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Ease of Doing Business and Foreign Direct Investment: A Review Paper

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Abstract

Investors friendly business environment are necessary to greeting new entrepreneurs in the country. To promote and motivate foreign as well as local investor, government around the world are introducing reforms through amendment and legislative reforms, tax reforms, banking reforms, liberalise economic and trade polices which helps the economy to grow. To fostering the economic growth of a nation foreign direct investment plays an important role. To attract greater required to reduced the role of government so that providing suitable business environment to the new entrepreneurs. For assessing the business environment, World Bank in 2002 launched the Doing Business index. The aim of this Doing Business report of World Bank is help the developing countries in making regulatory reforms so that accelerate the economic growth of countries.

Keywords: Ease of doing business, Foreign direct investment, Regulatory environment, Economic growth

Introduction

A business- friendly environment is a pre-requisite for the growth of nation. Most countries try to improve their business environment in order to make it conducive for both domestic and foreign investments. The right business environment enables good ideas to take root, leads to create jobs and to better lives. But where business environment and regulations makes it difficult to start and operate a business, good ideas may never see the light of day and important opportunities may be missed.

After worldwide economic reforms, business environment become more complex and investors are not able to take decision about where and which country to select for investment. So, World Bank in 2002 launched the Doing Business project, looks at domestic small and medium-size companies for measures the regulations. The Ease of Doing Business Index is a source of information on the business environment (laws, regulations and other costs of doing business) of about 189 countries.

According to World Bank “Ease of doing business is an index published by the World Bank. It is an aggregate figure that includes different parameters which define the ease of doing business in a country". It is computed by aggregating the distance to frontier scores of different economies. The distance to frontier score uses the 'regulatory best practices' for doing business as the parameter and benchmark economies according to that parameter.

These Parameters are:-

Starting a business- Procedures, time, cost and minimum capital to open a new business.

Dealing with construction permits – Procedures, time and cost to build a warehouse..

Getting electricity - procedures, time and cost required for a business to obtain a permanent electricity connection for a newly constructed warehouse

Registering property - Procedures, time and cost to register commercial real estate.

Getting credit - Strength of legal rights index, depth of credit information index.

Protecting investors - Indices on the extent of disclosure, extent of director liability and ease of shareholder suits. The indicators distinguish three dimensions of investor protection

- Transparency of related-party transactions
- Liability for self-dealing
- Shareholders ability to sue officers and directors for misconduct

Paying taxes - Number of taxes paid, hours per year spent preparing tax returns and total tax payable as share of gross profit.

Trading across borders - Number of documents, cost and time necessary to export and import.

Enforcing contracts - Procedures, time and cost to enforce a debt contract.

Resolving insolvency - The time, cost and recovery rate (%) under bankruptcy proceeding.

According to the World Bank's Doing Business Report 2017 India now ranks 130th out of 189 countries in the ease of doing business, moving up four places from last year's adjusted ranking of 134.The rankings for both the years are part of a revised methodology adopted by the bank.

The EDBI was presented in several studies coordinated by Simeon Djankov. The former address the effects of the legal system (Djankov, La Porta, Lopez-de-Silanes & Shleifer, 2002a), the regulation of entry of firms (Djankov, La Porta, Lopez-de-Silanes & Shleifer, 2002b; Djankov, 2009), the regulation of labour markets (Djankov, La Porta, Lopez-de-Silane, Shleifer & Botero, 2003), procedural time costs on trade (Djankov, Freund and Pham, 2006), creditor protection through the legal system and information sharing institutions (Djankov McLiesh & Shleifer, 2007), corporate taxes (Djankov, Ganser, McLiesh, Ramalho & Shleifer, 2008a), debt enforcement contracts (Djankov, Hart, McLiesh and Shleifer, 2008b) and investors protection (Djankov, La Porta, Lopez-de-Silanes and Shleifer, 2008c).

