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Ease of Doing Business in India: A Big Jump but Tough for a Bigger Jump

India has made significant progress in the ease of doing business ranks by climbing 30 places to reach 100. The achievement is being celebrated as a vindication of the Narendra Modi government's efforts to streamline regulations. While making large strides on indicators such as paying taxes, getting credit and tackling insolvency, India still ranks poorly on some other indicators such as starting a business, enforcing contracts, dealing with construction permits, registering property and trading across borders. Attributing the better rank to positive policy changes in areas managed by the Central government, the paper argues that climbing further would require greater action from the States.

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In one of the strongest endorsements of Prime Minister Narendra Modi government's efforts to improve business conditions in India, the World Bank's latest 'Ease of Doing Business' (EODB) rankings pushed India 30 places up to be ranked at 100, from 130 last year. Over the last three years and since the assumption of office by Modi in May 2014, India's EODB rank has improved from 143 to 100. The improvement reflects the government's endeavours to

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pull down hurdles affecting business operations in the country and improve India's image, which for several years, has been that of a difficult and unfriendly country for doing business.

Improving India's EODB to elevate it to among the world's top 50 countries with the best business conditions was a target set by Modi as early as in September 2014. To that extent, the efforts to simplify regulations and reduce business costs are moving the country in the right direction and towards the target set by the prime minister. However, notwithstanding the big leap this year, breaking into the league of the world's top 50 might be much tougher and arduous.

At the outset, it is important to note that India's current rank of 100 puts it in the 'median' or nearly middlemost position among the 190 countries assessed by the World Bank for the EODB. For India, so far, the journey has been from the low-base rank of 143 to the median position. The next phase of the journey involves moving up through the middle rungs towards the top. The challenge in this regard is to record improvements on difficult indicators like contract enforcement and trade facilitation inefficiencies that continue to plague the Indian economy and which could prove difficult to eradicate.

A few initiatives have contributed significantly to the big leap taken by India this year. The first of these is 'resolving insolvency', where India's rank has improved from 136 to 103. The EODB defines the parameter as the time and cost involved to address commercial insolvencies, the outcome and recovery for the latter and the quality of the national legal framework to address insolvencies.² India's new bankruptcy law, the Insolvency and Bankruptcy Code, enacted in 2016, has contributed to the sharp rise in India's rank on this indicator. Similarly, there has been a large jump in the indicator on 'paying taxes', where India's rank shot up by more than 50 places from 172 to 119, reflecting the improvements in paying taxes online and the easier filing of returns.

From the EODB perspective, India, at present, is a country of remarkable contrasts. There are a couple of indicators where India is among the best in the world. Indeed, on the indicator of 'protecting minority investors', India ranks fourth in the world now, having improved by nine

² Doing Business 2018, the World Bank Group; <http://www.doingbusiness.org/~//media/WBG/DoingBusiness/Documents/Profiles/Country/IND.pdf>. Accessed on 2 November 2017.

places since the last results. ‘Getting credit’ is another indicator where, after having risen to 29 in the latest rankings from 44 earlier, India is among those economies where collateral laws and credit information systems are regarded among the better ones in the world. Notwithstanding a marginal decline by four places from the ranking last year, India’s current rank of 29 in ‘getting electricity’ makes it among the better locations in the world in accessing electricity and the transparency of tariffs. However, these great and good ranks co-exist with dismal ones on some other indicators. Ranked 181 among 190 countries surveyed in ‘construction permits’, India is in league with the worst, as far as time taken and costs incurred, in obtaining permits to build warehouses, are concerned. It also remains among the poorly ranked countries on indicators such as ‘enforcing contracts’, ‘starting a business’, ‘registering property’ and ‘trading across borders’, where it is placed at 164, 156, 154 and 146 respectively.

The rather low rank that India has on some indicators makes it a daunting prospect for it to catapult into the top league of doing-business economies. A closer look at the areas that have led to the recent improvement in rankings – insolvency, credit and taxes – reveals these to be indicators where regulations are largely framed and managed by the Central government and its agencies. These are, therefore, components of the EODB that the Modi government is able to directly influence through decisive action. The areas where the ranks are dismal and a great amount of ground is left to be covered are those where considerable action is required on the part of the State and local governments. States and local governments in India’s federal structure have policy authority over land, real estate and labour regulations, as well as on-ground permits that are required to start businesses. Needless to say, the Central government cannot do much other than hope that the State and local counterparts do what is required of them.

While the EODB indicators reflect the changes in doing-business conditions, they do not do so for the entire economy. With respect to India, the indicators reflect the state of affairs in the cities of Delhi and Mumbai. There is always, therefore, a risk in stretching these results to all parts and regions of the country. Furthermore, the results do not, in any way, reflect the prospects of the economy. The latest EODB results are based on policies that were implemented till the end of 2016. With respect to India, they do not capture the effect of demonetisation of the Indian currency or the effects of the introduction of the Goods and

Services Tax (GST). As a matter of fact, the EODB ranks, by virtue of what they measure and the way the measurement is done, are not estimators of the short- or medium-term performance of the economy.

Looking ahead, in areas such as paying taxes, where India has already done well, the GST should improve India's EODB further in the next assessment. This should influence the overall ranking positively and India can also look forward to climbing several notches in the next ranking exercise in 2018. Policy changes in areas such as contract enforcement might also have beneficial results. However, India getting into the top 50 in the EODB would require far greater action from the States and might take much longer.

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