Organisational
Studies and Innovation Review

Vol. 4, no1, 2018

Relationship between Ease of Doing Business and growth & development in India

Shashank S. Tiwari and D. M. Parikh *
*Pandit Deendayal Petroleum University(PDPU)**

Abstract: The annual report prepared by the World Bank Group titled 'Ease of Doing Business' which ranks 190 countries based on 10 factors has lately been the talk in India since the country has recently observed the jump of 30 places. There are however many factors that the World Bank does not consider and hence the full picture of a country doesn't get appropriately represented by a rank. This paper covers(a)correlation that exists between 'GDP growth of a country and its Ease of doing business rank',(b) factors which are not taken into account by World Bank when the entire business operating scenario is considered, (c)the ranking methodology (d) comparison of increase in India's rank with increase in the rank of other countries over the years and (e) implications of this rank covered by a survey conducted. This paper aims to decipher how much does an increase of rank in 'Ease of doing business' 2018 actually mean to India i.e. in spite of the information provided in terms of an increase in rank, is India on the right path of achieving its potential?
Keywords: *Growth,GDP, methodology, information*

Introduction

This paper deals whether or not a benchmark set by an International Organisation like the World Bank serve as a correct measure applicable to a country like India. Benchmarks are often a key source of indirect power for International organisations to shape world politics according to their image of best practice in a given issue area, connecting their organisational expertise to the promotion of *ideal* and *pathological* models of state policy and performance.

The paper is divided into 2 sections. Section 1 deals with the key areas the World bank has turned a blind eye towards and subsequently the Indian government seems to have done the same. The grave consequences of missing such parameters and the flaws in the research methodology of the World bank is the crux of this section. Section 2 deals with the implications and conclusion formed. It also tries to answer the question, whether or not is it correct to follow the *carrot and stick* approach that the World Bank employs by portraying a perfect business environment and countries striving to achieve that environment.

Literature Review

The paper has been written after a thorough understanding of the entire social and political scenario of the Ease of Doing Business ranking by the World Bank. Numerous articles published by reputed authors and economists over the globe have been considered while giving due consideration to any matter discussed in the paper. Findings of already established papers have also been considered to further scrutinize or exemplify a point under discussion in the paper. All such existing results and their corresponding authors have been indicated in the paper to distinguish the research conducted as a part of writing this particular paper.

Why EDB and growth are not directly proportional?

A. Correlation between GDP and EDB rank.

Though the World Bank's EDB is a measure of policy environment regarding business in a country and not the actual business scenario, however a leap of 30 places means that there are certain policy reforms that have happened for the better but then these reforms should reflect in the actual business scenario otherwise even a rank of top 50 would be inconsequential. A closer look at the EDB rank and GDP of a country does show that there exits a pattern between the two on the basis of which we can establish a relationship.

There is a negative correlation between EDB rank and GDP of a country. A country with a high EDB rank tends to have low GDP growth rate. We can study this relation in regard to developed economies which currently have the highest EDB ranks.

Developed countries have low population as compared to developing countries hence the GDP growth is low. Next, working hours are limited which further lowers the GDP growth. "Also the developed countries are a saturated market so people don't buy goods as soon as they are launched into market because the per capita income of people is already high and there exits a high probability of its possession beforehand. However in developing countries the people are not in possession of goods and when products are launched they tend to buy it thereby increasing the GDP. This is one of the reasons why developed countries have low GDP."(The Ease of Doing Business Rank: An Assessment of its Macroeconomic Relevance-2016)

A high EDB rank demands a high per capita income which is difficult for India since it is a developing economy and to make it in the top 50 raises the question of a trade-off between a high rank and a high GDP growth.

B. Limited factors:

(A) ONLY 2 CITIES

The Ease of Doing Business only considers 2 cities in India namely Mumbai and Delhi. Being the largest and wealthiest cities, they have better infrastructure, legal systems, government services. A reflection of these 2 cities is not a reflection of entire India. Also the focus group selected by World Bank doesn't encompass entire India. Lawyers, accountants, people who trade across borders etc. are the focus group of the World bank but then there are other people who have an opinion in these matters which are at odds with what the former group says. To illustrate, the time taken to start a business in India—in both Mumbai and Delhi—is purportedly around 30 days, according to World Bank's ease of doing business reports for the last three years. But, the enterprise-level survey conducted by NITI Aayog and IDFC Institute in 2016 showed that the average time taken to start a business in India was more than 100 days.

