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Ease of Doing Business: International Policy Experience and Evidence

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1. Introduction

Since 2006, the World Bank has been ranking almost 200 countries in terms of their business environment and the "ease of doing business" in these economies. The rationale behind this is the importance of a thriving private sector in promoting high and inclusive growth and development. It is argued that the easier it is to establish and run a business, the more investors will be encouraged to invest, and thus more employment is generated. A good business environment also promotes competition and encourages innovation and expansion (World Bank 2013). Reflecting its growing importance in the policy sphere, the Asia-Pacific Economic Cooperation (APEC) also has its own specialized group monitoring the progress of its members in enhancing the ease of doing business.

In June 2013, the APEC Policy Support Unit's EoDB Interim Assessment 2009-2012 showed that APEC's combined improvement across the five EoDB priority areas between the period 2009 and 2012 was equal to 11.5 percent, which exceeded the 2012 pro rata benchmark of 10 percent improvement.[1] The APEC Economic Committee and member economies agreed to continue to work on implementing the EoDB Initiative. As an input to that effort, this paper reviews the international evidence on the key areas of doing business, spanning: a) starting a business, b) getting credit, c) protecting investors, d) paying taxes, e) trading across borders, f) enforcing contracts, and g) resolving insolvency.

In what follows, part 1 first undertakes a comprehensive review of empirical and theoretical literature on how ease of doing business affects indicators of growth and development. This synthesis of literature provides the evidence base for why countries pursue greater ease of doing business in order to promote high and inclusive growth and development. Part 2 of the paper then reviews good practices while part 3 assesses the trends in the performance of APEC-member economies in terms of ease of doing business. In a final section the paper provides initial policy guidelines and recommendations on further advancing the ease of doing business.

2. International Evidence on EODB

The World Bank's Doing Business Report uses several criteria in scoring and ranking ease of doing business: a) starting a business, b) getting credit, c) protecting investors, d) paying taxes, e) trading across borders, f) enforcing contracts, and g) resolving insolvency. Other criteria monitored

[1] http://www.apec.org/Groups/Economic-Committee.aspx

by the World Bank--but are not used in ranking countries—include employing workers and entrepreneurship. These criteria help to define and measure the ease by which firms can start and operate. This section reviews existing conceptual, theoretical, and empirical literature on how doing business in general and the abovementioned criteria in particular are related to growth and development indicators. Some literature cited herein also examine the relationship among these criteria. Still others study the link between ease of doing business indicators and other crucial concepts such as corruption, governance, and productivity.

2.1 Starting a Business

The ease by which entrepreneurs can start a business could be a strong determinant whether investors will start a business in the first place. In one of the early theoretical and conceptual works on the contribution of ease of starting a business on growth, noted institutional economists North and Thomas (1973) argued that entry barriers hinder development because they give market power to firms that will lose rent if more efficient technology will be adopted. This appears to be validated by numerous empirical studies. Fonseca et al (2001), for example, empirically examined OECD countries for the years 1997 to 2001 and they found evidence that the higher cost of starting a business is a hindrance to firm creation. They also constructed a model explaining how the higher cost of starting a business deters entrepreneurs from creating firms, and instead opts to become employees rather than employers, thus reducing potential jobs.

Similarly, Klapper et al (2006), analyzed data on European firms of various industries and sizes, and found evidence that restrictive entry regulation does dissuade firms from entering, and that this is more pronounced for small firms. More importantly, the authors found evidence that costly entry regulations are unlikely to prevent entry of corrupt firms in developing and high-corruption countries, thus building a case for less entry barriers. In addition, in a study of 43 countries over the period 2003 to 2005, Dreher and Gassebner (2013) also found evidence that more procedures in starting a business and larger start-up capital do reduce entrepreneurship activities; while van Stel et al (2007) examined data from 39 countries and concluded that higher capital requirement diminishes entrepreneurship rates. Ciccone and Papaioannou (2007) analyzed industry-level data from 45 countries during the 1980s and had similar findings – less time to register a business is associated with more firm entry in industries with expanding global demand. Similarly, Klapper and Love (2010), in an analysis of 91 economies, found that reducing the cost,

time and procedures in starting a business do increase firm registration, but only if the reforms are substantial.

The seminal work of Djankov et al (2002) and World Bank (2004) also share the increasingly prevalent position that regulations that increase the cost of firm entry hamper the establishment of businesses and economic growth. There is similar empirical evidence of this even in developed economies. Using data from OECD countries, product market regulations are found to be negatively associated with lower investments (Alesina et al 2005) and growth (Nicoletti and Scarpetta 2003). Bertrand and Kramarz (2002) also concluded that business entry regulations restrain growth of job creation using data from France. Likewise, using the specific example of the Mexican business registration reform program, Bruhn (2011) concluded that reforms to streamline entry regulations contributed to increased business registration, raised employment, and lowered prices. The increase in businesses was traced to the former salary workers who became business owners. Herrendorf and Teixeira (2011), based on its analysis of data from the Penn World Table using a general equilibrium model, concluded that half of the income gap between the United States and poor countries is accounted for by entry barriers.

