

Ease of Doing Business

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OPEN ACCESS

Volume: 11

Special Issue: 1

Month: March

Year: 2024

E-ISSN: 2581-9402

Received: 12.01.2024

Accepted: 11.03.2024

Published: 22.03.2024

Citation:

Tushar Johari, V. "Ease of Doing Business."

Shanlax International Journal of Management, vol. 11, no. S1, 2024, pp. 59–64.

DOI:

<https://doi.org/10.34293/management.v11iS1-Mar.8059>

Abstract

The World Bank offers 10 criteria that serve as the foundation for its rating of various nations according to their ease of doing business (EODB). It is widely acknowledged that the countries' FDI influx is impacted by this ranking. The likelihood of FDI inflows increases with ranking, and vice versa. This research aims to investigate the relative importance of ranking elements and their suitability for various sets of economic development phases. Additional characteristics that contribute to the overall ease of doing business are also examined in relation to their impact on investment flow. The main strategy of the study is to review the existing literature on the subject and list the many components and their effects. Improved rankings are thought to generally encourage FDI influx, although not all of the metrics are equally efficient and their weights vary case by case, according to the research review. Prioritizing extra commercial factors is inevitable when it comes to serving investors' strategic interests. Overemphasizing the EODB rankings also discourages developing nations, particularly those in developing nations, from pursuing structural reforms because they attempt to prioritize a small number of important factors over others. In addition to this, study of the de facto implications of various indicators and aspects should also be conducted at the micro- or sub-economic level, as these factors undoubtedly affect the EoDB rankings on a macro level. Finally, the Indian context has been taken into consideration in order to make conclusions about the usefulness of this healthy exercise in developing the current study. India has improved its position over the past few years, however given current global and strategic issues, the country's socioeconomic development goals cannot be wholly driven by the market and paired with the desire for self-reliance.

Introduction

Following India's adoption of an open market economy about 25 years ago, phrases like "economic liberalization," "globalization," and "foreign direct investment (FDI)" became widely utilized. Second generation reforms are a hot topic these days, as a whole new generation has taken it upon itself to move forward globally in the future. Naturally, the global spread of COVID-19 has temporarily diverted attention from the real world, but after this phase passes, nations are ready to recover. The revised situation in one of the most awkward problems that humans have ever faced will undoubtedly transform how business is conducted using innovative concepts.

Additional labor changes that take into account the new laws, tax reforms that prioritize the growth of infrastructure, including those in the transportation, energy, and education and training sectors, and not to mention the most significant, the health sector, are all present. The growth platform was established by the first stage of economic reforms, and the second stage is intended to take off on that platform. Nevertheless, it is undeniable that a massive inflow of capital—roughly 1.3 trillion dollars every five years—and even more will be

needed to support this desired growth engine, as it cannot be obtained just from local sources. It makes sense that the nation would seek for foreign investment inflow. This brings up our topic, “Ease of doing Business or EODB.”

“Ease of doing business” can be defined as the result of a number of factors, including streamlined laws, rules and regulations, the taxation process, and others, which enable smooth business operations with the proper support of developed infrastructure, including transportation, law and order, banking, and the financial system, as well as the presence of a population that is equal and plays a role in the business as both customers and human resources.

Ease of Doing Business

The World Bank coined and defined the phrase to describe the good and bad elements of every nation’s economic life that both support and impede the growth of a productive business climate. It emphasizes the actions that must be performed in order to maximize the positive elements and minimize the negative ones. The World Bank also releases annual rankings of different nations based on these factors, recognizing their worldwide business environments. Most people agree that higher rank holders become the global investors’ first option for their stakes.

From the perspective of investors, examinations of EODB elements are essential occurrences that will indicate the security and profitability of their investment. The ability of the host nation to direct these investments in accordance with its unique needs—needs that are not always tied to profitability alone—is another factor. In addition, it should not be overlooked that several competitors from all over the world are vying for these foreign investors by implementing a variety of domestic reforms. In fact, in the global economy of the present period, every nation strives to move up the EODB standards ladder in the eyes of the World Bank.

