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Performance of APEC economies in ease of doing business

Ronald U. Mendoza, Tristan A. Canare and Alvin P. Ang

Introduction

Since 2006, the World Bank has been ranking almost 200 countries in terms of their ease of doing business (EoDB) to underscore the importance of a thriving private sector in promoting high and inclusive growth. A good business environment also promotes competition and encourages innovation and expansion (WB 2013). Subsequently, the Asia-Pacific Economic Cooperation (APEC) has its own specialized group that monitors the EoDB progress of its members.

The World Bank ranked the Philippines 95th in the 2015 edition of its *Doing Business Report*. This ranking is a 13-place improvement from 2014 and a 38-notch jump from 2013. Despite this development, however, the Philippines still ranks below its Association of Southeast Asian Nations (ASEAN) neighbors, direct competitors, and fellow APEC members Thailand (26th), Viet Nam (78th), and Malaysia (18th). However, Indonesia (114th) and Brunei Darussalam (101st), both members of APEC and ASEAN, rank lower than the Philippines.

As the ASEAN Economic Community (AEC) progresses and as the Philippines takes a

PIDS Policy Notes are observations/analyses written by PIDS researchers on certain policy issues. The treatise is holistic in approach and aims to provide useful inputs for decisionmaking.

This *Policy Note* is culled from the APEC 2015 Research Project commissioned by the Department of Foreign Affairs. The main objective of the project is to provide the analytical framework that will form part of the basis for the substantive priorities the Philippines will push for as APEC host economy in 2015. The project's main output is a set of policy studies with recommendations that can serve APEC 2015 purposes and can be used as inputs to the Philippine government's future development planning, strategizing, and visioning exercise in a post-2015 scenario.

The authors are consultants of PIDS. Mendoza and Canare are affiliated with the Asian Institute of Management and Policy Center, and Ang with the Ateneo de Manila University. They would like to thank the Philippine APEC Study Center Network led by PIDS for the financial grant, as well as the participants of the Technical Workshop on APEC 2015 Related Studies held on December 15, 2014 at PIDS for the comments. The views expressed are those of the authors and do not necessarily reflect those of PIDS or any of the study's sponsors.

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crucial role in this year's APEC 2015 Summit, comparing the EoDB metrics of the ASEAN countries becomes highly important. With their diverse economic conditions, the APEC member-economies can share their expertise on doing business with the ASEAN and other developing country members.

This *Policy Note* is a synthesis of a paper commissioned to the Philippine Institute for Development Studies by the Department of Foreign Affairs in preparation for the 2015 APEC Summit. By using a comprehensive review of theoretical and empirical literature, and by assessing the doing business performance of APEC economies, this paper provides inputs to the APEC Ease of Doing Business Initiative and the APEC Organizing Committee on how the EoDB can be tackled in this year's summit.

A review of doing business literature

The World Bank's *Doing Business Report* uses several criteria in scoring and ranking EoDB: starting a business, getting credit, protecting investors, paying taxes, trading across borders, enforcing contracts, and resolving insolvency. The ease by which entrepreneurs can start a business could be a strong determinant whether investors will start a business in the first place. Early theoretical and conceptual works by institutional economists North and Thomas (1973) argued that firm entry barriers hinder growth and development. This appears to be validated by numerous empirical studies using data from developed and developing countries such as by Fonseca et al. (2001), Klapper et al. (2006), Dreher and Gassebner (2013), van Stel et al. (2007), Ciccone and Papaioannou (2007), Klapper and Love (2010), and Djankov et al. (2002). Some studies also link ease of starting a business with underlying determinants of growth, notably factor productivity (Barseghyan 2008; Poschke 2010; Chari 2011; Moscoso Boedo and Mukoyama 2012).

On access to credit, there is an almost general agreement nowadays on its importance to growth and development, following Schumpeter (1912). King and Levine (1993) did one of the first studies that used large cross-country data across time to test this, and found evidence that financial development positively influences per capita gross domestic product growth and capital accumulation. Indeed, recent exhaustive literature reviews by Levine (2005) and Beck and Demirguc-Kunt (2008) found extensive evidence that financial development does promote growth. Other studies point to increased productivity and investment as the link between credit access and growth (Levine and Zervos 1998; Rajan and Zingales 1998; Wurgler 2000; Love and Zicchino 2006), although it is also related to some other indicators such as exports (Manova 2013), innovation (Ayyagari et al. 2007a), formalization and incorporation (Demirguc-Kunt et al. 2004; Dabla-Norris et al. 2008; Capasso and Jappelli 2013), firm entry and growth (Aghion et al. 2007; Ayyagari et al. 2008; Ayyagari et al. 2010), and development of the small and medium enterprise sector (Ayyagari et al. 2007b).