(B) CORRUPTION

The World Enterprise Survey (2014) also conducted by the World Bank covers a broader range of business environment topics such as access to finance, infrastructure, competition, crime, performance measures and corruption. "Of the 9000+ firms interviewed, 51.5% said they expected to give gifts to get a power supply connection. In between April 2013-February 2017, DGFT and CVC both under Central government received 181 cases of corruption, culpability of any official has not been established. Whistle-blower complaints are not even considered by the CVC."(Corruption as a parameter for studying the Ease of Doing Business in India- an RTI based study-2017)

The omission of corruption makes a bug difference in the assessment of realities at the ground level.

(C) Infrastructure

Infrastructure - both economic and social, the availability of skilled manpower etc. is not covered in ease of doing business therefore even if a country has a high rank in ease of doing business, it doesn't necessarily mean that the country will attract high investment.

The EDB rank do not take into account external factors. There are many economies, despite climbing several places in their ease of doing business rankings, have not seen much improvement in growth or FDI inflows. On some of these economies, such as Russia, Turkey and Egypt, investor sentiment has substantially deteriorated. Standard & Poor's recently included Turkey and Egypt in its list of *fragile five* economies along with Argentina, Pakistan and Qatar. Of course, external factors, beyond the control of policymakers, have also played a role in dampening the outlook on these economies. Egypt and Turkey have grappled with political instability while Russia had to tackle sanctions and the impact of falling oil prices.

C. Ranking Method

The methodology used to determine ranks for the country also changes with time. For example, since the 2016 edition, the indicator on ease of getting electricity began to include indicators on reliability of supply, price of electricity, and transparency of tariffs. However, what this also means is that under a future ranking system based on an altered methodology, even India may slip in rankings without any material change in regulations or business environment. This may discourage the investors who are now turning towards India for future investments.

The ranking given to countries is relative and therefore the demonetization of 500 and 1000 rupee notes were not considered in the evaluation procedure. Though demonetization was commended by international agencies, the businesses were sedated for a while. Any such future event will also result in similar consequences and the World bank being oblivious to such measures will not reflect these consequences in their rankings.

Over the past three decades, as China consistently scored low on the index, it managed to harness the productive power of hundreds of millions of its people to build the biggest industrial base the world has seen. In the process, it engineered one of the fastest improvements in the living standards of a critical mass of population. It forced countries across the world, from the United States to India, to become addicted to cheap Chinese imports. If the previous years rank is considered, China retains its position at 78th. Now the gap between 78 and 100 may seem small and possible enough for India to leap as India aims to come in the top 50 but that does not change the ground reality that the investors who today look towards China will turn towards India since one of the key factors that keeps China as the global manufacturing hub is its cheap labour. This is a factor that the world bank does not take into account and in spite of giving China 78th rank, the country does have substantial exports and earnings.

When the World Bank changed the underlying indicators in the *ease of getting credit* index in 2014, they kindly reported the score using both methodologies for that year. India scored 81.25 on the old methodology in 2014 and 65 using the new method. Our approach is simply to multiply all of India's credit scores by 1.25 (=81.25/65) for every year after 2014, the rank for 2018 comes out to be 114 without any significant reform implemented by the government of India. So the jump that India rejoices currently is scrutinized again. Is India really improving or it is just that the changing indicators in the World bank index fortuitously favour India at the cost of other countries. Since the change is largely due to methodological alterations, a comparison of last years rank to this years rank is comparison of apples and oranges.

A former Chief economist of World Bank, Paul Romer has said to the Wall street Journal that he had lost integrity in the index alleging it to be politically manipulated. He also believes that the methodological changes that were done in the index were not at that time observed to see giving any undue advantage or disadvantage to a particular country.

A major breakthrough for India will be entrepreneurship. Unfortunately world bank doesn't consider it a factor and so while India is busy passing the world bank test, it is not paying attention to smooth the path for budding entrepreneurs who apart from requiring a smooth regulatory environment also require funding. Almost 2/3 of the applicants get rejected for any funding for which the total amount set by the government is INR 10000 crores.

GST's impact will be reflected in the rank in 1-3 years. The complex return filing procedures as set by the new GST methodology may be a dampener for the rank of India in the next year but it will help improve the rank over 2-3 years. This again raises the question about the interpretation of a lowered rank for India and the subsequent questions that will arise about the application of GST.