Some studies try to determine the relationship of firm entry barriers with the underlying determinants of growth. For instance, there are strands of literature linking lower barriers to entry and streamlined regulation to enhanced factor productivity. Moscoso Boedo and Mukoyama (2012) examined almost 180 countries from the 2008 World Bank Doing Business Report and concluded that higher firm entry barriers lead to lower total factor productivity (TFP). Shifting entry costs from the level of the United States to that of the average low income country is associated with 27 percent less TFP. Moreover, Poschke (2010) and Nicoletti and Scarpetta (2003) also found evidence of a negative relationship between entry costs and factor productivity. Moscoso Boedo and Mukoyama traced this effect to wages while Poschke attributed this to differences in technology. Nicoletti and Scarpetta explain that easier entry makes adoption and spread of the best technology faster, in turn contributing to stronger factor productivity growth. Furthermore, Barseghyan (2008), used instrumental variable regression to analyze data from 156 countries for the year 2006, and this study similarly found evidence that higher entry costs reduces factor productivity. Finally, Chari (2011), using the case of India's reform of its firm entry laws, also concluded that lower firm entry barriers increased firm productivity.

In addition, Crafts (2006), surveyed the literature on entry regulations, and found general evidence suggesting that costly regulations creates disincentives to invest and innovate, and reduces growth of factor productivity. Moreover, empirical testing using the experience of China and India shows that easing of entry regulations, especially from a position of strong regulation, is associated with higher growth.

Also, Ardagna and Lusardi (2010) concluded from an analysis of survey data of more than 470 thousand entrepreneurs who are at the early stages of running a business from developed and developing countries that entry regulation diminishes the benefits of business skills in running a business; and reduces the propensity of individuals with business skills to start a business. Prantl (2012) also deduced from her empirical analysis of German data that entry regulations can impede technological progress and growth. Monteiro and Assuncao (2012) analyzed a program by the Brazilian government of simplifying business registration procedures and found that it led to increased formality, and this is most pronounced among medium-sized firms and home-based enterprises.

Most of the literature conclude that less entry regulation is indeed associated with more firm creation. A few studies, however, observe that some firms created by relaxing entry regulations are not of high quality. Branstetter et al (2013) empirically analyzed the case of Portugal's firm entry deregulation program and concluded that less entry costs does increase firm entry; but only among firms that are small, operating with low technology, and are unlikely to survive within their first few years. Related to this, Bruhn and McKenzie (2013), in a review of literature, concluded that only a few firms in the informal sector are attracted into the formal sector by easing the requirements of starting a business. Further, Janiak (2013) even concluded that entry regulations do not contribute to the unemployment gap between the United States and continental Europe, but exit regulations do. Nevertheless, this study involves analysis of mostly developed countries.[2]

[2] The van Stel et al (2007) study cited above concluded that time, cost, and number of procedures of starting a business are not related to firm creation rate (only required minimum capital is). This came from the analysis of data from 39 countries, 13 of which are developing.

2.2 Access to Credit

There is a wealth of recent literature on the importance of access to finance and financial development to growth and development. This is in contrast to the earlier decades, where economists largely disagree on the role of finance on development, although those who argue of its importance still outnumber those who assert its insignificance. Schumpeter (1912) was one of the first to make a case for the importance of finance on growth and development, and the likes of Goldsmith (1969) and McKinnon (1973) were some of the notable supporters of the idea. At the other end, some argue that financial development is unimportant to growth, most notably Lucas (1988). Robinson (1952), in a much earlier work, argues that credit institutions will follow naturally where firms are.

King and Levine (1993) published one of the often-cited empirical works on this topic in the influential Quarterly Journal of Economics, and were one of the first to use large cross-country data across time. King and Levine analyzed data from 80 countries over the period 1960 to 1989 and concluded that financial development positively influences per capita GDP growth and capital accumulation. Indeed, recent exhaustive literature reviews by Levine (2005) and Beck and Demirguc-Kunt (2008) conclude that financial development does promotes growth. Levine (1997) also argues that based on theoretical and empirical evidence using firm, industry, and country level data, financial development is positively related with growth. The same study also maintains that credit availability will not necessarily follow an increase in economic activity. This important point supports the argument for programs and intervention that will provide better access to credit for firms.

The seminal work by Roubini and Sala-i-Martin (1992) provides a theoretical discussion on how financial repression, or the heavy regulation and imposition of non-market restrictions on financial institutions, reduces the economy's growth rate. Rajan and Zingales (1998) provided an often-cited empirical evidence on this using cross-country data from 41 economies during the 1980s. They concluded that financial development positively affects growth by providing firms with easier access to credit. They also found evidence that credit-dependent firms grow faster in more financially-developed countries, highlighting the importance of access to credit on firm development. Similarly, Love (2003) provided empirical test using data from over 7,000 firms from 40 countries that financial development positively affects growth by reducing credit constraints. Using firm surveys conducted from 1999 to 2000 from 54 and 80 countries,

respectively, Beck et al (2005) and Beck et al (2006) also found evidence that financial development moderates credit constraints more prominently for smaller firms. Beck et al (2008) has similar findings using industry-level data from 36 sectors in 44 countries over the period 1980 to 1990. Beck et al (2008) also concluded that financial development helps small firms more than larger ones. This further highlights the role of financial development on growth, as small and medium enterprises comprise most firms in developing countries.