In these conditions, India has an advantage over other global competitors due to its large and youthful population, training institutions, expanding economy, etc., yet these elements cannot tip the scales on their own. To encourage investors to choose India as their preferred destination, significant more work is needed to make doing business in this nation easier. The widely reported news regarding India’s improvement in the most recent EODB rankings—which saw it rise from 100 in 2017 to 77 in 2018 and then to 63rd place in the 2020 World Bank Report—is evident. It all comes down to providing the faltering Indian economy fresh optimism and momentum. Additionally, it makes the general public feel good about the reforms the government is implementing. It is also beneficial for the latter to adopt such measures in order to accelerate the reforms and quell criticism from a variety of sources. Naturally, it also provides more enticing conditions for the government to persuade possible investors worldwide.

The World Bank has established ten criteria, including obtaining energy, managing building licenses, and beginning a business, that are used to generate the ranks on EODB. Property registration Obtaining credit, safeguarding small-scale investors, Making tax payments, Cross-border trade, contract enforcement, and insolvency resolution. If we examine these elements closely, it becomes clear that five of the ten factors—the second, fourth, sixth, ninth, and tenth—have to do with legal issues. The appropriate functioning of these five aspects can be ensured by the implementation of appropriate changes and reforms in laws. These include the processes for arbitration and adjudication, dispute resolution procedures, labor laws and other relevant statutes, and the company’s entrance and exit procedures, among others. The amount of time that business enterprises spend on these legal proceedings is crucial in the modern era and is thought to be a very useful instrument for luring or repelling investors. These issues must be handled by the Legislature and Lawmakers, in addition to the nation’s bureaucratic hierarchy and records.

The remaining issue, or the seventh, has to do with paying taxes, which is one of the most crucial aspects. In Arthashastra, Koutilya (Chanakya) asserted that prudent individuals only harvest fruit

up to a certain point and never damage trees in order to prolong their ability to produce fruit.

In a similar vein, a prudent king never hurts the tax payers; instead, he makes it easier for them to pay their taxes in the near future. In this case, the taxpayers are trees and the fruits are the taxes. High tax rates that go beyond a certain point would only hurt the nation's economic endeavors. A taxpayer's experience with taxes is influenced not only by the rate of taxation but also by the cost of compliance, procedural requirements, and the government's and the tax department's attitude toward them. Every nation aiming to attract foreign direct investment is making an effort to simplify and reform their tax systems while also making sure that any obstacles to compliance are removed. Around the world, a number of nations—particularly those in Asia—are actively modernizing their tax systems.

Various study papers, World Bank reports, articles, and books have indicated that certain big structures have been instrumental in fostering foreign investment. The first factor, "starting a business," has to do with how smoothly government departments operate and what procedures to take to get there. These include the time it takes to get different approvals, property acquisition, single window systems, maintaining law and order, public and administrative attitudes, etc. The country's financial systems run well because of the fifth strategy, or getting credit. Even while the law of the land has a part to play in this, strengthening the financial institutions is a lengthy process that takes time. The third and eighth factors have to do with improvements in the power sector's infrastructure and all modes of transportation, including air, sea, and land, to ensure that goods and services are prepared in a timely manner and reach their intended location. Cross-border trade is also dependent on the the importance of the nation's economic structure, international trade and politics, the caliber of its goods and services, cost competitiveness, etc.

Review of Literature

A critical review of the literature on the ease of doing business has been published. Does the EODB have a part to play in luring FDI or boosting the country's commerce, manufacturing, and economy? In such case, how much? What other variables, besides EODB, should be taken into account in order to guarantee benefits to investors? In the paragraphs that follow, a critical analysis that spans the range of opinions and research conducted by different academics has been attempted in order to determine the significance of EoDB. According to Adrian and Robert's (2012) research, the ease of trading across borders accounts for the majority of foreign direct investment (FDI) inflow, with other aspects of conducting business having little to no impact. Stated differently, they are attempting to attribute all the credit to the eighth element alone. though avoiding some, but there's a catch. It is important for policy makers to understand that there is no one-size-fits-all policy. It is evident from this that the author couple has prioritized one factor over the others. That might be the case for economies that are focused on exports or for economies like Singapore's and Mauritius's, which serve as a transit market for larger economies. Priority economies such as India, however, might only have this factor as one of many. But it's also a matter that the ease of doing business is closely linked to a strong business environment, which in turn ensures the other half of the board, namely the inflow of domestic capital. It will ultimately have an impact on the

