



MAKE IN INDIA

**India and the improving Ease of
Doing Business: the allure of being
the Chinese alternative - Part I**

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Introduction

One of the most important and driving characteristics of a developing economy is its attempt to accelerate sustainable growth that is built on the foundations of a consumer society, availability of capital and raw materials and exploitable skilled population. At the moment, India's consumer spending has been indicating a steady growth, while the availability of abundant natural resources from across the country, as well as the asset of a young demographic only underlines the possibility of sustained economic growth in the coming years. However, the availability of capital has been a cause for concern in India, a concern that is being regularly addressed by the increasing foreign direct investment (FDI) in the country over the past two decades.

For a country that has been identified as a low-income country by the World Bank based on many of its indicators, India has maintained a steady growth rate of about 5-7 percent even amidst a world economic slowdown that was witnessed since 2008. For the Modi-led government that assumed power on the electoral platform of development in 2014, these economic indicators identified by the global financial institutions maintain significance due to their worldwide recognition. This, in turn, has been a major driver for economic policies in the country over the past three and a half years. One of the most important indicators that assumed personal relevance for Mr. Modi is India's rank in the global Ease of Doing Business (EoDB) Index that encompasses about 190 countries across the globe. Mr. Modi's pledge has been to work with the World Bank to allow India to break into the top 50 economies with EoDB.

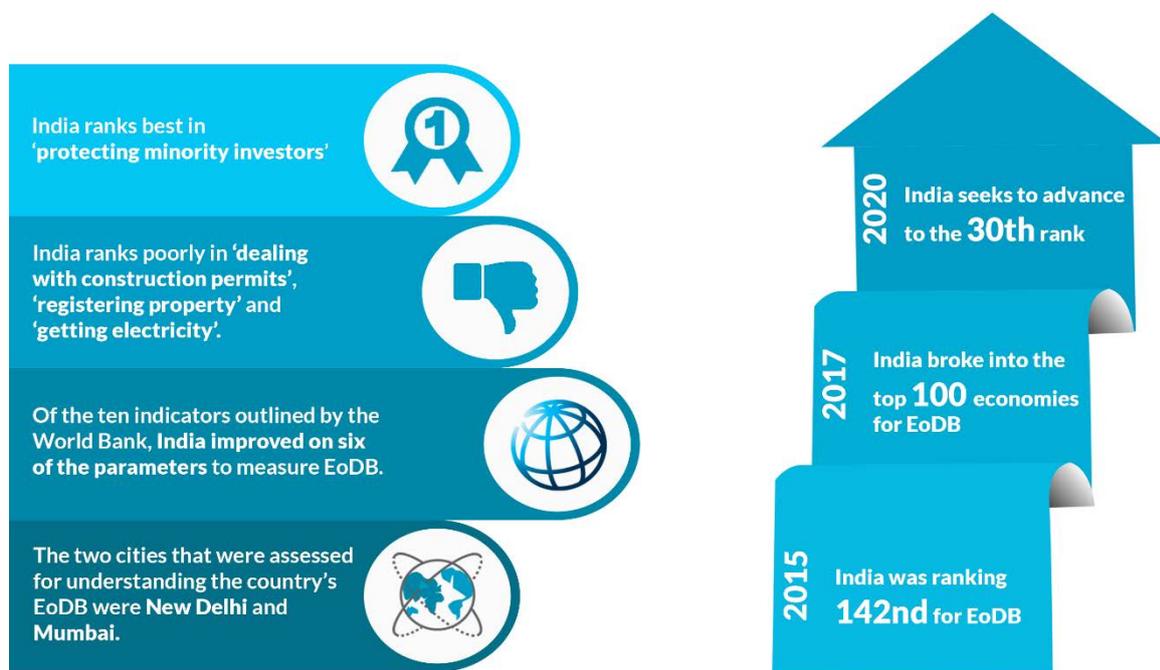
One of the departures with regard to the country's EoDB has been based on its federal structure. While certain states of India have been the most receptive to foreign investments with the provision of relaxed regulatory procedures, availability of raw materials and by providing incentives for investors, electoral politics along with a number of other issues have also impeded foreign investments time and again. In that regard, it is significant to understand the comprehensive nature of the EoDB indicator and if it is actually reflective of the economic growth that characterises India's financial situation at the moment.

