruling African National Congress (ANC) and the Congress of South African Trade Unions (COSATU).

The real risk to stability is the threat of a rise in violence due to the unemployment and income inequalities which are still prominent in South Africa and which have become more severe as a result of the global recession. However, according to the EIU *Country Report* in February 2010, social unrest in relation to inter-racial and inter-ethic disputes has decreased when compared to 2009, and the country's strong institutions and well respected constitution should promote stability in the future.

South Africa receives a score of 3.8 for its political environment, which is better than the transitional market average. The score would improve with increased political stability but is nevertheless kept at a medium level due to relatively low levels of corruption.

vi. Technological environment

According to the World Intellectual Property Organization, 402 patents were granted to firms of South African origin in 2008. This medium rate of innovation should improve if more public funds were invested in R&D. The index score for South Africa's technological environment is 3.7, which is better than the transitional market average.

vii. Socio-cultural environment

The socio-cultural environment is one of the main areas of development for South Africa. Even though the population is large, the levels of education and skill of the workforce are poor. According to the World Bank's *Enterprise Survey*, 38% of the labor force in South Africa is unskilled. The index ranks South Africa's socio-cultural environment at 3.5, which is slightly better than the transitional market average.

According to the EIU, the Accelerated and Shared Growth Initiative for South Africa [ASGISA] should continue to influence policy-making in the country and is expected to promote expansion of the skill base, which would improve the socio-cultural environment.

viii. Recent FDI and M&A activity

The SDC Platinum database recorded 70 deals involving South African companies as the target in 2009. During the same year, the net FDI inflow was $4.1 billion according to UNCTAD.

VIII. Turkey	
i. Country outlook	***ii. Regulatory environment***
Turkey provides an interesting marketplace in which to conduct business, mostly due to its strategic geographical and political position between the East and West. The country's economy grew at an average of 7% between 2003 and 2007 according to the EIU *Country Report* for March 2010, but was badly affected by the global recession and contracted by 5-5.5% in 2009, according to the same report. Turkey receives an index score of 3.3. Notably, the political environment will need to stabilize before the country can reach more mature levels for M&A purposes.	Turkey's regulatory environment rates slightly worse than the transitional market average, with a score of 3.2, reflecting a medium level of regulatory processes when conducting everyday business and also a medium to poor score when considering the written law on private acquisitions (as reported in the *Leveraged Mergers and Acquisitions* survey, conducted by GLIU, Allen & Overy LLP). Notably, the number of business licenses and permits needed in relation to construction is rated as very high, while the procedures, time and cost related to the transfer of commercial real estate is rated as low by the World Bank's *Enterprise Survey*. According to the EIU, regulatory reform in relation to the labor market, the income tax system and energy markets is expected in 2010/11, which should boost business activity.
iii. Economic environment	***iv. Financial environment***
The Turkish economy contracted by 5-5.5% in 2009, according to the EIU's *Country Report* of March 2010. The longer term forecast of 2.5% (annual average for 2009-2015, as estimated by the IMF) is positive but still lags behind other developing markets. The index score of 3.1 for the economic environment in Turkey is a reflection of its slow forecasted growth and high level of inflation, although the underlying size of the economy, as well as the relatively favorable score for economic freedom given by the Heritage Foundation's *Index of Economic Freedom 2010*, boost the economic environment's attractiveness for M&A purposes.	Turkey's central bank cut its interest rate from 16.75% to 6.5% between October 2008 and November 2009 in response to a dwindling global economy. Since then, rates have been kept stable and, even though the risk of an upswing in inflation has increased, the Turkish Central Bank has indicated that rates will remain unchanged until 2011.[10] The financial environment is rated as 3.3 according to the index, which is just above the transitional market average of 3.2. The score is boosted by a relatively well developed equity market, however the country's bond market is less developed and rates as medium to poor. The availability of finance to businesses rates as favorable, with only 14% of Turkish businesses identifying finance as a major constraint (*Enterprise Survey*, the World Bank).
v. Political environment	***vi. Technological environment***
Turkey's political environment remains volatile due to the tension between the ruling party, the Justice and Development Party (AKP) and the secularist/nationalist elite. Although corruption levels in Turkey are rated as medium to low, the relatively high level of political instability and the country's unfavorable sovereign debt rating result in an index score of 3.0 for this area of development, which is worse than the transitional market average. According to the EIU's *Country Report* of March 2010, there is a 'considerable possibility' of a change of government at the next election in July 2011, with the ruling party being replaced by a coalition government.	The technological environment rates better than the transitional market average in the index, with a score of 3.7. The rate of innovation, 439 patents granted in 2008 according to the World Intellectual Property Organization, is considered high, but the relatively low rate of high technology exports as a percentage of GDP (as reported by the World Bank's *World Development Indicators*) could be a reflection of a low level of investment in R&D, which needs to improve.
vii. Socio-cultural environment	***viii. Recent FDI and M&A activity***
Although the Turkish population is large, its level of education and the formal training offered by firms is below average. This contributes to the medium to poor score for general labor skills in Turkey. Its index score of 3.3 is slightly worse than the transitional market average.	According to UNCTAD, the net inflow of FDI was $6.1 billion during 2009. The deal activity including Turkish companies as targets was 67 during 2009, according to the SDC Platinum database.

