Building Better Markets: Corrosive vs Constructive Capital

Foreign investment in emerging economies can lead to opportunity, growth, and efforts to strengthen democracy. Foreign capital can also be used to undermine democracy and widen corruption in recipient countries, an alarming trend with deals involving authoritarian regimes where state and private investments are often intertwined. To identify and mitigate potential threats, the Center for International Private Enterprise (CIPE) created two labels: Corrosive Capital deals are typically secretive and undermine regulation. They subvert the interests of citizens and limit opportunities to enter the market, ultimately making recipient countries more vulnerable to economic and political manipulation. Constructive Capital investments are market-oriented, have clear terms, and are accountable to stakeholders.

CIPE and its partners in dozens of countries are mapping foreign investment activities to identify key characteristics (below) and implement programs that increase global awareness, strengthen democratic institutions, safeguard citizens’ interests, and ensure a fair playing field for all businesses.

**Corrosive Capital**
- Secretive deals with unclear terms
- Undermines laws and decreases opportunity
- Feeds corruption and cronyism
- Often originates from authoritarian regimes
- Avoids usual business responsibilities

**Constructive Capital**
- Transparent, documented terms
- Accountable to stakeholders and citizens
- Justified by market principles
- Supports business environment integrity
- Conforms to international norms

By closing governance gaps, enhancing transparency, and supporting accountability, recipient countries can neutralize the potentially corrosive effects of foreign investments and be ready to embrace Constructive Capital opportunities that support democratic institutions and strengthen sovereignty.

Neutralizing Corrosive Capital and Stimulating Constructive Capital

- Enact policies that clearly govern foreign investment
- Strengthen public procurement and investment screening systems
- Increase transparency of public budgets
- Enable civil society monitoring for waste, fraud, and abuse
- RemEDIATE disputes openly, fairly, and efficiently
- Build capacity of civil society and business associations to advocate for reforms
- Encourage local industry and professional societies to set standards as a bridge to stronger rule of law and increased trust
- Laud private sector champions for market-oriented principles and institutions