

All that is wrong with Modi govt's obsession with Ease of Doing Business rankings

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Arun Jaitley and Narendra Modi at a conference in New Delhi | Kuni Takahashi/Bloomberg

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Ease of Doing Business rankings paint a misleading picture, but Modi government wants to focus on appearance over reality.

Prime Minister Narendra Modi has given great personal attention to the **importance** of improving India's position in the World Bank's global ranking of the Ease of Doing Business.

India's **rank** has improved from 142 in the 2014 ranking to 100 last year and to 77 this year.

The idea that India's position in the rankings has improved due to the government's implementation of significant economic policy reforms enhancing the business environment is, however, an exaggeration.

The **indicators** used in Ease of Doing Business rankings capture the "regulatory environment for business" in a country including the extent of red tape involved in starting or running a business and the protection of selected property rights.

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Behind the attention given to this is the notion that regulations and administrative procedures are a primary barrier to economic activity, and, in particular, to the choice of India as an investment destination.

Do the Doing Business indicators capture the primary obstacles to investment in the country? They focus on very specific criteria and ignore many others. According to the World Bank itself, the indicators are not a measure of the overall climate for business in a country, leaving out vital **matters** such as "security, macroeconomic stability, corruption, labour skills of the population, underlying quality of institutions and infrastructure or the strength of the financial system". They also focus on specific objectives such as securing creditor rights, which may be beneficial to investment and to growth in some cases, but act as obstacles in other cases (such as when a debt overhang harms investment). Locking in policies that are advertised as 'best practices' can end up reducing subsequent freedom or otherwise creating costs.

In any case, as shown early this year by the Washington based [Center for Global Development](#), the change in India's ranking in the two years owes much more to shifts in the methods used by the World Bank than to any actual change in the performance of the country in the underlying indicators. Moreover, because countries' scores are quite close to each other, small changes can bring about large shifts in rank. It appears that the [government](#) has also gone to unusual lengths both to lobby the World Bank to change its method of calculation and to bring about minor, but very specifically targeted, changes in regulations so as to improve India's performance. For instance, it has required that [exporters](#) seal their own containers, despite the industry seeking slower implementation of this new policy.

Foreign investment in India rose long before the recent improvements in the ranking, reaching a [level](#) close to current ones in 2008, under the UPA government. It is hard to believe that this earlier increase was driven by the country's rank on the Ease of Doing Business index (then low and not rapidly rising).

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Even now, India receives foreign investment flows, which are much greater than for many countries with higher rankings in terms of the 'ease of doing business'. Decisions as to where to invest are crucially shaped by perceived business opportunities in a country and prospective returns. This is, for instance, why China has had robust foreign investment and extraordinary economic growth despite lack of a clear policy framework governing issues previously thought to be vital (for example, providing for property in land or for the rights of shareholders in corporate governance).

It is not surprising that the Ease of Doing Business index provides an imperfect predictor of the level of foreign direct investment across countries. Regulation can have a purpose, sometimes benefitting businesses themselves. Taxation that is accompanied by the robust public provision of infrastructure, skills development of workers, reasonable living standards leading to high domestic demand for their goods or other factors can make for an acceptable package for business. This is why developed country environments with high taxes are still the major destinations for foreign investment. Recognising this might potentially require acting in ways that conflict with the narrow focus on the Ease of Doing Business index.

The Modi government's attention to India's ranking in the index reveals an unhealthy focus on packaging. The everyday obstacles to economic activity matter and deserve attention, but the focus on the World Bank's chosen indicators provides a partial and potentially misleading picture. It should not also divert concern from economic policy choices that really matter. Indeed, many decisions made by the government (notably, demonetisation), as well as haphazard and confusing implementation of policies (such as GST or the framework for taxation of foreign investors), have been damaging. The focus on appearance over reality threatens a recurrence of such missteps. It is notable that while the government seems to be bending over backwards to uphold a specific theory of investment propounded by an international institution, in the case of the Ease of Doing Business, it paid no heed to the views of economists, mainstream or otherwise, domestic or foreign, when undertaking its ill-judged experiment in demonetisation. The lack of intellectual independence demonstrated by adopting the Ease of Doing Business indicator as an object of policy sits strangely next to the misplaced independence of demonetisation. The common denominator appears to be a dangerous focus on appearances.

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The government's obsession with the country's performance in the Ease of Doing Business rankings is a small indication of the larger syndrome. If a pilot flies with the wrong map or controls he may well still get somewhere but we may wonder where, at what costs, and with what risks. Even if things are going well enough so far, that is no reassurance.

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