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Regulatory Reforms for Improving the Business Environment in Selected Asian Economies—How Monitoring and Comparative Benchmarking Can Provide Incentive for Reform

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Contents

Abstract

The determinants of a business friendly environment that underpin rapid and sustained economic growth include the macroeconomic and financial market environments, infrastructure, labor market skills and efficiency, and governance and institutions. Obtaining licenses and credit to start a business, finding and managing labor, ensuring investor protection, enforcing contracts, paying taxes, trading across borders, and identifying the requirements for closing a business are all important factors in assessing the operating climate for doing business. By comparative benchmarking, this paper examines these determinants in six developing Asian economies—the People's Republic of China, Indonesia, Malaysia, the Philippines, Thailand, and Viet Nam—and compares them with similar indicators for five benchmark economies—the newly industrialized economies (NIEs) of Hong Kong, China; the Republic of Korea; and Singapore; and the developed economies of Japan and the United States.

This paper also identifies areas where reform has taken place and where further efforts are needed, such as addressing policy uncertainties, the quality of governance and legal and institutional frameworks, and inadequate regulatory capacity. Attending to these shortcomings will require policymakers to implement structural reforms that improve efficiency and competitiveness by (i) minimizing unnecessary regulatory barriers in business activities, (ii) encouraging private incentives and market discipline, (iii) creating a level playing field across all sectors, and (iv) fostering competition to upgrade institutional capacity. This paper argues that the regular monitoring of relevant indicators and comparative benchmarking can (i) provide important incentive structures that encourage the sharing and implementation of good practices through peer pressure mechanisms and (ii) serve as a starting point for dialogue between government and the private sector on reform priorities that can improve the business environment.

Keywords: Business environment, investment, Asia, benchmarking

JEL Classification: D21, D73, F21, K40, O57

1. Introduction

The differences in investment and productivity among economies can largely be explained by differences in their respective business environments. A good business environment can reduce the cost of doing business and lead to higher and more predictable returns on investment. A good business environment also plays a central role in promoting national competitiveness, which underpins rapid and sustained economic growth. Investment in the six economies under review in this paper—Indonesia, Malaysia, the Philippines, Thailand, Viet Nam, and the People's Republic of China (PRC)—fell following the 1997/98 Asian financial crisis and again, 10 years later, amid the onset of the current financial and economic crisis. The magnitude of the ongoing economic and financial crisis raises major concerns about the likelihood of continued investment and expansion in the selected economies and elsewhere. Lower profits, reduced access to financial resources, declining market opportunities, and the risk of a prolonged recovery from the economic and financial crisis are all causes for lower levels of investment.

Efforts need to be taken to further improve business environments in the selected economies. While a number of proactive measures can generate a good business environment, restrictive structural, regulatory, and administrative factors—or a combination of such factors—can stifle investment. A sound macroeconomic framework consisting of prudent fiscal and monetary policies—coupled with flexible exchange rates, a commitment to market-friendly regulation and transparency, skills development, steady institution building, and an adaptive attitude toward change—can not only boost investment and lead to higher and more predictable returns, but can also ensure that the quality of investment will generate the economic gains required for poverty reduction.

A business friendly investment environment requires good rules: rules that establish and clarify property rights, reduce the cost of resolving disputes, increase the predictability of economic interaction, and provide contractual partners with core protections against abuse. Such regulation needs to be efficient, accessible to all, simple to implement and, importantly, it requires a sustained commitment from policymakers to improving competitiveness. Furthermore, enabling economic growth and ensuring poor people can participate in its benefits requires an environment where new entrants can easily start businesses and firms can confidently invest and grow. Small- and medium-sized enterprises are crucial to competition, growth, and job creation, particularly in developing economies. Where regulation is transparent, efficient, and simple to implement, entrepreneurs can more easily operate within the rule of law and benefit from its opportunities and protections. But where regulation is burdensome and competition limited, business success can sometimes depend more on whom you know than on what you can do. In such an environment, firms may be prevented from entering the formal sector by cumbersome bureaucracy and regulation. In many developing economies, up to 80% of economic activity takes place in the informal sector.[1]

As economies develop, governments need to strengthen regulations by finding more efficient ways to implement existing regulations and revising or removing outdated ones,

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[1] World Bank. 2009. *Doing Business*. Washington, DC.

thus improving the investment climate. This is particularly important as the global economy is currently mired in its worst recession in decades and arguments for economic protectionism are finding new traction among populations fearful of losing jobs. This study presents a countervailing case for pursuing the benefits of economic openness and improving the investment climate.