Table :- 1
Overview of Doing Business Report from 2007 to 2017

Sr.No.	*Year*	*Title*	*Key Points*
1	2017	Equal Opportunity for All	Focused on barrier faced by women entrepreneurs. To account general discriminatory between male and female doing business report 2017 expanding three indicators starting a business, registering property, enforcing contract. Results indicated that gender gap exist for female in availing economic opportunities and due to this estimated total income loss of 27% in the Middle East and North Africa, a 19% loss in South Asia, a 14% loss in Latin America and the Caribbean and a 10% loss in Europe. Countries should be adopt smarter regulation that make a balance between need of private sector and interest of consumer and other social groups.
2	2016	Measuring Regulatory Quality and Efficiency	Measured the efficiency and cost of compliance with business regulation. To measure the regulatory quality indicator are dealing with construction permits, getting electricity, registering property and enforcing contracts.

3	2015	Going beyond efficiency	Doing Business report is the important compendium of information. Its analysis the day to day functioning and development of economic effectiveness. Its indicate that Economy with an efficient rule of governance , provides better business environment to realize their full potential and promote growth and helps the government around the world to formulate standardised macroeconomic policy so that starting and growing a business is more easy.
4	2014	Understanding regulation for small and media size enterprise	Parameters of Doing Business not focused only on less regulation/ smaller government but also on better regulation/ large government. Its provides more protection, efficient procedure and strong institution for establish transparent and enforceable rules. A country with highest ranking in ease of doing business index does not mean no regulation but government need to manage the regulatory system in such a manner that facilitate the development of private sector without unnecessary hindrance. Denmark, Netherland, Hong Kong are largest government but have a good rank in ease of doing business index.
5	2013	Smarter Regulations for small and medium size enterprises	Doing business is related to SMART business regulation. SMART stand for Streamlined, Meaningful, Adaptable, Relevant, Transparent . Doing Business include two indicator. First related to the strength the norms of legal and regulatory framework for getting credit, protecting investors, enforcing contracts and resolving insolvency. Second indicator related to the complexity and cost for starting a business, dealing with construction permits, getting electricity, registering property, paying taxes and trading across borders. OECD high income economy have more business friendly regulatory business environment in both indicators.
6	2012	Doing business in a more transparent world	Economic activities are required transparent and accessible better rules that are fundamental premises of doing business. its focus on striking a balance between avoiding unreasonable costs impose on businesses and safeguarding the business environment. Indicators regarding access to regulatory information, documentation requirement, fee schedules and insolvency proceeding are easily available in OECD high-income economies and least accessible in Sub-Saharan Africa and the Middle East and North Africa. To increase access to information and transparency role of e-government initiatives are rise around the world.
7	2011	Making a difference for entrepreneur	More than 75% economies of the world liberal the policy related to start a business from when the doing business project started. Doing business results helps in creating new jobs. Number of unemployed people increase up to 212 million in 2009, out of these 34 million unemployed due to crisis in 2007. For the policy maker around the world, job creation become the top priority and Small and medium-size businesses have great potential to create jobs. Policy maker should improve their regulatory environment that support such businesses to grow.

8	2010	Reforming through difficult time	Lower barriers to start-up are associated with a smaller informal sector. Lower costs of entry encourage entrepreneurship, enhance firm productivity and reduce corruption. Simpler start-up translates into greater employment (doing business 2010). The regulatory environment for businesses can influence how well firms cope with the crisis and are able to seize opportunities when recovery begins. Where business regulation is transparent and efficient, it is easier for firms to reorient themselves and for new firms to start up. Efficient court and bankruptcy procedures help ensure that assets can be reallocated quickly. And strong property rights and investor protections can help establish the basis for trust when investors start investing again.
9	2009	Comparing regulation in 181 Economies	Doing business report helps the government around the world in continuing regulatory reform example "Be the Smart Regulator" program in China, "Better Regulatory Executive" in the United Kingdom, "Simplex" in Portugal. In emerging market reformers China has focused on easing access to credit and India focused on implementing electronic registration of new businesses, , an electronic collateral registry and online submission of customs forms and payments.
10	2008	Comparing regulation in 178 Economies	Doing business comparative data of different countries motivate government to reform and it's also compare the cities within a country for example 35 days require to register property in Hyderabad to 155 days in Calcutta. In Bhubaneswar 159 days required to obtain a business license and 522 days in Ranchi. This year India government is taking action to reformer in trading across border indicator of doing business. Large emerging and fast reformer economies are China, Egypt, India, Indonesia, Turkey and Vietnam in ease of doing business. In China passed the new property law, bankruptcy law and allowed electronic processing for taking construction permit for the building.