Given the infusion of investments in the country's economy, coupled with the already positive aspects of the country's financial situation such as a productive demographic, political willingness, as well as increasing investor confidence, the germane question has been the feasibility of India potentially replacing China as the manufacturing centre of the world. Furthermore, with foreign interest in the cultivation of skilled labour in India, along with the accessibility to a significant working population, also bodes positively for the emergence of India as a successful service sector hub for the global market. All in all, it remains to be seen how despite political change or continuity, India will continue to harness investor confidence over the coming years.

India's jump in the EoDB rankings: rationale behind the improvement amid sluggish growth?

In the latest report released by the World Bank on October 31 called as Doing Business 2018: Reforming to Create Jobs, entrepreneurs indicated regulatory reforms across 119 countries worldwide, reportedly spanning over 264 business reforms. One of the countries that recorded a quantum leap with regard to its rankings was India, which ascended 30 ranks to stand 100 among the 188 other economies in the ease of doing business. However, the most important aspect regarding the leap has been the backdrop of the ascension since it followed the contracting growth in the country after the demonetization drive that was introduced in November 2016. The World Bank's indicators only took into account data until June 2017, a month prior to the implementation of the Goods and Services tax regime in the country. Given the leap amid a sluggish growth, it is important to understand what are the indicators of the EoDB that helped India to gain and sustain a position signifying investor confidence in the past year when India had only recorded a growth of 1 rank in the global indicators.

INDIA'S EoDB ADVANCEMENT



What is the EoDB?

The Ease of Doing Business (EoDB) was envisaged as an indicator to understand the economic policy of a country and regulations affecting business activity there. The World Bank identified a universal set of indicators that would enable country benchmarking, while also motivate reforms from the country's political leadership in a bid to attract more foreign investment due to the universal recognition of the rankings. At a time when the EoDB was introduced, BRICS nations, including Brazil, Russia, China, India and South Africa, ranked among 130-140 out of an approximate total of 150 economies. While Russia in the latest rankings stands at the 35th rank and China at the 75th rank, India lags behind at 100. Notably, South Asia is the only region to not be represented in the first 50 nations for EoDB. The Doing Business Report underlines that economies were more prone to implement regulatory reform in the face of a financial crisis, which reportedly was a stronger motivation than a regime change. Furthermore, the EoDB is complementary to lower levels of unemployment and poverty in a country.

The rankings are based on the following indicators identified by the World Bank including the ease of starting a business in a country, dealing with construction permits, securing electricity connection for the operations of the business, the ease of registering property in a country, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. Given the relevance of these rankings for any foreign investor to understand the financial climate of an economy, it is only obvious that the index is perceived as a system that scores performance of nations on a relative basis and invokes healthy competition among nations due to the stakes of the reputation involved in the outcome of the rankings.

To zero down on the rankings, the World Bank has traditionally assessed the largest business city in each country, while assessing a second major city for the 11 most populous economies since 2015. With regard to India, the two countries that are assessed include Mumbai and Delhi. Apart from these universal indicators with regard to a country, the World Bank also promotes firm-level enterprise surveys in a bid to address the shortcomings with regard to business development likely being restricted to the two cities involved in the assessment of the EoDB.

For a country like India, securing a rank of 100 within a span of three years amid a slew of reforms has been perceived as laudable by major global financial institutions, thus crediting the incumbent Indian government with positive economic outlook. In that regard, it is significant to understand the allure of India as an investment destination at this moment, especially against the backdrop of a better ranking in the EoDB.



Why is India an attractive destination?