A revival of both investment and its productivity requires an improvement in the overall business environment among the selected economies. "Business environment" is a very broad concept that is based on location-specific factors such as market size and geographical and cultural proximity. Complemented by the regulatory environment and investment incentives, businesses gauge opportunities and assess the attractiveness of specific investments. Over time, this process boosts production and productivity, creates jobs, and drives economic expansion. Identifying and measuring barriers to investment is one way of defining the issues at hand, but doing something about them is quite another.

Through comparative benchmarking, this study examines business indicators in six developing Asian economies and compares them with similar indicators for five benchmark economies—the NIEs (Hong Kong, China; Republic of Korea [Korea]; and Singapore) and the developed economies of Japan and the United States (US). Several broad sets of indicators are surveyed—macroeconomic environment, financial market environment, infrastructure, skills, institutions and governance, and business operation—with a primary focus on institutions and governance.[2] This paper then presents policy options for regulatory reform that can contribute to a business friendly environment and increased competitiveness.

Monitoring and comparative benchmarking can provide incentives for reform. The indicators presented in this study—as well as the method for comparing the selected economies' performance with the five benchmark economies—have several limitations that need to be taken into account when interpreting the results. Some of the indicators were derived from qualitative responses from firms to questionnaires, which introduce an element of subjectivity. In addition, the conclusions drawn are relative only to the benchmark economies chosen; a different set of benchmark economies would most likely offer different conclusions.

There is an array of indicators that can be used to assess business and investment climates. It can, however, be difficult to measure the effect of specific reforms since indicators are often a simplification of complex regulatory and administrative structures that measure subjective perceptions. Country-specific characteristics may not always be accounted for and although many indicators have been collected over a period of years, it often takes time before the impact of new reforms take effect. Indicators are also not meant to stand in isolation. The application of both quantitative and qualitative judgment is crucial. This study is based on various data sources and, as a result, drawing conclusions from the indicators in isolation may show unexpected results. Critical

[2] The World Bank's *World Development Report 2005: A Better Investment Climate for Everyone* explained that the extent to which people can invest in their future is largely determined by governance as depicted by, among other factors, an economy's legal institutions and economic policies.

judgment is required in the interpretation of this study's findings. The sources used in this paper include the World Bank's *Doing Business*; World Bank's *Worldwide Governance Indicators*; the Organization for Economic Co-operation and Development's Indicators of Product Market Regulation; the World Economic Forum's Global Competitiveness Index; the Economic Intelligence Unit's World *Investment Prospects*; and *Business Monitor International*.

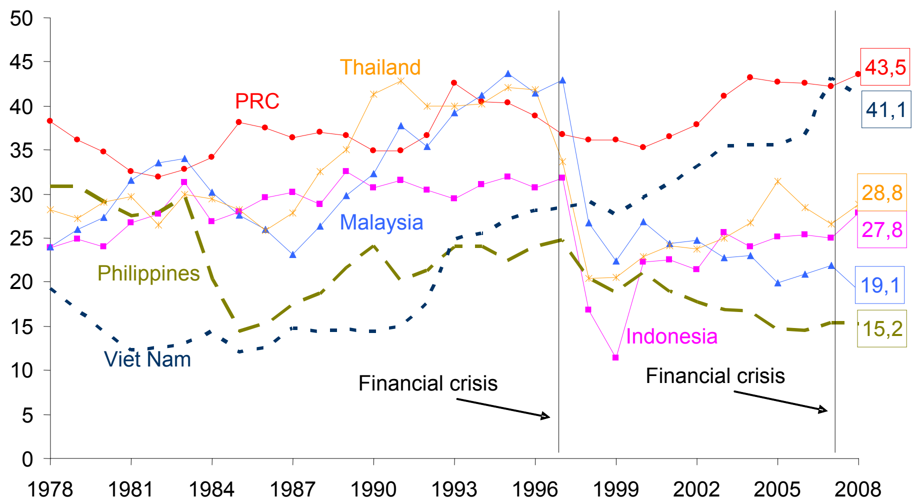
Section II offers background on investment trends as well as the macroeconomic and business environments of the selected economies. Section III presents the business climate indicators of the selected economies, focusing on structural factors that contribute to an efficient and competitive business climate. Section IV discusses the more specific operating climate for doing business that drives investment decisions. Section V looks at relevant policy issues for improving the business climate in the selected economies and how regular monitoring and comparative benchmarking of the various indicators provides important incentive structures that support the implementation of good practices through peer pressure mechanisms.

