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# **Creating an enabling business environment in Asia: To what extent is public support warranted?**

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- 1. What is an enabling business environment?**
- 2. Does the minimalist version of a better business environment foster growth? Evidence from Asia**
- 3. Is simplification of procedures for business registration / licensing good for growth? Is it *important* for growth?**
- 4. Are land titling and secure property rights good for growth and pro-poor?**
- 5. The role of selective industrial and trade policies: What do we learn from Asian success stories**

## What is an “enabling business environment”?



**Index of Economic Freedom:** Little government intervention in the economy, liberal trade policy, low fiscal burden, free capital flows, banking and finance, unrestricted foreign investment, market-based wages and prices, secure property rights.

**Doing Business Report:** Ease of starting a business, hiring and firing workers, getting credit, enforcing contracts, closing a business, registering property and dealing with licenses and trading across borders. Protecting investors; low taxes.

**General principles:** Reduce government intervention; „level playing field“ without distortions; avoid excessive regulation, sector- and region-specific support

## What is an “enabling business environment”?

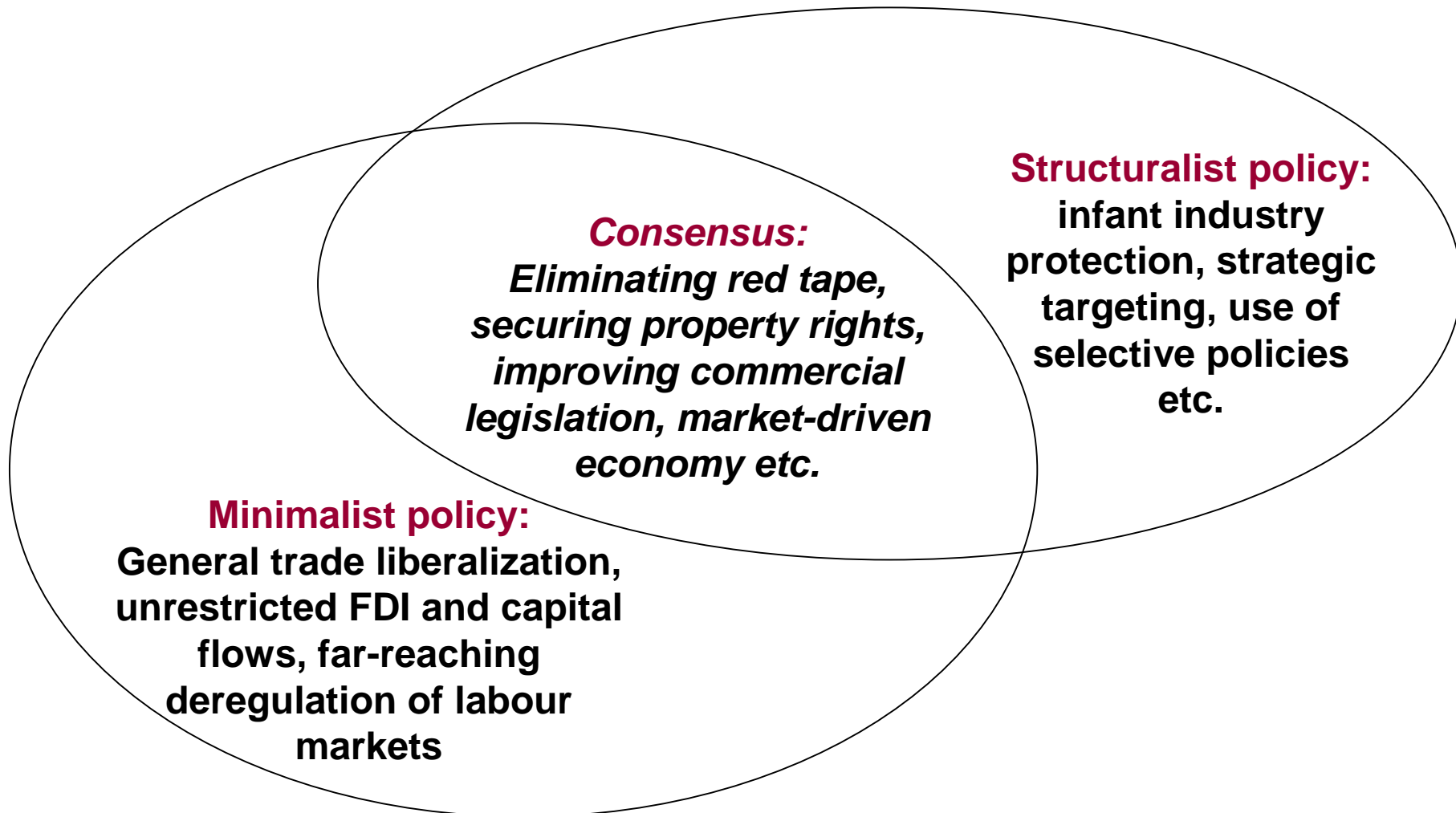


**Structuralist critique:** Compensation for widespread market failure. Strategic targeting and use of selective support for sectors, regions, groups of firms.