Simeon Djankov (2007) discussed the many newly developing standards that gauge the environment and success of an organization. provides the degrees of freedom for a number of other aspects as well, including employment, investment, and product variety. Additionally, he offers a picture of the business environment of the future, which can be tested against real-time data in any location, including India. It will offer a theoretical framework for analyzing different parameters from the perspective of ease of doing business.

The deliberate nature of the World Bank's EDB ranking system and its impact on policy through bureaucratic, international, and domestic political channels were illustrated by Judith G. et al.

(2016). They demonstrate how governments react to being publicly ranked, collaborate with the Bank, and implement strategic reforms to raise their standing using observational and experimental data. They research how government apparatuses facilitate easier business transactions. Third-world nations can benefit from their observations and suggested techniques.

Mengistu (2016) looked at the potential effects of each component of the “good governance infrastructure” on the “ease of doing business” in a sample of 41 African nations between 2005 and 2012. His estimation techniques show that, when other factors like human capital, physical infrastructure, and a nation’s degree of development are taken into account, government effectiveness, political stability, the rule of law, regulatory quality, and the absence of corruption are strong determinants for creating a favorable business atmosphere. A favorable business environment can be created by a number of characteristics, including utility and the lack of corruption, while also considering a nation’s degree of development, physical infrastructure, and human capital. In this approach, understanding of the government’s role in creating a favorable business environment is created.

Teodorica (2015) elucidated the relationship between economic growth and business-friendly environments in a few Asian economies in 2014. The research has demonstrated a favorable correlation between economic growth and business ease of doing business in the Asian economies that were chosen, including Korea, China, Singapore, and others.

Philip Lignier (2009) investigated how small enterprises paid taxes. According to him, the vast majority of small business taxpayers thought that their record keeping had improved and their understanding of their financial situation had improved as a result of tax compliance obligations. The primary constraint on his research pertains to the representativeness of the small company sample selected for the survey. It is imperative to note, though, that part of the convenience of doing business is also managerial knowledge of tax policy.

According to Dinuk Jayasuriya (2011), there is a positive correlation between FDI inflow and EODB for the typical nation. If the sample is limited to developing nations, however, the findings indicate that, overall, the improvement in ranking has been negligible. The primary focus of the study is on elements that are not just tied to the business environment, but also have a commercial component. In the Indian context, where there is a great deal of blending of different business and non-commercial issues, this literature is helpful.

Benito Arruñada (2009), on the other hand, showed how the World Bank has been working to improve the EODB, which has put pressure on developing nations who lack the funds to implement institutional reforms. This disparity affects economies that are in the process of transitioning. Since India has gone through this stage as well and continues to do so, the observations are quite pertinent to the study. The article uses organizations like the World Bank as a vehicle to highlight the industrialized countries’ worldwide domination as well as their trade and protectionist policies.

Khee Giap Tan, Mulya Amri, and Nurina Merdikawati (2017) recommend against following standard methods and instead focusing on the study of doing business, which tends to emphasize regulatory features more than other aspects. Macroeconomic elements like market potential and infrastructure development, in their view, should be coupled with micro-level elements like cost-effectiveness and profitability, as well as the role of government in controlling competition. Therefore, Business Friendliness, Competitiveness, and Attractiveness to Investors (ABC) Policies have a very real role to play in determining how easy or difficult it is to conducting business. For their research, they have concentrated on analyzing the subeconomies of 33 Indonesian provinces.