Effective and efficient contract enforcement mechanisms and good institutions are key to higher EoDB because they assure gain among investors (Ostrom 1986; North 1990). 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. In an often-cited work, Acemoglu et al. (2001) concluded that quality of institutions is positively correlated with per capita income using data from former European colonies. Other empirical works abound on the positive relationship between quality of institutions and growth (Barro 1996; Hall and Jones 1999; Easterly and Levine 2002; Rodrik et al. 2004). Still other studies found evidence that effective contract enforcement can improve access to finance (Demirguc-Kunt and Maksimovic 1996; Levine 1998; Beck et al. 2006; Bae and Goyal 2009), facilitate trade (Levchenko 2007; Nunn 2007), encourage firm entry (Aidis et al. 2012), and reduce the size of the informal sector (Dabla-Norris et al. 2008; Quintin 2008).

The literature on investor protection generally points to its effect on encouraging smaller investors to invest in publicly traded firms as the source of its contribution to growth (La Porta et al. 1998). Empirical tests by Haidar (2009) and John et al. (2008) found evidence that investor protection not only promotes growth but is also an important factor in determining such variables as ownership concentration, size of the capital markets, firms' access to finance, and corporate governance (La Porta et al. 2000). Similarly, strong property rights provide incentives to invest because they assure investors that the returns of investments will grow (De Soto 1989, 2000; Besley 1995; Besley and Ghatak 2009). Johnson et al. (2002), Claessens and Laeven (2003), Kerekes and Williamson (2008), Knack and Keefer (1995), and Cull and Xu (2005) also found evidence of a positive relationship between quality of property rights and investment.

Many studies on making trading easier highlight the importance of reducing the cost of moving goods—rather than border barriers such as tariffs—in improving the trade performance of developing countries

(Hoekman and Nicita 2011; Moise and Sorescu 2013). Empirical studies by Portugal-Perez and Wilson (2012) also showed evidence that infrastructure and regulatory reforms are the improvements needed by developing countries; and that trade costs are higher in developing than in developed economies (Anderson and Wincoop 2004).

On paying taxes, many literature involve testing for the relationship between tax rates and indicators of growth and development (Fisman and Wei 2004; Lee and Gordon 2005; Fisman and Svensson 2007; Djankov et al. 2010). However, some authors argue that tax administration is equally, if not more, important. Theoretical, conceptual, and empirical studies provide evidence that simplification of tax structure contributes well to tax compliance and development (Tait et al. 1979; Tanzi 1981; Mansfield 1987; Bird 1989; Bird 1990; Flatter and Mcleod 1995; Silvani and Baer 1997; Bird 2004).

Doing business performance and trends in APEC economies

For the *2015 Doing Business Report*, Singapore remains on top—a place that it has maintained since 2007. It is followed by New Zealand and Hong Kong, both APEC economies. Three other APEC members made the top 10: South Korea (5th), United States (7th), and Australia (10th). At the other end, Papua New Guinea (133rd) is the lowest-ranked APEC country, followed by Indonesia (114th), and Brunei Darussalam (101st).[1]

Some APEC economies hardly moved in their rankings from the previous year, particularly those on the top. Singapore, Hong Kong, and New Zealand retained the top three spots. Some registered moderate to impressive gains, particularly those near the bottom. Philippines went from 108th to 95th, Viet Nam from 99th to 78th, and China from 96th to 90th. Still others slid such as Malaysia (6th to 18th), Thailand (18th to 26th), and Japan (27th to 29th). Among the doing business criteria, APEC members also had wide variations in performance.

In terms of medium-term changes, APEC economies also had mixed performance. Russia has the biggest rank improvement from 2010 to 2015—a 58-place jump from 120th to 62nd. The Philippines had the second biggest positive leap (144th to 95th), followed by Taiwan (46th to 19th). Meanwhile, those who experienced the largest slide during this period are Papua New Guinea (102nd to 133rd), Japan (15th to 29th), and Thailand (12th to 26th). There are also mixed medium-term changes across the different doing business criteria for APEC member-economies.