A great majority of literature agree that financial development contributes to growth. This is the main finding of Levine (2005) in a comprehensive review of theoretical and empirical literature on the subject. Moreover, the same paper also found evidence that financial development does positively affect growth, even after controlling for reverse causality. Levine (2005) further identified five broad categories on how a more developed financial system, and therefore better access to credit, can contribute to growth. These are: 1) creation of information about alternative investments (Boyd and Prescott 1986; Allen 1990; Ramakrishnan and Thakor 1984), 2) monitoring of investments and improving corporate governance, 3) trading, diversifying, and managing risk, 4) mobilizing and pooling savings, and 5) easing of exchange of goods and services. In a similar but less comprehensive review of literature, Beck and Demirguc-Kunt (2008) also found evidence that access to finance promotes growth, reduces income inequality, and improves allocation of resources.

Some literature study more than just the relationship between financial development and growth, but also the latter's relationship with other indicators of development. Capasso and Jappelli (2013) illustrated how the lower cost of obtaining credit lowers tax evasion and the amount of unregistered firms. This theory was tested empirically using Italian data from 1989 to 2006. This is similar to the results of Dabla-Norris et al (2008), who proposed a model where poor access to finance increases the size of the informal sector. This model was tested empirically using data from the World Business Environment Survey involving 4000 firms from 40 countries, most of which are developing. Levine and Zervos (1998) also found empirical evidence that a more developed banking system is positively associated with growth, capital accumulation and productivity using data on 47 countries from 1976 to 1993. Manova (2013) theoretically and empirically demonstrated that countries that are more financially developed not only have higher exports, but also export to more countries, export a wider variety of products, and are better able to enter smaller markets. Manova used data from 27 industries in 107 countries for the years 1985

to 1995 in the analysis. Ayyagari et al (2007a), using data from about 19,000 firms in 47 developing countries, found that access to finance promotes innovation among firms, while Ayyagari et al (2007b) concluded that better credit information sharing is correlated with larger small and medium sized enterprises (SME) sector using data from 76 countries. Demirguc-Kunt et al (2004), in another study of large cross-country firm data, concluded that firms are more likely to incorporate when the financial system is more developed, and benefits of incorporation are higher in countries that are more financially developed. Using firm level data from developed and developing countries, Doidge et al (2007) concluded that firms have greater incentives to improve corporate governance if their home country's financial system is more developed.

Empirical literature also abound on the relationship of access to credit and several growth criteria. Acemoglu (2001) presented a model on how credit market imperfections create higher unemployment levels. The same study tested this theory empirically by comparing data from the United States and selected European countries, and concluded that credit market problems hamper employment in credit-dependent sectors of the economy. Rajan and Zingales (1998), using data from 41 countries during the 1980s, and Love and Zicchino (2006), using firm data from 36 countries, also concluded that credit market imperfections negatively affect investment. Wurgler's (2000) paper had a stronger conclusion on the relation between financial development and investments using data from 65 countries. The study concluded that more financially-developed countries increase investments more in growing sectors and decrease investments more in declining sectors compared to less financially-developed economies. Wurgler suggests that this implies that financial development improves capital allocation. Meanwhile, Christiansen et al (2013) found a positive correlation between financial reforms and economic growth among middle income countries, but attributed this to growth of factor productivity rather than increased investments. Demirguc-Kunt and Maksimovic (1996), using firm data from 30 developed and developing countries, concluded that financial development promotes growth; and firms with access to long term credit grow faster than when they rely only on internal financing.

There are also literature that studies access to credit using experimental data. In a randomized experiment in the Mexican city of Leon, McKenzie and Woodruff (2008) randomly distributed cash and kind to 207 small firms to mimic an exogenous positive shock to capital. The authors found a significant increase in profit among firms who received the grant, with the increase most pronounced among firms with credit constraints. In a similar experiment conducted from 2005 to

2007 on about 3,300 firms in Sri Lanka, De Mel et al (2008) also found higher profits and longer work hours for the owners of those who received the grants, regardless if they are credit-constrained or not.

Related to this, Aghion et al (2007) analyzed firm data from 16 developed and developing countries and concluded that access to credit is the most important determinant of entry for small firms and for firms in credit-dependent sectors. It also contributes to firm expansion if they survive, although the authors found no association between access to finance and entry of large firms. The paper by Ayyagari et al (2008) has a similar conclusion. Using survey data from 80 countries, they concluded that finance is the most important contributor to firm growth. Moreover, Ayyagari et al (2010), using firm data from China, concluded that it is formal financing that matter for firm growth, while informal financing is immaterial. Another study is by Greenwood and Jovanovic (1990), which constructed a theory on how financial development promotes growth by making investing more efficient.