Development in Conceptual Framework

Ease of Doing Business and Foreign Direct Investment in Sub- Saharan Africa and Asian countries

Morris and Aziz (2011) studied the relationship between factors that affect conducting business and inflow of FDI to Sub -Saharan Africa and Asian countries (57 countries) and cover the period 2000-2005 and found that some of the factor of the business environment related to the FDI. Correlation coefficient test used to find the relation between variables. They focused on a limited time period and a limited number of analysis and countries. They found that two indicators, "registering property" and "trade across borders" were related to FDI inflows in these two regions of the world. This paper provide empirical supports to the hypothesis that FDI is related to investment climates. Nnadozie & Njuguna (2011) investigated the link between investment climate, the prevailing business regulation and FDI in the Africa region and found that through institutional reforms, a small non-resource country in Africa increase the opportunities to attract required FDI and result of this paper different from common perception that natural resource endowment is only factor for determine FDI in Africa. Moges Ebero, E., & Begum, M. (2016) in Ethiopia, the doing business indicator such as starting a business, dealing with construction permit, getting credit, registering property, getting electricity, trading across borders, resolving insolvency are negatively correlated with FDI flows and remaining three are not correlated with FDI flows. To attract local and foreign investors, government of Ethiopia required to create healthy work environment through stable legal system, building infrastructure and institutional reforms to reduced the doing business cost.

Corcoran, A.(2014) found that relationship between doing business and FDI is significant for the middle income countries but relation not significant for the world poorest region, Sub- Saharan African or for the OECD. Singh, G. (2015) investigated the relationship between the foreign direct investment and six variables (starting a business, dealing with construction permits, getting electricity, registering property, paying taxes, enforcing contracts cost) of doing business index of world bank. For data analysis Johansen's co-integration test, and Granger causality test used. The study concluded that there is a long run relationship between the FDI and variables under the study and similar study conduct by Shahadan, F. (2014) intended to discover the relationships between Doing Business indexes and FDI inflow cover the time period 2004-2013 and six Asian countries which are Afghanistan, Iran, Pakistan, India, Bangladesh and Sri Lanka. For data analysis random effect method, regression estimations are used and concluded that all factors have inverse relationships, except registering properties, getting credits and trade across borders and showed that there is a direct link between FDI and rules made by government. All parameter of doing business index influencing FDI inflow other than paying taxes and resolving insolvency or closing business.

Ease of Doing Business and Foreign Direct Investment in Developing and Developed countries

Jayasuriya, D. (2011) & Kofarbai, Z. H., & Bambale, A. (2016) examined that improvement in the doing business ranking generate greater foreign direct investment inflows in average countries. Using panel data of 84 countries from 2006 to 2009 and result of this paper apply for the average 56 developing countries. Regression analysis used to find the results. He concluded that the average country improvement in the official doing business ranking is likely to increase FDI into a country. A similar study conducted by Bayrakte, N. (2013) concluded that the improvement in selected ease of doing business factor can have increase the share of developing countries in FDI inflow while it is dropping for the developed countries and reason behind that changing in growth rates of developed and developing countries is one of the factors that can explain changing FDI inflows from developed to developing countries (developing countries are growing faster).

