

East Asia & Pacific Regional News Release

EMBARGOED: Not for news wire transmission, posting on websites, or any other media use until 00:01 UTC/GMT, Tuesday, September 13, 2005 (which is 8:01 p.m. EDT, Monday, September 12, 2005).

Doing Business in 2006: East Asian Economies Lag in Encouraging Businesses with Regulatory Reforms

WASHINGTON, D.C., September 13, 2005 – East Asian economies lagged in introducing reforms to help small and medium businesses generate jobs relative to most other regions, according to a new report from the World Bank Group. This finding compares with the performance of Eastern Europe, the fastest-reforming region in the world, which is aggressively courting entrepreneurs with far-reaching reforms that streamline business regulations and taxes.

Doing Business in 2006: Creating Jobs, cosponsored by the World Bank and the International Finance Corporation, the private sector arm of the World Bank Group, finds that such reforms, while often simple, can create many new jobs.

"Jobs are a priority for every country, and especially the poorest countries. Doing more to improve regulation and help entrepreneurs is key to creating more jobs—and more growth. It is also a key to fighting poverty. Women, who make up three quarters of the work force in some developing economies, will be big beneficiaries. So will young people looking for their first job. The past year's diverse range of successful reformers—from Serbia to Rwanda—are showing the way forward. We can all learn from their experience," said Paul Wolfowitz, President of the World Bank Group.

The annual report, which for the first time provides a global ranking of 155 economies on key business regulations and reforms, finds that while East Asian economies impose the fewest regulatory obstacles on entrepreneurs after OECD countries, they are now reforming more slowly than Eastern Europe, OECD countries, Latin America and the Caribbean, and South Asia. In fact, every country in Eastern Europe improved at least one aspect of the business environment last year.

The report tracks a set of regulatory indicators related to business startup, operation, trade, payment of taxes, and closure by measuring the time and cost associated with various government requirements. It does not track variables such as macroeconomic policy, quality of infrastructure, currency volatility, investor perceptions, or crime rates.

Overall, European nations were the most active in enacting reforms. The top 12 reformers in the past year, in order, were Serbia and Montenegro, Georgia, Vietnam, Slovakia, Germany, Egypt, Finland, Romania, Latvia, Pakistan, Rwanda, and the Netherlands.

"Many East Asian economies that compete for new enterprises and jobs risk falling behind other countries that are simplifying regulation and continuing to make their investment climates more business friendly," said Michael Klein, World Bank/IFC Vice President for Private Sector Development and IFC Chief Economist.

However, the authors of the study did note exceptions: Vietnam is the number 3 reformer in the past year, with reforms in the company registry, a new bankruptcy law, and measures to streamline contract enforcement and reduce the costs to register property. Indonesia and the Philippines also reformed several areas of business regulation.

Other notable reforms in East Asian countries in the past year:

- Many economies improved their regulations for protecting investors, including Hong Kong (China), Indonesia, Korea, Malaysia, Thailand, the Philippines, and Vietnam.
- China, Fiji, the Philippines, and Timor-Leste streamlined administrative barriers to trading. Upgrades to the ports in Shanghai cut loading times by two-thirds. Fiji introduced electronic filing of customs documents. The Philippines completed its phase-out of compulsory preshipment inspections. Timor-Leste introduced risk-based customs inspections.
- Cambodia cut registration fees and reduced the minimum capital required to start a business.
- The Philippines introduced online business registration, and Vietnam established electronic name verification, cutting one week off the time to start a business.
- Indonesia and Vietnam introduced new bankruptcy laws that clarified rules for closing insolvent businesses and reorganizing viable businesses.
- The Philippines and Vietnam sped contract enforcement by setting time limits on court judgments.

Doing Business in 2006 updates the work of last year's report on seven sets of business environment indicators: starting a business, hiring and firing workers, enforcing contracts, registering property, getting credit, protecting investors, and closing a business. It expands the research to 155 countries and adds three new indicators: dealing with business licenses, trading across borders, and paying taxes.