2.3 Enforcing Contracts and Good Institutions

Effective and efficient contract enforcement mechanisms and good institutions are essential to ease of doing business, growth, and development because they increase access to credit, improves trade, and reduces the informal sector (World Bank 2013). Since the field of institutional economics gained ground, the importance of institutions and governance in growth and development has never been undermined. This is the subject of the seminal works by such Nobel laureates as Douglas North (1990) and Elinor Ostrom (1986). Although the field of institutional economics is relatively young, economists have understood since at least the 1700s that good institutions promote economic growth (Djankov et al 2003).

Dixit (2009) identified three essentials of an efficient market requiring well functioning institutions: security of property rights, enforcement of contracts, and collective action. Security of property rights gives incentives for individuals to invest because it assures investors that they will bear the fruits of their investments. Contract enforcement gives incentives to individuals to participate in mutually beneficial transactions. If institutions are weak such that contracts are costly to enforce, one party in a transaction may cheat causing the other party to lose. Countries with weak contract enforcement mechanism thus lose on potential beneficial transactions. Collective action involves the control of free riding and the efficient allocation of public goods. Institutional

problems in doing business are diverse. In a survey conducted from 1996 to 1997 of 3,600 entrepreneurs from 69 countries, Brunetti et al (1997) found evidence that developing countries face the most institutional obstacles in doing business. This ranges from unexpected policy changes and corruption to weak enforcement of property rights.

In an often cited work, Acemoglu et al (2001) analyzed data from 64 former European colonies and concluded that quality of institutions is positively correlated with per capita income. Moreover, when institution effects are controlled for, African countries do not have statistically lower incomes. The importance of institutions in explaining cross country differences in economic development is further emphasized and supported by historical examples in Acemoglu et al (2005). A review of literature by Aron (2000) maintains that evidence shows link between quality of institutions and investment and growth. Barro (1996) analyzed a thirty-year panel data of 100 countries and concluded that better enforcement of the rule of law promotes higher growth. In an oft-cited and influential work on the topic of institutions and growth, Easterly and Levine (2002) studied data from 72 former colonies and concluded that differences on geographic endowments such as temperature, vulnerability to diseases, and access to trading routes and partners do not directly affect development – their effects on development goes via quality of institutions.

This was supported by the findings of Rodrik et al (2004) using separate empirical tests of 79 and 137 countries for the year 1995. Using the instrumental variable method, they concluded that institutions are the most important determinant of income, with geographic factors having only weak direct effects. Hall and Jones (1999) analyzed data from 127 countries and also concluded that cross-country differences in productivity and capital accumulation are mostly accounted for by differences in institutions. Using a 69-country dataset, Friedman et al (2000) concluded that corruption is associated with a bigger informal sector. The authors attributed the choice of firms to go informal to reducing the costs of bureaucracy and corruption. Habib and Zurawicki (2002) found a negative relationship between corruption and FDI using data from 89 host countries and seven of the biggest country sources of FDIs in the world.

There are empirical and theoretical studies in the current literature on how contract enforcement affects development and the ease of doing business. Dixit (2009) proposed a model showing that in countries with contract enforcement problems, investors and the parties it contract with face a problem similar to the prisoner's dilemma. Because contracts are costly to enforce, one of the parties may have an incentive to renege on its deliverables. Thus investors will be extra

cautious in setting up projects. As a result, the country misses out on potentially productive investments. Similarly, Cooley et al (2004) constructed a model where contract enforceability problems cause greater macroeconomic volatility. This is related to the model of Quintin (2008a) where poor contract enforcement causes firms to operate sub-optimally, resulting in lower incomes for the whole economy and less prominence or larger-scale production. Empirically, Desai et al (2003) found evidence that countries where courts are fair and impartial have higher business start up rates using European data.

Using data from 48 countries, Bae and Goyal (2009) concluded that in nations with weak contract enforcement, banks reduce loans, reduce loan maturity, and charge higher interest rates. Similarly, Demirguc-Kunt and Maksimovic (1996), in a study of data from 30 countries, concluded that developed legal institutions facilitate firm growth because it allows firms to more easily obtain long term financing. In another related study, Galindo and Micco (2007), using data from an even larger sample of 79 countries, concluded that availability of credit responds more to external shocks if creditor protection and contract enforcement is weak. Moreover, this result holds when samples are restricted to developing countries. An analogous study by Djankov et al (2007) using data from 129 countries found that strong creditor protection through an effective legal system is associated with higher private credit to GDP ratio. These conclusions can be linked to the earlier discussions on access to finance and its positive effect on growth and development. Dawson (2003) had an interesting conclusion on the topic. Applying Granger causality test on a large cross-country data 1970 to 2000, Dawson concluded that quality of institutions is positively correlated with growth, but there is no causation. The measure of institutional quality in the Dawson study is, however, limited to indexes of political and economic freedom.