2. Background

More than 10 years after the 1997/98 Asian financial crisis and after several years of rapid growth, the investment climate in the selected economies, despite significant regulatory efforts, has suffered setbacks once again, with the global economy mired in the most severe financial crisis since the Great Depression. Volatile food and energy prices, the increasing difficulty for large and small retail businesses and industrial firms to obtain credit with banks reluctant to lend even to long-time customers, and recession in the world's leading economies are confronting policymakers with new economic management challenges. These issues underscore the importance of creating a competitive and attractive business environment that can support economic growth and help national economies weather such shocks and ensure sound future economic performance.

As a percentage of GDP, average investment rates through 2008 remained below levels reached just before the onset of the 1997/98 Asian financial crisis, with the exception of the PRC and Viet Nam where investments have increased since the 1997/98 crisis (Figure 1). The 1997/98 Asian financial crisis led to a downward adjustment in private sector spending through weakening household consumption and business investment. The ensuing low levels of investment can be viewed, in part, as a post-crisis correction and return to more sustainable investment rates, especially as investment rates prior to the crisis may have been corrected on the realization that poor investments financed by excessive short-term and foreign currency borrowings had led to investment inefficiencies.

Figure 1: Investment 1978–2007 (% of GDP)



GDP = gross domestic product, PRC = People's Republic of China.

Source: ADB Statistical Database System (SDBS) and World Bank's World Development Indicators Online.

While a return to pre-crisis investment rates may not be warranted, there is a need to revive reform efforts to improve the investment climate among the selected economies to sustain higher GDP growth and shift the sources of growth away from net exports to domestic demand. Average investment rates in the post-crisis years (1998–2008) are not only lower compared with the pre-crisis decade, but with the exception of the PRC and Viet Nam, are also lower than during the 1978–87 period. From a long-term perspective, a revival of investment rates by a few percentage points of gross domestic product (GDP) is desirable. However, given the current economic outlook, investment prospects are uncertain.

It is also crucial that as economies seek to revive investment they improve its efficiency. Yet, evidence shows that with the exception of the Philippines, investment remained less efficient in the selected economies through 2008 compared to pre-crisis levels. The incremental capital output ratio (ICOR)[3]—one of several measures of investment efficiency—remained generally higher in the post-crisis decade up to 2008 than in the decade preceding the 1997/98 Asian financial crisis, indicating lower investment efficiency (Table 1). The Philippines is the only country to see a steady reduction in its ICOR. Meanwhile, Indonesia, Malaysia, and the PRC did show some improvement in the last few years compared with previous calculations.[4]

[3] While a lower incremental capital output ratio (ICOR) is consistent with higher investment efficiency, there can be other reasons for a low ratio. For example, ICOR can fall if there is an increase in output due to production factors, such as labor or human capital, or by using spare capacity. In Indonesia and Thailand, capacity utilization rates have been relatively low, but are now increasing. In Malaysia, capacity utilization rates are approaching 80%. The Philippines is close to full capacity utilization. (See also the World Bank's *Investing in Growth in Emerging East Asia*).

[4] Schou-Zibell, Lotte and Srinivasa Madhur. 2006. Investment Climate in Selected ASEAN Countries. Unpublished.