D. Comparison of Increase in India's Rank With Increase in The Rank of Other Countries

COUNTRY	RANK (2007)	RANK (2009)	IMPROVEMENT	RANK(2018)
AZERBAIJAN	99	32	67	57
COLOMBIA	79	50	29	59
EGYPT	165	109	56	128
GUYANA	136	100	36	126
HUNAGRY	66	39	27	48
KYRGYZSTAN	90	64	26	77
TURKEY	91	55	36	60

All the above countries prove that a drastic increase in the short term cannot corroborate a subsequent rise in the long term. So even if India comes in the top 50 as considered by Amitabh Kant, CEO, Niti Aayog it may not mean that India will remain in the top 50 after a decade.

Implications

As a part of undertaking this research, we conducted a survey to judge what people comprehend about the Ease of Doing Business Ranking. A focus group of 100 respondents was chosen in which 57% were males and 43% were females. 66% were between the ages of 22-28 years old, 25% of the people were above 28 and 9% of the people were below 22 years of age. The focus group consisted of a majority of MBA students followed by people in industry/service and undergraduate students.

The survey helped us in highlighting the major flaws in Ease of Doing Business and how it has also kept many educated people into oblivion. 60% of the respondents believed that demonetisation was justified because the jump of India's rank was observed following the year in which demonetisation happened. We have already discussed the reasons why demonetisation was not even considered by the bank. This shows how much people associate things which cannot be put together.

73.3% of the respondents have said that they believe surpassing China in ranking would ensure a higher investment opportunity for India. It directly implies that people have considered the evaluation procedure of World bank to be the paramount index of assessing investments and are not keen in understanding why China is at 78 and why India is at 100.

47% of the respondents have said that they consider the overview of India's growth by Ease of Doing Business rank only because the World Bank publishes it and not because they know what are the factors that they take into account. 26% of people have responded that they consider the overview of India's growth by Ease of Doing Business rank because they know the procedures and factors involved. 27% have responded saying that they do not consider Ease of Doing business rank as an appropriate measure of India's growth.

Ease of doing business is an index that while hailed by politicians has already been under scrutiny by economists all over the globe because "despite containing methodological flaws and representing contested policy ideals as best practices, it has achieved legitimacy by piggybacking on the status of Word Bank" (Bad Science- international Organisations and their power of global benchmarking-2018)

It all narrows down to create a hierarchy and such hierarchies connect the promotion of international norms with social pressure to conform to these standards of behaviour and policy design.

The insights the World Bank compiles are extremely useful, but they are not necessarily representative of what firms experience in real life. The focus of a country like India should be on an individual rather than on a rank.

Conclusion

Through this paper we aim to make people armed with information about a benchmark which currently assigns responsibility for success and failure to national authorities, rather than to broader socio-political structure and dynamics. It creates a prism that shape the interpretation of national performance in a certain way showing us distorted images. We aim to cover as many factors as we can to ensure that a one-size-fits-all is not the right methodology.

Coming in the top 50 is metaphorically cutting down the red tape that profited investors from approaching India and instead rolling out a red carpet for them to enter India. Given the facts covered in the paper, it is likely that someone walking down that red carpet will meet disappointment. Considering India to be on the right path towards growth and development based on this rank would be equivalent to turning a blind eye towards the reality of other sectors in the country which at this moment are in despair. The doing business reports of the coming years should not be viewed in isolation.

"Reliance on these problematic tools too construct transnational knowledge distorts how we understand the world, as well as how we seek to change it." (Bad Science- international Organisations and their power of global benchmarking-2018)

There still remains many factors which are to be considered for developing an ideal business environment and a scope for further research on such factors exists and when all factors are incorporated, it would help people to stop focusing on assessing an entire country by a *number.*

References

Andre Broome, Alexnadra Homolar, Matthias Krnake(2018)(University of Warwick, UK)-Bad Science: International organisations and their power of Global benchmarking

Corruption as a parameter for studying the Ease of Doing Business in India- an RTI based study.-2017

Vivek Murthy(2016)-The Ease of Doing Business Rank:
An Assessment of its Macroeconomic Relevance

Judith G. Kelley, Duke University; Beth A. Simmons, University of Pennsylvania; Rush Doshi, Harvard University(2016)-The Power of Ranking: The Ease of Doing Business Indicator as a form of Social Pressure

---

www.doingbusiness.org, www.economictimes.com, www.thehindu.com