Another empirical work using data from 42 economies by Levine (1998) concluded that nations with effective contract enforcement have more developed banks. Similarly, La Porta et al (1997) analyzed data from 49 countries and found that poor enforcement of laws is associated with smaller financial market. Beck et al (2006) has one of the strongest conclusions among empirical works on the topic. Using cross-country data of 80 economies, they concluded that quality of institutions is the most important country-level determinant of access to credit. Using a theoretical approach, Jappelli et al (2005) constructed a model that explains how a more efficient judiciary increases access to credit and expands lending.

The relationship of good institutions and contract enforcement with other indicators of ease of doing business does not stop with financial and banking development. There are studies finding evidence that effective contract enforcement and good institutions also enhance trade. Nunn (2007), using industry-level data from 182 sectors in almost 160 countries, concluded that effective contract enforcement promotes comparative advantage on goods where production requires contractual relationships with a third-party. Related to this, Levchenko (2007) constructed a model explaining how differences in institutional quality lead to comparative advantage for countries with better institutions. The model also explains how poor institutions may hinder the country from gaining from trade and for factor prices to diverge rather than converge. Empirical testing of the model using United States imports data shows that trade flows toward countries with better institutions. Another empirical study, this time by Aidis et al (2012), analyzed data from 47 countries and concluded that corruption is associated with fewer firm entry. This result becomes even stronger when only developing countries are included in the sample. These studies are part of the growing literature on the interlink among good contract enforcement and institutions with indicators of development and ease of doing business.

Some studies also found evidence that limited contract enforcement and poor institutions are related to the size of the informal economy and foreign direct investments (FDI). Dabla-Norris et al (2008) theorized and empirically tested using data from 4000 firms from 40 countries that a higher-quality legal system reduces the size of the informal sector. Quintin (2008b) also constructed a model explaining how the size of the informal economy shrinks as contract enforcement on formal financing improves. Demirguc-Kunt et al (2004), using data from 52 countries, concluded that firms are more likely to incorporate in countries with efficient legal systems. Using data from African countries, Anyanwu (2012) concluded that prevalence of rule of law is associated with higher FDI inflows. Using data from Sub-Saharan African and Asian economies, Morris and Aziz (2011) found evidence that countries where it is easier to register property attract more FDI inflows.

2.4 Property Rights and Protecting Investors

Investor protection is especially important among minority shareholders of firms. When firms need capital for investment purposes, one common practice is to sell shares. However, potential buyers of shares may be reluctant if they will not be protected from unscrupulous acts by corporate directors. When investor protection is weak, investors may be hesitant to invest in a corporation unless they are the controlling shareholder. This reduces the ability of the market to finance firm growth (World Bank 2013). Investor protection is an important factor in determining such variables as ownership concentration in listed firms, size of the capital markets, firms' access to finance, and corporate governance (La Porta et al 2000). Meanwhile, property rights is similar to good institutions and contract enforcement in that it assures investors that they will reap the benefits of their own investments.

It is a common view that investor protection promotes economic growth. Castro et al (2004) modified the overlapping generations model to explain how investor protection leads to better risk sharing and larger demand for capital, and further leads to growth. The model was empirically tested using data from 49 economies for the period 1967 to 1996. Similarly, an analysis of 170 countries by Haidar (2009) concluded that nations with stronger investor protection grow faster. John et al (2008) argues that investor protection promotes risk-taking for high value investments for firms. Using an 11-year panel data of 39 countries and a United States-only data, the same study concluded that better investor protection is positively correlated with firm risk taking and growth.

The importance of investor protection on minority shareholders was given focus by the work of La Porta el at (1998), which hypothesized that small shareholders may not be important in countries with weak investor protection. Using analysis of data from 45 countries, the study found that ownership concentration among publicly listed firms is high in countries with weak investor protection, indicating that small investors are reluctant to invest. Similarly, La Porta et al (2002) constructed a firm valuation model with investor protection as one of its determinants. They empirically analyzed this using more than 500 firms from 27 countries and found a positive correlation between investor protection and firm valuation. Sevcik (2012) constructed a model showing how poor investor protection can exclude smaller investors from firm ownership. This is also the reason why it is politically difficult to implement investor protection policies in some countries. Improvements in investor protection benefit the small investors and hurt the majority

shareholders or the entrepreneurs who set up the firm (Shleifer and Wolfenzon 2002). Shleifer and Wolfenzon also cited that there are literature suggesting that political opposition from these large shareholders contribute to lack of investor protection reforms in some countries.

Similar to contract enforcement and good institutions, there are studies concluding that investor protection can also affect growth through the financial markets. La Porta et al (1997), using data from 49 countries, concluded that weak investor protection is correlated with smaller financial market. The theoretical work of Sevcik (2012) shows how weaker investor protection can lead to higher cost of external financing.