Olaval (2012) in case of developing countries to attract larger amount of FDI, better rated business environment is required. In Doing Business factors that are most likely to influence FDI are: starting a business, registering property and trading across border and concluded that relation between doing business indicator and FDI are not same for the developed and developing countries and institutional quality is measure concern when investment decision taken among developing countries rather than developed countries. Eifert, B. (2009) studied the impact of regulatory reform on investment rate and economic growth rate by using Arellano-Bond dynamic panel estimators and utilizes a five-year panel of data from the World Bank's Doing Business project and concluded that relatively poor (conditional on governance) and relatively well-governed (conditional on income) is positive impact of regulatory reforms and grow about 0.4 and 0.2 percentage faster on their investment rate.

Effect of Regulatory Environment on Foreign Direct Investment

Piwonski (2010) studied the relation between Foreign Direct Investment and Government actions for which the World Bank's 'Doing Business Index' was used and data from 2008 to 2010 was studied The result showed that increasing their country's Doing Business rank one level, a government can bring in over $44 million USD. Anderson, J. & Ganzalez, A. (2013), Sadhwani, K. R. (2015), Sebastian, S. (2014), and Bhanushali, K. (2015) provides that there is significance correlation between doing business and foreign direct investment. Kinda, T. (2008) studied the impact of physical and financial infrastructure, human capital and institutional problem on FDI. This analysis includes 77 developing countries and 33,604 firms including 4,660 foreign firms and results showed that improving physical and financial infrastructure increases the probability of receiving foreign direct investment (FDI). Busse, M. & Groizard, J. L. (2008) results indicated that, a country cannot take the benefit of multinational company if the country environment is highly regulated. Gujarati, H.(2015) found that better ranking in doing business index will improve the economic growth of the country. Bhanushali, K.(2015) for attract foreign direct investment, government should be focused on making transparency in credit information, speed up the resolving insolvency procedure, reducing the number of procedures to start business, reducing the cost of electricity, registration of property and reducing labour costs. Mottaleb, K. & Kalirajan, K. (2010) concluded more business friendly environment helps in attracting FDI. Djankov, McLiesh and Ramalho (2006), found that better regulation help in accelerating economic growth of a country.

FDI Determinant Factors

Foreign Direct Investment (FDI) plays an important role in achieving rapid economic growth and development of nation A large number of study conducted to explore the factors that attract greater amount of FDI. These factors are large local markets, natural resource endowments, good infrastructure, low inflation, an efficient legal system and a good investment framework (Asiedu, E. (2006)), gravity variables, cultural distance factors, parent-country per capita GDP, relative labor endowments and regional bilateral trade agreements (Blonigen,B. (2011), government expenditure, gross fixed capital formation, gross domestic product, inflation rate, exchange rate (Omankhanlen, E. A. (2011)), market size, natural resources, skilled human capital, trade openness, low interest rates and labor cost (Flora, A. & Agrawal, G. (2014), Mottaleb, K. & Kalirajan, K. (2010), Yasmin, B., Hussain, A., & Chaudhary, M. (2003) focused toward identify the factors that determine FDI inflow by using panel data from 68 low-income and lower-middle income developing countries and concluded that countries with higher GDP growth rate, higher proportion of international trade, large GDP helps in attracting FDI and small developing countries also attract FDI by adopting more outward oriented trade policy.

Ease of Doing Business and Foreign Direct Investment in India

Gupta, H. & Kapoor, T. & Asudani, J. (2015) focused on worrying indicators for India such as Enforcing contract, Dealing with Construction Permits, Starting a Business and Paying Taxes and compare it with BRICS countries. To move India toward frontier required effective reforms in its weakest ranked indicators. Sadhwani, K. R. (2015) analysed relative ranking of India with south Asian nation and selected developed nation. India regulatory environment is far behind of its south Asian peers like Sri Lanka, Pakistan, Nepal, Maldives and Bhutan excluding Bangladesh and Afghanistan. Vaidya, D. R. & Patel, P. (2015) found that in all the BRICS nation India is farthest from distance to frontier scale of doing business and explore the three indicator of doing business index that needed India to improve. These indicator are enforcing contract, dealing with construction permit and starting a business.