Based on data from the Central Statistics Office, India recorded a GDP growth of approximately 5.7 percent in the first quarter of 2017-18 compared to a growth rate of 9.1 percent between January and March 2016. The GDP growth was recorded to have contracted after the introduction of the demonetisation drive by the Indian government; however, the slowdown has been perceived as ephemeral and a marginal contraction ahead of predicted long-term economic growth. In that regard, the EoDB rankings further emphasize the growth trajectory of the country even as watershed economic reforms such as the introduction of GST have threatened to decelerate the pace of the country's economic growth.

With the Indian government's proposed reforms for improving the country's rank in the EoDB, as well as the central government's attempt to work with its corresponding federating units to appeal to investors, foreign investors are perceiving the country as an attractive destination due to various factors such as the country's high Purchasing Power Parity, strategic location, an exploitable demographic and significant population etc. In that sense, reducing the red-tapism involved in the securing of licenses, raising FDI caps for industries, proposing a new regulatory reform law, as well as ease of bankruptcy resolution has made the country a lucrative destination for foreign investors. In addition to this, the availability of natural resources along with human capital as well as digitisation of bureaucratic norms to ease the obtaining of licenses etc has only further facilitated the perception of India as an attractive destination for foreign investments at this moment.

Notably, the current rankings did not consider the business environment post the implementation of the Goods and Services Tax regime, a nationwide tax regime that was aimed to ease the burden on businesses with regard to the payment of a slew of taxes invoked separately by the central and the state government. With that in mind, India's position with regard to the EoDB rankings is perceived to only witness an ascension with a countrywide tax regime that would only simplify the process of doing business in the country. Furthermore, as states across the country have started to adopt measures to attract investments independently, it is perceived to have promoted a sense of healthy competition among them, thus further leading to easing of regulation restrictions as well as providing state guarantees for investor protection. One of the main challenges with regard to the implementation of central government economic reforms across the country in a multi-faceted country like India has been of the state government being one of the opposition parties and not being a part of the central BJP-led coalition.

That being said, despite the existential challenges with regard to the implementation of reforms, the Modi government has proposed initiatives such as the establishment of the Department of Policy and Planning, which is tasked with the supervision of the implementation of the PM's Make in India campaign as well as advancing the Ease of doing business in the country while also coordinating state-level reforms. These altogether have been seen as positive steps by the incumbent government to maintain India's position as an attractive investment destination.

EoDB INDICATORS: INDIA'S SCORECARD

INDICATORS	SCORECARD
 STARTING A BUSINESS	156
 DEALING WITH CONSTRUCTION PERMITS	181
 GETTING ELECTRICITY	29
 REGISTERING PROPERTY	154
 GETTING CREDIT	29
 PROTECTING MINORITY INVESTORS	4
 PAYING TAXES	119
 TRADING ACROSS BORDERS	146
 ENFORCING CONTRACTS	164
 RESOLVING INSOLVENCY	103

How the ascension amid contracting growth?

According to global financial institutions, India remains a lower middle-income country with a per capita Gross National Income (GNI) of between 1,006 USD and 3,955 USD. According to World Bank statutes, countries or regions with a GNI per capita between 3,956 and 12,235 USD are identified as high middle-income economies. However, the country has nearly doubled its foreign direct investment to 60 billion USD from 36 billion USD in 2013-14, a major leap for a country that also suffers from considerable unemployment and poverty.

The advancement in the EoDB rankings when perceived against the backdrop of contracting growth of the Indian economy in the last five quarters is indicative of the sustained potential of the Indian economy to draw investor confidence. This can be majorly attributed to the political willingness of the incumbent leadership to market India as a lucrative destination for manufacturing and services. In that sense, with a more free economy to negotiate with, the ascension is likely to continue, in spite of the fact that the economy is liable to witness stagnant growth as the government may adopt further drastic reforms to liberalize the economy and attract further investments.

The continued emphasis on the government's willingness to ensure business interests in the country, however, has faced a significant impediment with state governments ruled by the opposition seldom not confirming to the central government's edicts. In that case, how does the country's federal structure aid or hinder the inflow of foreign direct investment in the country. The next section will draw upon the question of the political federal structure and state's role in ensuring EoDB as well as drawing significant FDI.

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