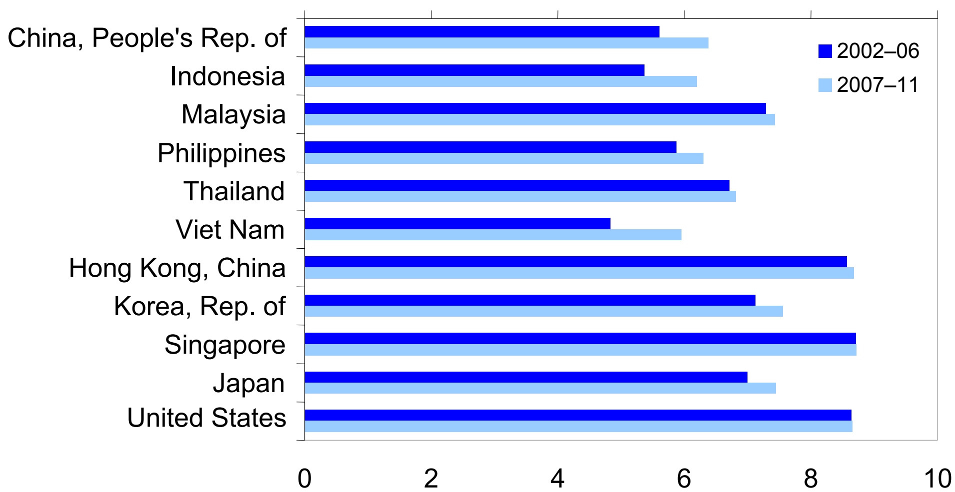
Table 1: Incremental Capital Output Ratio (ICOR)

Period	China, People's Rep. of	Indonesia	Malaysia	Philippines	Thailand	Viet Nam	Average
1978–1987	3.48	4.22	5.08	13.52	4.47	4.18	5.83
1988–1996	3.78	3.88	3.83	6.12	4.16	2.67	4.07
2000–2008	4.06	4.73	4.12	3.43	5.52	4.78	4.44

Source: Staff calculations based on data from ADB Statistical Database System (SDBS) and World Bank's World Development Indicators Online.

The business environment among the selected economies has improved considerably in the last several years, yet there is scope for further improvement (Figure 2). With the exception of Malaysia, the selected economies still lag behind the benchmark economies. Thailand's business climate has also been undermined by the deterioration of political stability since early 2006. Improvement in an economy's ranking generally indicates that its government is creating a regulatory environment more conducive to operating a business. While business regulations and their enforcement can vary widely across cities and provinces within the same country, economic liberalization and market-friendly policies, together with buoyant economic growth, spur investment in general and foreign direct investment (FDI) in particular.

Figure 2: Business Environment[5]



Note: Estimates for the period 2007–2011 do not fully take into consideration the continued weakening of the global economy since the 2007 edition of *World Investment Prospects*.

Source: Economist Intelligence Unit, *World Investment Prospects Report* (2006, 2007).

5 Measures the quality or attractiveness, adjusted for country size, of the business environment and its components—political and institutional environment, macroeconomic stability, market opportunities, policy toward private enterprise, policy toward foreign investment, foreign trade and exchange regime, tax system, financing, labor market, and infrastructure.

In line with improvements in the business environment index average, FDI relative to economic size—as measured by the inward FDI performance indicator index[6]—is higher for the PRC, Indonesia, Philippines, and Viet Nam for the forecast period 2007–11, while somewhat lower for Malaysia and Thailand, when compared with the period 2002–06 (Figure 3). While these estimates do not fully take into consideration the weakening of the global economy since the 2007 edition of *World Investment Prospects* was published, they should be consistent with multi-speed improvements in business conditions across selected economies and beyond, even if regionalization—as opposed to globalization—dominates political thinking through much of the region.

FDI is a powerful engine for development and growth, but an economy's attractiveness as an investment location rests on factors such as business costs, commitment to liberalization, political stability, and infrastructure development. The current global geopolitical climate, including the risk of protectionism, has created a less favorable outlook for securing a stable and co-operative international trading and investment environment than in recent years. Current international financial market sentiment is contributing significantly to uncertainty in long-term investment decisions. Lending behavior has become more conservative and a general reassessment of credit risk has added new uncertainties and risks to the world economy, leading to a decline in FDI of 10% between 2007 and 2008.[7] Economic growth in developed economies—a key driver of FDI in recent years—has slowed markedly during the past year and the financial health of many companies that plan to invest or expand in the region remains uncertain. There is also a risk that market confidence may not recover for some time, which could lead to a significant reduction of foreign investment in developing Asian economies.