The ABC methodology of gauging the ease of doing business is further extended to the Indian setting by Khee Giap Tan, Sasidaran Gopalan, and Will Nguyen (2018) using subeconomic analysis. Through a comprehensive framework analysis of the indicators under the EDB–ABC

index in the previous paragraph, they provide a realistic view of the de jure and de facto business conditions in 21 sub-national economies of India. They also find a positive association between the proposed EDB–ABC index and the competitiveness of as well as investments into Indian subnational economies.

Additionally, they reach conclusions about sub-national de facto implementation issues more so than de jure competitive policies. The findings stand in sharp contrast to the business studies that are currently being conducted and emphasize how crucial the index’s comprehensiveness is.

Dana L. Haggard and K. Stephen Haggard (2018) investigate how four dimensions of the ease of starting a new business—the number of procedures needed, the number of days needed, the ease of getting credit, and the cost—are affected by other longer-term and less dynamic factors like culture, legal origin, and religion. They come to the conclusion that the first startup costs are unaffected by a company’s culture, place of origin, or religion. Nonetheless, they believe that legal origin accounts for the quantity of steps and time required to establish a business, as well as the simplicity of obtaining finance. Religion and culture (power distance) have a significant role in explaining why there are gender disparities in how easy it is to start a business

Conclusions

The widespread consensus is that improvements should be made to the international rating of ease of doing business. The many studies’ opinions point in different directions toward this opinion. This calls for the legislature’s multifaceted functions, executive action, a general mindset, citizen education, and faith in the legislators’ ability to carry out their duties. Even said, a small percentage of the investigation also highlighted certain murky sections ranking systems, but this in no way negates the need for improvement. Without a doubt, ongoing efforts to raise the rankings in the EODB are necessary in the Indian context. This is evident in the recent initiatives like the rollout of the GST, the disinvestment of PSUs, the labor law reforms, the bureaucracy redesign, etc. A positive outlook inspires optimism for the future. The following may be used to summarize the main conclusions drawn from the talks in this paper:

Since the Ease of Doing Business scale encompasses many aspects of administration, the legal system, HRD policy, etc., it generally exhibits positive correlation with the investment environment.

EoDB is a self-sufficient system. More investment results in faster economic growth and, in the end, helps to improve EoDB continuously. They are complementing one another. Underdeveloped nations, however, need to drastically alter their social and economic structures. Development is the primary issue for impoverished nations, whereas growth is the primary focus for developed nations. As a result, the latter group must set alternative goals for themselves. Due to the significant stakes in social security in developing nations, they cannot simply adopt the labor reforms and legislative overhauls of rich nations. Politics and societal unrest could result from it. In the end, this will hurt the nation’s economic structure and cause the EoDB graph to decline. The ranks of EoDB in terms of investment concerns are frequently undermined by extracommercial objectives such geopolitical strategic equations, border disputes, security issues, and social elements.

Trade barriers and the liberal system are far more important in determining capital inflows for small economies and export-oriented economies than other factors. The capacity of the economy will actually be drained away from overexploitation of limited resources if the fundamentals of the economy—such as sectoral reforms, a healthy business environment, and political social stabilization—are not strengthened. Only then can long-term positive effects on the ease of doing business and investment pattern be ensured.

Given the Indian setting, the country’s economy is in a state of transition. Economic reforms in their second stage are being implemented cautiously. At the very least, the current COVID 19 threat has made it clear how important it is to be self-sufficient. When human survival itself is in jeopardy,

even the paradigm of consumption-based economic progress is likely to shift. Massive reforms are urgently needed in this emergency-like situation, where the economy is already in the doldrums. The global mindset that opposes Chinese economic hegemony offers significant opportunities but also demands enormous efforts, particularly in the field of research and development operations in the health sector. Although tax reforms are being implemented, the anticipated outcomes have not yet materialized.

However, considering the wide variations in the various stages of development among the various regions, social echelons, and cultural values in this highly diversified demographic distribution, as one of the ABC studies suggests, sub economy level analysis is a much required option in the Indian context.

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