The new indicators in this year's report further reinforce the overwhelming need for reform, especially in poor countries. The report finds that poor countries levy the highest business taxes in the world. These high taxes create incentives to evade, driving many firms into the underground economy, and do not translate into higher revenues.

The analysis also shows that reforming the administrative costs of trading can remove significant obstacles to exporting and importing. Contrary to popular belief, customs paperwork and other red tape (often called "soft infrastructure") cause the most delays for exporting and importing firms. Less than a quarter of the delays are caused by problems with "hard infrastructure" such as poor ports or roads. For manufacturers in developing countries, the administrative burdens of trading can pose larger costs than tariffs and quotas. For example, importers in Lao PDR face 78 days and 28 signatures from the time their goods arrive in port until they reach the factory. In comparison, OECD exporters need only 14 days and 3 signatures on average.

The annually published report gives policymakers the ability to measure regulatory performance in comparison to other countries, learn from best practices globally, and prioritize reforms. Now in its third year, the report has already had an impact on business environment reforms around the world.

"The *Doing Business* benchmarking has inspired and supported reforms in more than 20 countries, and since last year, nine governments have asked for their countries to be included in the *Doing Business* analysis," said Caralee McLiesh, an author of the report.



Six East Asia economies make the list of top 30 economies in the world in terms of the report's ease-of-doing-business index. In order, the list is New Zealand, Singapore, the United States, Canada, Norway, Australia, Hong Kong (China), Denmark, the United Kingdom, Japan, Ireland, Iceland, Finland, Sweden, Lithuania, Estonia, Switzerland, Belgium, Germany, Thailand, Malaysia, Puerto Rico, Mauritius, the Netherlands, Chile, Latvia, Korea, South Africa, Israel, and Spain.

Elsewhere in East Asia, Taiwan (China) also has a high rank, at 35, as do most of the Pacific Islands. Lao PDR (147), Timor-Leste (142), and Cambodia (133) have the lowest ranks in the region. Several of the large emerging markets also have a low rank. Although Vietnam is reforming rapidly, it ranks at 99. The Philippines ranks at 113 and Indonesia at 115. China ranks at 91—with strong performance in some indicators but many obstacles in the legal environment for credit markets and business licenses.

All the top countries regulate businesses, but they do so in less costly and burdensome ways. The Nordic countries, all of which are on the top 30 list, do not regulate too little. Instead, they have simple regulations that allow businesses to be productive and focus intervention where it counts—protecting property rights and providing social services.

Just 8 percent of economic activity in Nordic countries occurs in unregistered (informal sector) businesses. The reason is that regulations are simple to comply with and businesses receive excellent public services for what they pay in taxes. For example, Denmark has the world's best infrastructure. Norway ranks highest on human development indicators, with Sweden right behind it.

"In the Nordic countries, as well as the other top 30, reformers do not have to choose between making it easy to do business and providing social protection. They can do both," said Simeon Djankov, an author of the report.

Governments in conflict-affected countries are especially hard pressed to create jobs. Continued peace depends on demobilizing rebel armies and finding livelihoods for thousands of refugees and former combatants. This year for the first time, *Doing Business* studies Timor-Leste. To start a business officially there takes 92 days and 10 procedures. And it takes 69 procedures and 990 days to enforce a contract through the courts.

The Doing Business project is based on the efforts of more than 3,500 local experts – business consultants, lawyers, accountants, government officials, and leading academics around the world - who provided methodological support and review. The data, methodology, and names of contributors are publicly available online.

###

Online Media Briefing Center:

Journalists can access the material before the expiration of the embargo through the World Bank Online Media Briefing Center at <http://media.worldbank.org/secure/>.

Accredited journalists who do not already have a password may request one by completing the registration form at <http://media.worldbank.org/>.

Last year's *Doing Business in 2005* report and further information are available at <http://www.doingbusiness.org>.

For more information on *Doing Business in 2006*, please contact:



Nadine Ghannam (202) 458-0482
Cell: (917) 517 0795, Email: nsg hannam@ifc.org

Or: Desmond Dodd in Hong Kong
Tel: +852-2509-8183, Mobile: +852-6478-7749
Email: ddodd@ifc.org