

Doing business in India: From 'Look East' to 'Act East'

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Leadership matters in economic development.

Earlier this year, Professor Tommy Koh led a delegation to India for the 2015 India-Singapore Strategic Dialogue, and as a member of that delegation, one of the writers of this commentary, Dr Tan Khee Giap, briefed Prime Minister Narendra Modi at his office on three flagship research projects conducted by Asia Competitiveness Institute (ACI) at Lee Kuan Yew School of Public Policy (LKYSPP), National University of Singapore.

The first research project was the Economic Competitiveness Ranking On Sub-national Economies Of India, where the state of Gujarat came in fourth out of 35 states and federal territories. Mr Modi immediately asked why it had not been ranked first. Dr Tan replied that in ACI-LKYSPP, the researchers are impartial and there is no changing a fourth-place ranking even if the former chief minister of Gujarat is now the Prime Minister of India. That drew a laugh from Mr Modi, who said he had not meant to ask for a change in ranking.

The second piece of research work was on Master Plan For Strategic Regional Development Of India. Dr Tan explained that the

biggest challenge in a democratic India is that each state has different priorities. Mr Modi replied that he has asked the chief ministers to work closely together.

The third research project was on Ease Of Doing Business Index In India at sub-national economy level, incorporating the 98 reform measures Mr Modi had recommended. Easing impediments to doing business is key to boosting both domestic and foreign investments. Singapore has set an impressive example when it comes to providing a business-friendly environment to firms across a whole host of parameters, ranging from the efficiency of processing permits and licences for new businesses, to strength of investor protection to enforcing contracts.

By contrast, India has a long way to go. The latest World Bank 2016 Ease Of Doing Business (EDB) rankings, for instance, place it at No. 130 out of some 185 countries. To be fair, it must be noted that the World Bank picked only two cities to serve as proxy for the whole of India, even though the country's local governments are so diverse. The World Bank index also concentrates merely on some 11 processes to kick-start and operate businesses, but is silent on the attractiveness to investors and competitive policy initiatives of local governments which can make a significant difference to businesses.

It is useful to note that India has been experiencing rapid improvements recently in terms of attracting global FDI (foreign

direct investment) inflows. Data from the United Nations Conference on Trade and Development suggests that India moved from 15th position in 2013 to ninth position last year in the ranking of top 20 host economies for global FDI inflows. However, it is still punching below its weight. Easing the constraints to doing business will go a long way to help the country realise its true potential as an attractive destination for investments.

BUSINESS OF 'DOING BUSINESS'

The Modi government, rightly, has put in place a flurry of initiatives to improve India's business climate, driven by the Prime Minister's ambitious goal of moving India's ranking from 130 to among the top 50 in the World Bank's EDB index. While that is a tall ask, it is by no means impossible. To realise such goals, the focus has to be on issues at state level, considering India's diversity.

Thus, Mr Modi's thrust on competitive federalism to foster healthy competition among states in India is a step in the right direction. However, the existing indicators on doing business provide an incomplete picture about the prevailing business conditions, as they focus on de jure aspects of doing business, that is, whether the regulatory framework for a conducive business environment exists.

Most problems in India appear to be at the implementation level, which implies that a suitable metric to measure ease of doing business must cover the de facto issues as



An office building at the Gujarat International Finance Tec-City in Gujarat. The Indian state ranked fourth in the Asia Competitiveness Institute's Economic Competitiveness Ranking On Sub-national Economies Of India. PHOTO: REUTERS

well. Moreover, an economy might be a difficult place to do business but still be an attractive market for investment. An economy becomes attractive to investors if competitive policies are pro-actively being planned, put in place and marketed. This suggests that a holistic indicator of ease of doing business would factor in such factors as well as they matter to business survival.

In this spirit, ACI at LKYSPP has embarked on a new flagship project of computing an Ease Of Doing Business (EDB) Index based on Attractiveness to investors (A), Business friendliness (B) and Competitive policies (C). The EDB

Index ABC is a bottom-up approach which takes into account the various operational issues that firms face at the ground level, with the emphasis on de facto issues. A unique feature of the EDB Index ABC, which was applied to sub-national economies of India (and Indonesia too in a separate study), is its emphasis on collecting extensive survey data at the state level, given that several constraints that businesses face lie under the purview of the state governments.

ACI has so far collected valuable survey data that sheds light on the de facto issues for doing business from more than 20 states and is in the process of collecting more

across India. ACI has also signed memorandum of understandings with six states in India, including Andhra Pradesh, Bihar, Chattisgarh, Madhya Pradesh, Odisha and Punjab, with the objective of providing a masterplan for ease of doing business.

Preliminary results from our consultative interactions with the several Indian industrialists (covering mainly manufacturing industries of all sizes) complemented by the survey data clearly identify the key problem areas that policymakers need to turn their attention to. The list of issues include enforcing and honouring business contracts, difficulties in obtaining licences and clearances for starting new businesses, the complicated laws governing land acquisition, filing for industrial disputes and redressal mechanisms for investor protection as well as inefficient logistics and infrastructure. It is important to underline that several of these issues fall under the purview of individual state governments which have the authority to carry out much-needed reforms.

It is often said that it is unrealistic for India to transplant Singapore's model of economic development, given the different political-economy dynamics. Contrary to such views, ACI's field research found that several state governments in India are keen to learn from and adapt the Singapore model. More specifically, the scope for learning covers areas including developing and maintaining world-class infrastructure; attracting foreign investments; and forging effective alliances like the Tripartite Alliance for Fair and Progressive Employment Practices that balances the interests of industry and labour unions so as to ensure an overall conducive business environment.

The elevation of ties between India and Singapore to that of a strategic partnership is likely to be viewed by state governments in India with significant interest.

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