Similar to investor protection, property rights also encourage investments. If property rights are secured, investors are assured that they will reap the benefits of their investments. The role of property rights – both the laws and its enforcement by the state – are generally regarded as promoters of growth (Besley 1995). Besley proposed a model explaining how an investor will decide to infuse more capital if there is a secured property right. Empirical testing using the case of Ghana shows that land rights promotes investment. Similarly, Johnson et al (2002), in a survey of firms in post-Communist countries, concluded that weak property rights discourage investment even when they have access to credit. A review of literature by Aron (2000) argues that evidence shows a positive link between quality of institution measures such as property rights and investment with growth. Cull and Xu (2005) also found evidence of a positive relationship between quality of property rights and profit reinvestment of firms using firm survey data from China. This positive relationship between property rights and investments in the Cull and Xu paper suggests a positive relationship between property rights and growth. The paper by Claessens and Laeven (2003) empirically studied the effect of property rights on growth through investment. The authors analyzed industry-level data from 19 developed and 25 developing countries and found results supporting the hypothesis that property rights promote economic growth through better allocation of assets.

The effect of property rights on growth is generally viewed as providing incentives for investors to invest because it provides assurance that the returns will accrue to the investor. Besley and Ghatak (2009) took a deeper look and identified four channels by which property rights affect economic activity and growth. These channels are actually incentives to invest, but through different transmission mechanisms. The first is that it minimizes expropriation risk, or the risk that investors would not bear the fruit of their investments. Second is it reduces protection cost.

Insecure properties have to be defended by the owner, which incurs cost and loss of productivity. Third is property rights assist in realizing gains from trade. To maximize its contribution to an economy, an asset should be utilized by the most efficient user. Property rights facilitate the mobility of assets across producers. And fourth, property rights support other transactions, particularly credit that requires collateral. This is similar to how De Soto (1989, 2000) explained how property rights affect development in his two influential books. Weak property rights provide disincentives to invest because investors are not sure if they can claim all the returns. It also reduces the quality of an asset as collateral to finance investments.

Using a theoretical model and an empirical analysis of panel data from 91 countries for the years 1980 to 2005, Bose et al (2012) argued a more complex relationship between property rights and growth. There is an unambiguous positive relationship between property rights and growth in countries with developed financial institutions. However, in financially under-developed countries, there is an optimal level of property rights, below or above which will produce lower growth. Green and Moser (2012), on the other hand, found bidirectional causality between property rights and growth. Using data from Madagascar, they concluded that land titles are determinants of emergence of large firms; and firm growth strengthens property rights. Kerekes and Williamson (2008) empirically tested De Soto's hypothesis discussed above using data from more than 100 economies. They found evidence that strong property rights have positive effects on wealth and capital formation.

Knack and Keefer (1995) wrote one of the earlier articles that empirically tested the relationship between property rights and growth using cross-country sample. Analyzing data from about 100 countries, and using the variables contract enforceability and risk of expropriation, they found that property rights positively affect investment and growth.

2.5 Trading

Trade allows producers to expand the market for their products and to purchase inputs with the best price that would not have been possible if it conducts business only in the domestic market. Bureaucratic red tape and cost of transportation of goods are some of the most important hindrances to trade today, especially in developing countries. Studies have concluded that in some African countries, revenue losses from inefficient trade procedures amount to about five percent of GDP; that 10 percent less time to transport products from factory to ship raises exports by four

percent; and that in Sub-Saharan Africa, where most countries are land-locked, a one-day reduction in inland travel time of goods increases exports by seven percent (World Bank 2013). Indeed, trade costs are higher for developing countries, with some estimates running to at least twice that of developed countries for some important indicators (Anderson and Wincoop 2004). This section reviews literature on what factors facilitate trade and make it easier for firms.

Evidence on trade inefficiencies, particularly on developing countries, suggests areas for reform that needs to be introduced. A recent study of 101 countries by Portugal-Perez and Wilson (2012) built new trade indicators for these economies. Their simulations suggest how reforms will indeed improve export performance, particularly of developing countries. However, developed and developing countries differ in their required reforms. The study found that developing countries need more infrastructure and regulatory reforms, while information and communication technology reforms will benefit the rich countries more. This is because the marginal return to export performance of infrastructure and regulatory reforms decreases with per capita income. This study suggests what areas of reform different countries would have to concentrate on. Related to this, Hoekman and Nicita (2011), in an empirical analysis using trade indices and data from 104 importing and 115 exporting countries for 2006, concluded that improving logistical performance, e.g. making it easier to move goods through better infrastructure and institutions, will have the most effects on improving trade for developing countries. Reforms like these will improve exports more than preferential country treatments because nations with very good access to a market usually have competitors with equal degree of access.

A similar study by Moise and Sorescu (2013) using data from 107 non-OECD countries found evidence that among the sixteen trade facilitation indicators under negotiation at the World Trade Organization, the ones with the most impact on trade performance are availability of trade-related information, simplification and harmonization of documents, streamlining of procedures, and automation of processes. However, the effectiveness of these variables varies according to country groups. For low-income countries, simplification and harmonization of documents lead to the greatest increase in trade flows; for middle income countries, it is streamlining of procedures.