The PRC remains a significant recipient of FDI and a favored base for foreign companies wishing to reduce production costs. But businesses wishing to sell in the domestic market still find a business environment made difficult by intense competition, bureaucratic hurdles, and a relatively opaque legal system.[8] Large inflows of FDI are also important to Malaysia's economic development plans, especially the government's goal of attaining developed nation status by 2020. Viet Nam, on the other hand, has received less FDI than the other selected Asian economies, even though many foreign investors keen to diversify their investments see it as an alternative to the PRC. In an effort to bolster foreign investor interest, the Vietnamese government has appeared willing to implement reforms, most notably in reducing restrictions on foreign investors by putting into effect a Unified Enterprise Law. Viet Nam's accession to the World Trade Organization (WTO) in 2007 should also bring about changes that benefit foreign investors and increase its attractiveness for investment.

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6 The Inward FDI Performance Index captures the influence of factors other than market size, assuming that other things being equal, size is the baseline for attracting investment. These other factors can be diverse, including the business climate, economic and political stability, presence of natural resources, infrastructure, skills and technologies, opportunities for participating in privatization, and the effectiveness of FDI promotion. UN Conference on Trade and Development (UNCTAD), 2006.

7 UNCTAD. 2008. *World Investment Report*. Geneva.

8 FDI data for the PRC may be inflated by "round-tripping", which is when domestic investment from the mainland is taken offshore, usually to Hong Kong, China, and then returned to the mainland to take advantage of the preferential tax rates offered to foreign investors. Round-tripping may account for up to 25% of total FDI in the PRC according to the World Bank's *Doing Business 2009.*

Economic growth, demographic changes, favorable business sentiment, new investment opportunities, progress in regional economic integration, and country-specific developments were among the main factors spurring high FDI flows into the selected economies, at least until 2007 and the onset of the financial crisis. These economies also implemented national level policy changes favorable to investors[9] and a variety of measures to facilitate inward FDI. Examples of such measures include (i) increasing the level of investment protection provided under investment laws (Indonesia), (ii) providing more defined criteria for screening acquisitions of local companies by foreign investors that may appear to pose a risk to national security (Korea), and (iii) promoting incentives such as investment in special economic zones (Malaysia[10] and the PRC). Other notable developments include new bilateral agreements among Asian economies—such as bilateral investment treaties—and policy changes that have contributed to sectoral restrictions and a tightening of the investment policy framework. The PRC has, for instance, tightened foreign investment in the real estate industry[11] and Indonesia has extended the list of business activities that are either closed or partially restricted to foreign investment. New measures aimed at encouraging or supporting outward FDI have also been launched. For example, to increase the competitiveness of firms, including securing access to natural resources, Viet Nam issued a decree governing regulations and procedures on outward FDI in oil and gas, and the PRC and Thailand introduced or adapted their outward FDI policies and regulations.[12] Because of its rising stock of foreign exchange reserves, and huge demand for natural resources, in particular oil, the PRC is likely to become an increasingly important source of investment for many resource rich countries in Africa, Central Asia, and Latin America.

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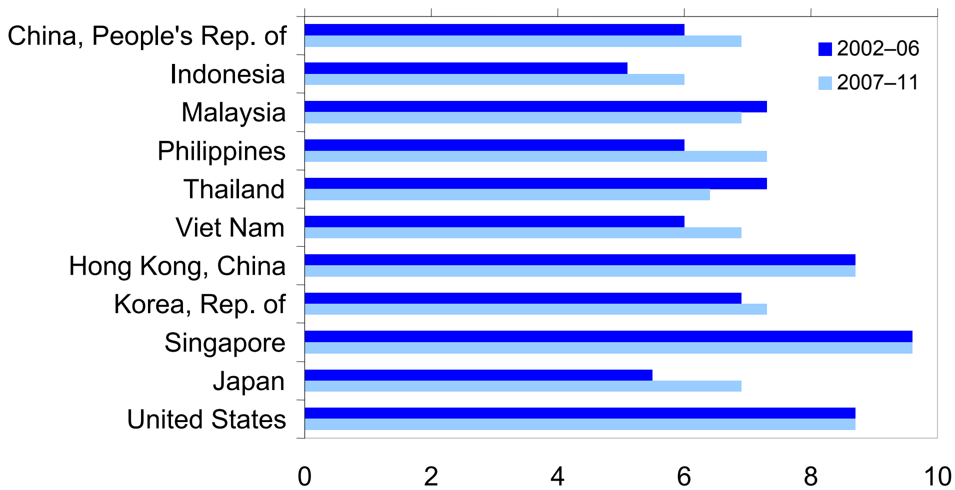
9 Viet Nam passed a decree in May 2007 allowing foreign and local investors to participate in investment in the infrastructure sector through build, operate, and transfer agreements, and other similar arrangements. As a result of gaining WTO membership in January 2007, Viet Nam also made a number of commitments to open up various industries and relax restrictions to FDI, either immediately upon accession or within a certain period of time.