A recent innovation developed by the World Bank is the 'distance-to-frontier' (DTF) index. It measures the "distance" of an economy

[1] See the *World Bank Doing Business Reports* for the complete rankings.

from the best performance measured for a particular criteria (WB 2014). Thus, the DTF is an absolute measure of doing business that, unlike the rankings, does not depend on the performance of other countries. From 2010 to 2015, among APEC economies, Russia posted the largest increase in DTF score from 54.8 to 66.7. The Philippines followed (54.3 to 62.1) along with Mexico (65.1 to 71.5) and Viet Nam (59.4 to 64.4). According to APEC reports (APEC 2011, 2012), the group as a whole is performing well in EoDB; however, the performance is highly uneven across member-economies.

Commonly implemented reforms

The World Bank (2013) provided a list of common reforms implemented by countries worldwide. This could serve as a guide in setting up policy and procedural reforms among countries aiming to improve their doing business performance.

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 (99 countries) and creation of one-stop shops (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 (124 countries). 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.

In making paying taxes 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 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), and requiring detailed disclosure (52).

Most of these policies and practices are part of the good practices in doing business espoused by APEC (APEC SMEWG 2011). They are also backed by some of the studies cited in the literature review section. The three most prominent good practice recommendations of APEC—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 already in place in most APEC economies, but several are not. For instance, only nine APEC members have both positive and negative credit information, along with data from retailers and utility companies. Moreover, only three members 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 (Table 1). This may further guide the APEC Doing Business Initiative and next year's APEC organizing committee in tackling the EoDB and helping member-economies improve their rankings.

Table 1. 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 is 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	
There is a specialized commercial court, division, or judge	12

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

Recommendations

Based on the review of literature, the analysis on international good practices, and the initial assessment of the doing business performance of APEC economies, the following recommendations may be considered by APEC officials.

1. Expand the current areas/indicators monitored by APEC for its member-economies beyond the priority areas, namely, starting a business, dealing with permits, getting credit, trading across borders, and enforcing contracts. While these areas are 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. Fifteen of the 21 APEC members dropped in ranking in protecting investors from 2010 to 2015, and eight for paying taxes. In terms of distance to frontier, 12 posted declines in protecting investors for the same period, and four for paying taxes. Moreover, empirical and theoretical literature suggest that expanding priority areas have far-

reaching positive effects to economic growth and development.

2. While APEC, as a whole, is performing well in the EoDB (APEC 2011, 2012), performance across the group is highly variable. Some APEC economies are among the top performers in the world, while others are still lagging behind. Better-performing economies could provide support through knowledge transfer to lower-ranked ones. This would not be limited to the APEC Summit, but would be followed through on several occasions. This may include: 1) allowing a representative from a better-performing country to observe the processes being implemented by the lower-ranked 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. Lower-ranked economies could start reforming those that are easiest to reform—changes that do not require amending laws that takes a long time to implement. Then, gradually proceed to the more complicated reforms. They may want to focus on three general, but nonetheless proven and commonly implemented, reforms: streamlining and simplification of procedures, creation of an electronic platform, and implementation of a single interface (one-stop shop). The APEC may also want to give attention to commonly implemented reforms that are not yet implemented in many of its members.

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3. Lower-ranked members may establish a specialized agency that will handle doing business improvement concerns; coordinate with policymakers, government agencies, and businesses; and will propose and study policy reforms, similar to the Philippines' National Competitiveness Council. This agency will include representatives from the government, the private sector, the academe, and other stakeholders. There are important coordination and governance challenges to be overcome in advancing these reforms notably in countries with a high degree of government decentralization.

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[2] Due to space constraints, only selected references are included here. The complete bibliographic details for all references cited in the text are available from the original report from which this policy note is based.

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For further information, please contact

The Research Information Staff
Philippine Institute for Development Studies
NEDA sa Makati Building, 106 Amorsolo Street, Legaspi Village, 1229 Makati City
Telephone Nos: (63-2) 894-2584 and 893-5705
Fax Nos: (63-2) 893-9589 and 816-1091
E-mail: publications@pids.gov.ph

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