The importance of institutions in trade was also highlighted by Carrieri et al (2013), which analyzed data from 22 emerging economies, and concluded that stronger institutions and better corporate governance contribute to price integration when there is liberal trade. Related to this, Djankov, Freund, et al (2010) studied the effect of time delays on trade using data from 126

countries. They found evidence that on average, a delay of one day before a product is shipped reduces trade by at least one percent. This highlights the importance of reforms that will facilitate the increase of speed in transporting goods from factory to port. In developing countries, poor infrastructure and time-consuming customs and regulatory requirements slows down the movement of goods. Djankov et al cited that it takes, respectively, 116 days, 105 days, and 93 days to move goods from the largest city to the nearest port in Central African Republic, Iraq, and Kazakhstan, but only five days in Denmark. Similarly, data analysis by Freund and Rocha (2010) found evidence that for African countries, delay of transport of goods has the biggest effect on trade performance. Martincus et al (2013) studied another cause of delay, this time on customs transactions using the case of Uruguay. They concluded that customs delays do decrease exports, and this is most pronounced in time-sensitive products and in destinations with tough competition.

2.6 Paying Taxes

The World Bank Enterprise Survey found that tax administration is among the top 11 constraints to business while tax rate is among the top five (World Bank 2013). Most of tax literature focuses on the relationship between tax rates and development indicators. For instance, Djankov, Ganser et al (2010), in a survey of mid-sized local firms in 85 countries, found that high tax rates are associated with lower total investment, lower foreign direct investment (FDI), less entrepreneurial activity, and bigger informal sector. Lee and Gordon (2005) concluded that higher tax rates can be associated with lower growth, while Fisman and Wei (2004) found a negative relationship between tax rates and tax evasion using Chinese data. Similarly, Shah and Slemrod (1991) analyzed data from Mexico and concluded that higher tax rates discourage foreign direct investments. A related study by Fisman and Svensson (2007), using data from Ugandan firms, found evidence of a negative association between tax rates and firm growth.

However, an equally important aspect of taxation that is important to ease of doing business and affects growth and development is tax administration. Bird (1989) argues that tax administration should be given equal, if not more, importance as tax structure in reforming tax systems. Bird argues further that the tax system installed in a country should be one that can function effectively and efficiently in the middle of that country's institutional weaknesses. Special attention was given by the author on developing countries, where monitoring and enforcement is much weaker than in developed nations. Bird's arguments are related to the concept of tax evasion

or tax corruption, both among tax payers and tax collectors. Aidt (2003) did a comprehensive review on corruption literature and identified three conditions for corruption to occur. Although Aidt's review is for corruption in general, these three preconditions are also applicable in tax administration. These are discretionary power, economic rents, and weak institutions. In complicated tax systems, discretionary power is reflected in broad definitions of income and expense items that are or are not included in the computation of taxable income. Economic rents are the less amount of taxes paid by the firm or individual, and/or the bribe paid to the tax collector. Weak institutions refer to corruption-prone tax administrators and collectors, and also to evasion-prone tax payers. These three conditions provide the preconditions for taxation corruption to occur.

Related to this, Flatter and Mcleod (1995) constructed a model of tax corruption among tax payers and collectors and made recommendations based on their model. One is to raise the collector's wage, but this is effective only up to a certain level. More important is to improve monitoring of tax collectors and increasing the penalty for excessively large amounts of corruption. Simplification of the tax structure and limiting the number of discretionary income and expense items will also limit the amount available for corruption. Bird (2004) also suggested simplification of tax structure; and argued that tax administration reforms should aim to minimize the probability of non-compliance and maximize the probability of detection and punishment of non-compliance. Silvani and Baer (1997) also cited tax simplification in the form of fewer taxes, fewer rates for each tax, and fewer exemptions as a key factor in improving compliance. Other earlier papers such as Bird (1990), Mansfield (1987), Tait et al (1979), and Tanzi (1981) emphasized the importance of simplification in improving efficiency of tax administration.

There are also empirical literature on tax administration and complexity. Lawless (2012) found evidence that measures of complexity of the tax system is negatively associated with the presence of FDI for a pair of countries, although not necessarily with FDI flow. Simulations using German data by Fuest et al (2006) show that tax simplification leads to a more equitable income distribution and higher tax collection. Similarly, econometric simulations conducted by Slemrod (1989) using data from the U.S. state of Minnesota showed that tax simplification, as measured by the elimination of the system of itemized deductions, reduces the resource cost of tax compliance.

2.7 Other Indicators of Ease of Doing Business

There are literature studying not only specific ease of doing business components but ease of doing business in general and its relationship with growth and development indicators. Bayraktar (2013) used data from the World Bank's Doing Business database from 2004 to 2010 and found that countries with better doing business records have higher foreign direct investment (FDI) inflows. Using the same database but a slightly different time period of 2006 to 2009, Jayasuriya (2011) also found evidence of a positive relationship between doing business performance and FDIs, although the relationship becomes statistically insignificant when the sample is restricted to developing countries. Using an index constructed from the scores of countries in the different World Bank Doing Business measures, Djankov et al (2006) concluded that countries with business-friendly regulations grow faster. Moving from the fourth to the first quartile of business regulations score translate to a large 2.3 percentage point higher annual economic growth.