10 Malaysia is promoting investment in the Iskandar Development Region, a special economic zone in the state of Johor, by offering fiscal incentives and investment facilities.

11 UNCTAD. 2007. *World Investment Report*. Geneva.

12 For example, the PRC expanded its support to investments in Africa by providing loan finance through the Export–Import Bank of China and establishing the China–Africa Development Fund to support African countries' investments in agriculture, manufacturing, energy, transportation, telecommunications, urban infrastructure, and resource exploration. It also supports the development of PRC firms' activities in Africa.

Figure 3: Foreign Investment Policies[13]



Note: Estimates for the period 2007–2011 do not fully take into consideration the continued weakening of the global economy since the 2007 edition of *World Investment Prospects*.

Source: Economist Intelligence Unit, *World Investment Prospects* (2006, 2007).

3. Structural Factors that Contribute to an Efficient and Competitive Business Climate

The potential to attract business depends on a set of structural factors that contribute to an efficient and competitive business climate, with some factors being easier to influence than others. These structural factors include: (i) the macroeconomic environment, (ii) the financial market environment, (iii) infrastructure, (iv) skills and labor market efficiency and (v) governance and institutions. While not addressed in this study, natural endowments such as market size and geographical and cultural proximity also play a role.

3.1 The Macroeconomic Environment

Macroeconomic stability is important to the overall business environment and competitiveness of an economy. Although stability alone cannot increase the productivity of a nation, it is recognized that macroeconomic disarray harms economic efficiency and productivity. Firms cannot make informed decisions when inflation is out of control and governments cannot provide services efficiently if they have to make high-interest

[13] Includes government policies toward foreign capital, openness of national culture to foreign influences, risk of expropriation of foreign assets, availability of investment protection schemes, and government favoritism.

payments on past debts. Thus, the economy cannot grow unless the macroeconomic environment is stable.[14]

While there has been some decrease in macroeconomic volatility in the last few years, the overall increase among some of the selected economies in the post-crisis period may have hurt investment.[15] The Philippines, for example, has experienced a continued decline in investment along with a general increase in volatility. Comparing average growth rates in the decade prior to the 1997/98 Asian financial crisis period with the decade after, average annual GDP growth rates fell in the selected economies, with the exception of the Philippines (increase) and Viet Nam (stable). Growth rates were also less volatile, with the coefficient of variation—a proxy for how efficient an economy has become in its use of capital—increasing only in Malaysia and remaining largely unchanged in Indonesia, Thailand, and Viet Nam. The Philippines and the PRC both recorded a decrease in volatility. Growth in exports, however, increased only in the PRC, with export growth volatility increasing in Indonesia, Malaysia, Philippines, and Thailand, and falling in both the PRC and Viet Nam. Inflation volatility increased in the PRC, Indonesia, Malaysia, Thailand, and Viet Nam, while remaining largely unchanged in the Philippines. Capital market volatility—as measured by stock indexes—also increased, with the exception of the PRC and Indonesia, thereby raising the cost of capital (Table 2).

Table 2: Macroeconomic Volatility among Developing Asian Economies

	Mean (%)		**Coefficient of Variation**	
	1988–1996	**2000–2008**	**1988–1996**	**2000–2008**
Growth	8.03	6.30	0.29	0.24
Exports	19.15	15.13	0.60	0.77
Inflation[1]	7.86	4.72	0.30	0.69
Stock Indexes[1]	19.33	13.34	2.18	3.01
Memo Item				
Investment (% of GDP)	31.20	27.74	0.12	0.10

Note: Economies under review include the People's Republic of China, Indonesia, Malaysia, Philippines, Thailand, and Viet Nam. Averages do not include Viet Nam for 1988 to 1996.