[10] www.bloomberg.com, 19 August 2010

IX. Ukraine	
i. Country outlook	**ii. Regulatory environment**
Ukraine has long been followed with great interest as its size and strategic location favors it becoming a business hub of the CEE/CIS region. The population is large and skilled, which should stimulate economic growth in the longer term. However, the country's cumbersome and unpredictable regulatory environment, coupled with a very challenging political situation with high levels of corruption, results in its relatively poor ranking of 2.8 in the index. Political stability as well as economic and regulatory reform is seen as key to Ukraine's development.	The regulatory environment in Ukraine is known to be unwieldy and erratic. According to a report by the EIU, *Business Eastern Europe*, in December 2009, the red tape imposed on businesses is a persistent operational risk in Ukraine and, although some reforms have been achieved in this area, it remains a challenge for firms. According to the index, Ukraine's regulatory environment scores significantly worse than the transitional market average, with a score of 2.2. Most of the sub-factors measuring development in this area show poor rankings. Particularly challenging is the process of obtaining licenses and permits for construction projects as well as paying taxes, as reported by the World Bank's *Enterprise Survey*.
iii. Economic environment	**iv. Financial environment**
Ukraine is slowly recovering from a 15% contraction of GDP in 2009.[11] The long-term forecast is a yearly GDP growth of 1.7% (average between 2009 and 2015, figures provided by the IMF), which is significantly lower than the global growth forecast of 3.7% for the same period. Ukraine's economic environment rates as 2.1 in terms of M&A maturity on the index. This unfavorable score is significantly worse than the transitional market average and is driven partly by the stagnant economic growth forecast but also low levels of economic freedom and a poor investment climate, as reported by the Heritage Foundation's *Index of Economic Freedom 2010* and the World Economic Forum's *Global Competitiveness Report 2009-2010*.	The financial environment of Ukraine has worsened due to the global credit crisis, which left the vulnerable Ukrainian banking sector in disarray. The fiscal deficit is large and public debt has tripled since 2008, now at 36% of GDP.[12] The development of the stock market is better than that of the bond market, although capital markets remain fairly illiquid and do not provide a viable source of finance. According to the World Bank's *Enterprise Survey*, 35% of Ukrainian firms identify finance as a major constraint to doing business. A score of 2.7 for Ukraine's financial environment reflects all of the challenges described above.
v. Political environment	**vi. Technological environment**
Ukraine's political environment is the least developed area for M&A purposes, with an index score of 2.0. In particular, there is corruption at very high levels. The development of the political environment is arguably what will function as the turning point for development in all other areas which are important for M&A purposes. After the political deadlock which followed the orange revolution in 2004 and subsequent rule of Viktor Yushchenko, many have lost faith in Ukraine and the development which was promised. The new president, Viktor Yanukovich, who was elected in February 2010, has promised to turn Ukraine into one of the top 20 developed countries in the world in ten years.	The technological environment in Ukraine speaks in favor of M&A maturity. The country scores 4.0 in the index, which is better than the transitional market average. The relatively favorable score is driven by a high rate of innovation, with the World Intellectual Property Organization reporting 2,670 patents granted to firms of Ukrainian origin in 2008. Levels of investment in R&D could still improve however, an initiative which could translate into higher quality of technological innovation, boosting in turn Ukraine's technology export figures.
vii. Socio-cultural environment	**viii. Recent FDI and M&A activity**
Ukraine's socio-cultural environment is another appealing aspect for business. The population is large and relatively highly educated, resulting in a labor force with a good overall skill level. Ukraine receives a score of 4.0 for its socio-cultural environment, at par with the mature market average.	According to UNCTAD, the net inflow of FDI was $4.7 billion during 2009. The SDC Platinum database recorded 183 deals involving Ukrainian targets during the same year.

