India is right to focus on ease of doing business

The date 31 October, while ghoulish for some, was a red-letter day for the Narendra Modi government, with the publication of the 2018 edition of the World Bank Doing Business report. As readers will surely be aware, India jumped 30 spots in the rankings to 100th place out of 190 countries in all. More importantly, from an economics perspective, India improved its “Distance to Frontier” (DTF) score by 4.71 percentage points to 60.76 (with 0 the lowest and 100 the frontier of current best practice).

Predictably, there followed a chorus of commentary suggesting that the World Bank’s concept of ease of doing business is unconnected to reality, as it is based on the opinions of “experts” rather than ground reality. While the latter is certainly true, and has been argued by many, including me, the former is a wildly misleading exaggeration. The best response is to turn to evidence.

The chart shows the correlation between the natural logarithm of gross domestic product (GDP) per capita, adjusted for purchasing power parity, on the vertical axis, with the World Bank DTF, on the horizontal axis, using data from the latest Doing Business report and the latest GDP data from the World Bank as well. This brings up to date a chart first presented by economist John Cochrane in a 2 May 2016 opinion piece in the *The Wall Street Journal*, and reconfirms his message of a sharp correlation between GDP per capita and the ease of doing business.

It is not necessary to get drawn into a sterile debate on whether this correlation may be given a causal interpretation or not. I am quite happy to remain agnostic on the direction of causality, and my own hunch is that the correlation reflects a virtuous feedback loop between income and the business regulatory environment. Further, it would be absurd to suggest that the relationship is spurious. The chart clearly gives the lie to those who claim that the ease of doing business is unconnected to economic reality. As the chart shows, low-income countries fare poorly in the ease of doing business, high- income countries fare well, and a country like India falls somewhere in the middle (behind China, for instance). This accords with common sense and is not a random artefact of the data.

Of course, the World Bank report is not the last word on the ease of doing business, and is usefully supplemented by more granular, sub-national studies which survey firms on the ground, not just experts. One such study is the recent NITI Aayog/IDFC Institute*Enterprise Survey Of Indian States*, launched on 28 August in Delhi. I had the pleasure to be co-lead researcher on this project, which has thrown up a great deal of rich information and interesting correlations, such as that between higher growth at the state level and better performance in the ease of doing business (with, again, the usual caveat that we can make no claim on causality).

Further, our report points to the centrality of information dissemination as a basic prerequisite to improving the ease of doing business. One fascinating statistic is that only 20% of manufacturing start-ups avail of a single window for starting a business, even when one is available. This is the lowest of low-hanging fruit, which does not require legislative or regulatory change to improve, but something as basic as getting the word out.

All this points to unfinished business. But in no way does it gainsay that the Modi government deserves enormous credit for prioritizing the doing business climate and demonstrating concrete results. These first fruits of success will hopefully be a spur for further reforms, which, if successful, will lead both to a better business regulatory environment and greater prosperity for all Indians.

The writer thanks Kadambari Shah of the IDFC Institute for inputs.

Vivek Dehejia is a Mint *columnist and resident senior fellow at IDFC Institute, Mumbai. Read Vivek's* Mint *columns at* www.livemint.com/vivekdehejia

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