Source: ADB staff calculations based on data from World Bank Development Indicators database.

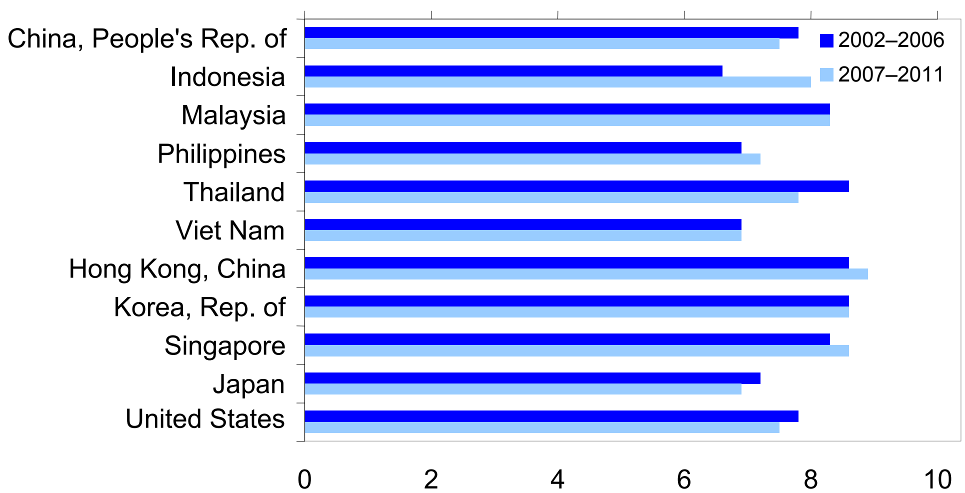
A macroeconomic environment supportive of an attractive investment climate must include credible exchange rate and monetary policies. Stable exchange rates can reduce currency risk and help build the foundations for a single, regional market. Capital

[14] Ramon Moreno in *BIS Papers* No. 28 argues that while views differ about the reasons, emerging market financial systems have proved to be less resilient than the banking systems of developed economies. He also argues that emerging markets are exposed to larger shocks than developed economies.

[15] Schou-Zibell, Lotte and Srinivasa Madhur. 2006. Investment Climate in Selected ASEAN Countries. Unpublished.

account convertibility allows savings to be more efficiently allocated across the region, while an independent monetary policy helps minimize recessions and offers firms the confidence that investments in innovative ventures are worthwhile. However, it is a well-known axiom of economics that actualizing this "trinity" is in itself a challenge. The selected developing Asian economies seem to be moving gradually and sensibly toward greater exchange rate flexibility that minimizes short-term volatility by way of foreign reserve accumulation, managed interventions, broader regional surveillance, and increased financial cooperation. While they compare well with the benchmark economies (Figure 4), important risks to the macroeconomic environment[16]—stemming from the global financial market crisis, large economic imbalances in key economies, and political risks—leave prospects for further investment in the selected economies vulnerable.

Figure 4: Macroeconomic Environment[17]



Note: Estimates for the period 2007–2011 do not fully take into consideration the continued weakening of the global economy since the 2007 edition of *World Investment Prospects*.

Source: Economist Intelligence Unit, *World Investment Prospects* (2006, 2007).

3.2 The Financial Market Environment

Both the 1997/98 Asian financial crisis and the ongoing global financial crisis have clearly shown how financial institutions have become increasingly interlinked through markets and counterparty relationships, and how rapidly spillover effects from shocks can be transmitted through these linkages. The crises have also highlighted the critical

16 Macroeconomic environment index is based on survey questions on inflation, fiscal balance, government debt, exchange rate volatility, external stability, quality of macroeconomic policymaking, and the extent and depth of the institutional underpinnings for macroeconomic stability.

17 Inflation, budget balance as a percentage of GDP, exchange-rate volatility, current account balance as a percentage of GDP, quality of policy making, intuitional underpinnings, and asset prices.