Research Gap

Most of multinational companies are understand that ease of doing business ranking are very important while taking investment decision and it's also recommend the government around the world making business environment more suitable for the new investors, domestic as well as foreign investors. Doing business does not measure the all aspect of doing business environment neither considered the global financial system, intellectual property regulations, level of employment, corruption, poverty and other macro economic variables. More extensive study should be possible by adding more variables and the result of the study may be help the government around the world making business friendly environment that's improve the economic growth of the nations.

Conclusion

Nnadozie & Njuguna (2011) and Moges Ebero, E., & Begum, M. (2016) are supported that greater FDI inflow are associated with the healthy work environment through institutional refoms which reducing the cost of doing business in Africa. Jayasuriya, D. (2011), Corcoran, A.(2014), Bayrakte, N. (2013), Olaval (2012), Eifert, B. (2009) all are concluded that average/ middle income/ developing countries, attract greater FDI inflow by improving ease of doing business ranking rather than well governed / developed countries. There is a significant relationship between ease of doing business and FDI inflow are supported by Piwonski (2010), Anderson, J., & Ganzalez, A. (2013), Sadhwani, K. R. (2015), Bhanushali, K. (2015), and Singh, G. (2015). India ranking is far behind from BRICS and South Asian peers (Sadhwani, K. R., (2015) & Vaidya, D. R. & Patel, P. (2015).If there are strong relation between institutional and regulatory environment measured by doing business and fdi inflow then government official and business analyst will claim for making regulatory environment more relaxed so that improve doing business ranking and attract more FDI inflows.

Table :- 2
List of Factors used by authors

Sr.No	*Year*	*Author*	*Factors*
1	2015	Singh, G.	Foreign direct investment, DBI(Starting a Business, dealing with construction permit, getting electricity, registering property, paying taxes, enforcing contract).
2	2012	Olaval	GDP, GDP per capita, GDP growth and openness, Doing Business indicator, FDI (Foreign Direct Investment).

3	2016	Mogesebero, E., & Begum, M.& Bhanushali, K.	Doing business indicators and Foreign direct investment inflow.
4	2014	Corcoran, A.	Doing business indicators, net FDI Inflow stock, GDP, population, area, skill level, distance in kilo meter between country and the equator constructed, market potential, export and import of goods and services.
5	2015	Singh, G.	Starting a business, dealing with construction permits, getting electricity, registering property, paying taxes, enforcing contracts cost and foreign direct investment.
6	2014	Shahadan, F.	All doing business indicators and net FDI inflows.
7	2009	Eifert, B.	Business registration, property registration, contract enforcement, labour laws, port procedures, Business exit. Per capita income growth and the aggregate investment rate, GDP growth rates, unemployment rates, quality of government policies and institutions, political freedoms and civil liberties, political freedoms and civil liberties
8	2010	Piwonski	Market seeking (GDP, population, and population growth rate) Efficiency-seeking (level of education and employment rates) resource-seeking (sources of natural resources and strong transportation lines to minimize transportation and warehousing costs) overall doing business index and foreign direct investment.
9	2008	Kinda, T.	Finance, Tax, Corruption, Crime and disorder, Skills of workers, Electricity, Trade regulation, physical and financial infrastructure(transport, electricity and access to finance problems) some other control variable are institutional problems, lack of skilled workers, agglomeration, age and size effects.
10	2006	Asiedu, E.	Market Size, Natural Resources, Human Capital, Infrastructure, Inflation Rate, Corruption, Effectiveness of the Rule of Law, Political Risk (No. Of Assassinations, No. Of Coups, No. Of Riots)
11	2015	Gupta, H. & Kapoor, T. & Asudani, J.	Enforcing contract, Dealing with Construction Permits, Starting a Business and Paying Taxes.
12	2015	Gujarati, H.	Ease of Doing Business (EODB) index with GDP Growth Rate and GDP Per Capita Growth Rate.

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