There are still other less studied indicators of ease of doing business. For instance, labor relations and regulations have been shown to affect output, employment, and investment (Besley and Burgess 2004; Ahsan and Pages 2009), foreign direct investments (Cooke 1997), and distribution of firm size (Hobijn and Sahin 2013); while easier debt recovery can potentially reduce interest rates (Visaria 2009).

3. Common EODB Policy Reforms

In starting a business, putting procedures online is the single most implemented good practice, with 109 countries adopting it. This is followed by removal of minimum capital requirement and creating a one-stop shop, respectively being implemented by 99 and 96 countries. For access to credit and finance, allowing out-of-court enforcement of transfer of property rights of the collateral to the lender in case of default is implemented the most, with 124 countries having this policy. Other selected commonly-implemented policies are: 109 countries distribute both positive and negative credit information, 65 countries have a unified collateral registry, and 57 economies distribute credit information from retailers and utilities to lenders.

As regards making tax payments easy, 160 countries allow firms and individuals to self-assess their tax liabilities, while 76 have a platform for electronic filing and payment, and 55 countries have one tax per tax base. In contract enforcement, having a specialized commercial court, division, or judge is implemented by 90 nations.

To make trading easier, 151 economies have a platform for electronic submission and processing of documents, while 134 allow risk-based inspection of cargoes. Another 73 nations have a single-window for all government agencies involved in the trading process. To protect investors, the most widely-implemented policies are: allowing rescission of prejudicial related-party transactions (74 countries), regulating approval of related-party transactions (62 countries), and requiring detailed disclosure (52 countries).

Most of these policies and practices are part of the good practices in doing business espoused by APEC and the World Bank. They are also backed by some of the studies cited in the literature review section. The three most prominent good practice recommendations of the two agencies – simplification and streamlining, electronic processing and submission, and a one-stop shop – are also prominent features of the commonly-implemented policies.

Most of these commonly-implemented reforms are in place in most APEC economies, but several are not. For instance, only nine APEC members have a unified collateral registry, and the same number of countries have both positive and negative credit information along with data from retailers and utility companies. Similarly, approval of related-party transactions is regulated in only 13 members; and only 12 have specialized commercial court or division. Moreover, only three member economies have one tax per tax base. Most of the other commonly-implemented reforms are in place in at least two-thirds of APEC member economies *(see Table 4)*. This may further guide the reforms on enhancing the ease of doing business.

Table 4: Some Commonly-Implemented Reforms and Number of APEC Economies where they are in Place

Reform	Number of APEC Members where Reform is Implemented
Starting a Business	
Procedures can be completed online	15
There is a one-stop shop	16
There is no paid-in minimum capital requirement	17
Getting Credit/Access to Finance	
Out-of-court enforcement is allowed	15

Unified modern collateral registry exists	9
Both positive and negative credit data are available, along with data from retailers and utility companies	9
Paying Taxes	
Electronic filing and payment available and used by majority of firms	17
Self-assessment allowed	20
There is one tax per tax base	3
Trading	
Risk-based inspections used	21
Electronic submission and processing allowed	21
There a single window that links some of the relevant government agencies	18
Protecting Investors	
Approval of related-party transactions is regulated	13
Detailed disclosure required	17
Enforcing Contracts	
T here a specialized commercial court, division or judge	12

Source: Authors' computation based on data from World Bank Doing Business website (http://www.doingbusiness.org/data/exploretopics).

4. Policy Recommendations

Based on the review of literature, as well as the analysis of policy experience, the following recommendations seem to emerge. First, it might be useful to expand the current areas/indicators monitored, namely, starting a business, dealing with permits, getting credit, trading across borders, and enforcing contracts. While these areas are indeed crucial in making doing business easier, additional focus on other criteria could also yield strong outcomes, particularly those focused on paying taxes and protecting investors.

In addition, while APEC as a whole is performing well in ease of doing business (APEC 2011, 2012), performance across the group is highly variable. Some APEC economies are among the top performers in the world, while some are improving, yet still largely located near the bottom

of the rankings. Good-performing economies can provide support through knowledge transfer to poor-performing ones. This may include: 1) allowing a representative from a good-performing country to audit the processes being implemented by the poor-performing ones and recommend process improvements; 2) sharing of technology on automation of submission and processing of documents; and 3) conducting a series of workshops similar to the ones conducted by APEC from 2007 to 2010 but with focus on developing country members.

Finally, poor-performing members may consider establishing a specialized agency that will handle doing business improvement concerns, coordinate with policy makers, government agencies, and businesses, and will propose and study policy reforms. This agency will include representatives from the government, the private sector, the academe, and other stakeholders. Much of the improvement in the ranking of the Philippines can be attributed to the efforts of such agency, the National Competitiveness Council. There are important coordination and governance challenges to be over come in advancing these reforms; and it could be useful to feature knowledge and experience sharing in how these reforms reached critical mass notably in countries with a high degree of government decentralization.

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