Careful use of infant industry protection.

Strategic targeting and guidance of FDI, complementary linkage and technology policies.

# What is an “enabling business environment“?



## What is an “enabling business environment”?



- ⇒ No consensus about „enabling business environment“
- ⇒ Optimum is context-specific: Degree of market sophistication, government capabilities etc.
- ⇒ Cultural preferences matter: People attach different values to „markets“ and „governments“

**Does the minimalist version of a better business environment foster growth? Evidence from Asia**



**Growth rates do not correlate with high rank on the Doing Business score**

**Asian economies grow much faster than any other region, despite „bad“ business environment**

**Some of the „worst performers“ grow at a sustained rate of > 7% ...**

**... and attract extraordinary amounts of FDI.**

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Period / Year	GDP average growth rate in %		Ease of Doing Business Ranking	Index of Economic Freedom
	1985-2005	2005-2009	2007	2006
<i>Out of # ranks</i>			175	157
<b>Singapore</b>	6,5	..	1	2
<b>Hong Kong</b>	4,6 <sup>a</sup>	..	5	1
<b>Thailand</b>	6,2	5,3	18	71
<b>Korea</b>	6,7	5,0	23	45
<b>Malaysia</b>	6,4	..	25	68
<b>Mongolia</b>	2,2	5,6	45	60
<b>Taiwan</b>	4,5	4,2	47	37
<b>Pakistan</b>	4,5	6,5	74	110
<b>Bangladesh</b>	4,7	6,4	88	141
<b>Sri Lanka</b>	4,3	6,0	89	92
<b>China</b>	9,3	8,0	93	111
<b>Nepal</b>	4,4	3,3	100	125
<b>Vietnam</b>	6,7	7,5	104	142
<b>Philippines</b>	3,6	5,3	126	98
<b>India</b>	5,8	7,7	134	121
<b>Indonesia</b>	5,0	6,3	135	134
<b>Cambodia</b>	7,1	..	143	68
<b>Laos</b>	5,9	6,5	159	149
<b>Timor-Leste</b>	1,5	4,3	174	..

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**Is simplification of procedures for  
business registration / licensing  
good for growth?**



**Reduced transaction costs => increased no. of start-ups and registered enterprises**

**Burdensome regulations create incentive to stay informal ...**

**... and opportunities for corruption - which may hamper enterprise growth**

**Is simplification of procedures a *decisive* barrier to growth?**



**Empirical evidence mainly from cross-country comparison, few systematic longitudinal studies from Asia available. Findings:**

**No. of procedures, time and cost to start a business not among most important constraints.**

**Reforms do not trigger take-off of private sector.**

**Other constraints more important: market opportunities, managerial and technical skills, crime, political instability, access to credit etc.**

## Are land titling and property rights reforms good for growth?



Access to credit not much easier. Other constraints remain: high transaction costs, small size of loans, lack of good business plans, difficulty to seize property in case of default.

⇒ No significant surge in economic activity after property reforms

## Are land titling and property rights reforms pro-poor?

Property titles increase value of assets. But:

Land-market activity tends to increase => speculation, rising costs for land and housing; marginalization of the poor. Net effects unclear.

## Role of selective industrial and trade policies: Lessons from Asian success stories



Successful Asian economies went far beyond *minimalist* policies, making extensive use of selective trade and industrial policies - especially countries which achieved technological deepening (Taiwan, Korea, increasingly China and India) :

- ⇒ Quantitative & tariff restrictions on imports, subsidies for non-traditional exports
- ⇒ Campaigns to attract specific types of FDI & measures to increase technology transfer
- ⇒ Targeted public investment in strategic industries
- ⇒ Targeted investment in complementary skills development and research

## In sum...



„Minimalists“ **fail to provide evidence** that regulatory and property rights reforms

⇒ have a significant effect on economic growth

⇒ are pro-poor.

No evaluation of reform outcomes available.

Unable to explain mismatch between “bad” business environments and extraordinary success in the case of Asian countries.

**⇒ We need more comprehensive, less ideological, and more country-specific approaches to improving the business environment.**