[11] 'One hundred days of Yanukovich', *The Economist*, 3 June 2010

[12] *Ibid.*

X. United Arab Emirates	
i. Country outlook	***ii. Regulatory environment***
The United Arab Emirates (UAE) is an attractive market for investment due to the large amounts of domestic capital, generated by the federation's oil resources, and the recent establishment of Dubai and, to a lesser extent, Abu Dhabi as globally recognized financial centers. It has made a name as a net cross-border acquirer, i.e., it has invested more money abroad acquiring assets as part of its strategy to diversify than that which foreign investors have spent in the UAE. However, the index indicates that the UAE is relatively mature for domestic and inbound cross-border M&A purposes with a score of 3.8.	UAE scores 3.7 for its regulatory environment, placing the country between the mature and transitional stages for M&A purposes. Its relatively favorable environment is driven by the relative ease of doing business in the country. The only exception is the level of protection of assets, measured by the level of protection for investors and the strength with which contracts are enforced, both of which are at medium to high levels according to the World Bank's *Enterprise Survey*. In addition, according to a recent survey by GLIU at Allen & Overy LLP, the UAE's legislation on foreign direct investment is strict, with foreign investment being restricted to 49% in most sectors.
iii. Economic environment	***iv. Financial environment***
The economic environment for M&A in the UAE deteriorated significantly during the global recession in 2008/09 as a result of the slowdown in economic demand and with that the drop in the price of oil, the federation's main source of revenue. According to the IMF's *World Economic Outlook Database* of April 2010, the UAE's economy contracted in 2009 by 0.7%. The same report forecasts an average economic growth of 3.3% from 2009 to 2015, which is a medium level of growth relative to all of the other countries included in the index. The score of 4.0 for its economic environment is at par with the mature market average, indicating that the UAE is relatively mature for M&A purposes in this respect. Despite the economic growth forecast at a medium level, the underlying size of the economy, low levels of inflation and the current account surplus boost the score for the economic environment. In addition, the level of economic freedom and the general investment climate is rated as favorable by the Heritage Foundation's *Index of Economic Freedom 2010* and the World Economic Forum's *Global Competitiveness Report 2009-2010*.	The financial environment scores 4.0 in the index, which is slightly better than the mature market average. The level of finance available to companies in the federation is medium to good and its capital markets are relatively well developed. In December 2009, Abu Dhabi, the wealthier of the two powerful cities within the emirates (Abu Dhabi and Dubai), rescued Dubai from default on an Islamic bond of issued by Nakheel, a developer.
v. Political environment	***vi. Technological environment***
The UAE's political environment is one of its strengths. The generally high levels of political stability coupled with low levels of corruption gives the UAE a score of 4.7, slightly better than the mature market average of 4.6.	The technological environment is the area which is least mature for M&A purposes, according to the index. The World Intellectual Property Organization reports that only 25 patents were granted to companies which originated in the UAE in 2008. The index score of 3.0 for the technological environment is worse than the transitional market average and it is clear that investment and development is necessary in this area before the UAE can be viewed as a mature market for M&A purposes.
vii. Socio-cultural environment	***viii. Recent FDI and M&A activity***
The UAE scores slightly better than transitional market average for its socio-cultural environment, with an index score of 3.5. Its relatively small population of 4.5 million is boosted by a medium to high level of education. The UAE's development as a financial and real estate centre has been spurred by a high level of immigration of people with expert knowledge as well as cheap labor supplied by Asian workers. However, with the global recession resulting in a significant number of redundancies being made, foreigners are being forced to leave the federation as most visas are tied to employment.	According to UNCTAD, the net inflow of FDI to the UAE was $1.3 billion in 2009, driven partly by a large proportion of FDI outflow. The large outflow of capital is also reflected in the deal numbers recorded by the SDC Platinum database. According to the database, only 15 deals included a target from the UAE in 2009, although 32 deals were reported in which the acquirer was from UAE, with 80% of those deals being cross-border.