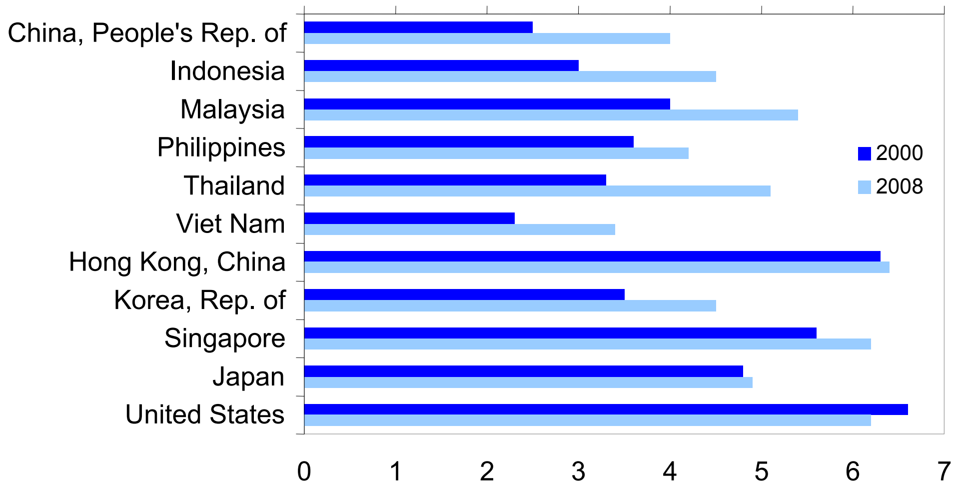
importance of financial markets to the functioning of national economies. A prolongation of the current crisis and global credit crunch could further affect local funding conditions and cut into the region's economic and business activities. This is especially true as tight credit conditions and increased financial market volatility dampen investment spending, particularly in areas where the business environment is less friendly. When access to finance is restricted and its cost high, new businesses find it difficult to obtain the financing they need to start operations and existing businesses struggle to finance expansion. Weak financial sector performance risks undermining competition in the real sector of the economy.

Business investment can develop and contribute to productivity in an efficient financial sector that can provide businesses access to capital. An efficient financial sector with a thorough risk assessment is necessary to allocate resources to their most productive uses and to channel resources to entrepreneurial or investment projects with high expected rates of return.[18] They can also make capital available for private sector investment from sources such as bank loans, securities exchanges, venture capital, and other financial products, and ensure that innovators with good ideas have the financial resources to turn those ideas into commercially viable products and services. To fulfill these functions, financial institutions need to be credible, transparent, and subject to appropriate regulation.

Although the effects of the global financial crisis may not have trickled through all aspects of the financial system, significant strides have been made in the selected economies in the period between the 1997/98 Asian financial crisis and the current crisis (Figure 5). But more needs to be done. The financial market factors that continue to undermine the business climate include (i) restrictions on capital flows (PRC, Thailand, Viet Nam, Philippines, and Malaysia); (ii) soundness of banks (PRC, Indonesia, Philippines, Viet Nam); (iii) strength of investor protection (Philippines and Viet Nam); (iv) ease of access to loans (PRC, Viet Nam, Philippines, and Indonesia); and (v) legal rights (Philippines, Thailand, and Indonesia).

[18] *The Global Competitiveness Report 2009–2010*.

Figure 5: Financial Market Sophistication[19]



Source: *The Global Competitiveness Report* (2000, 2009).

3.3 Infrastructure

Extensive and efficient infrastructure is a necessity for flourishing trade and business development, and plays a key role in economic development and competitiveness. Well-developed infrastructure bridges distances and helps national markets connect to markets in other countries and regions. High quality and extensive infrastructure networks significantly increase potential economic growth and reduce income inequality and poverty in a variety of ways. Specifically, a well developed transport and communications infrastructure network is a prerequisite for less developed communities to connect to core economic activities in their more developed neighbors. The effective transport of goods, people, and services enables entrepreneurs to get their goods to market in a secure and timely manner, and workers to find the most suitable jobs. A reliable supply of electricity, without interruptions and shortages, allows businesses and factories to work unimpeded. Finally, extensive and reliable telecommunications networks allow for rapid and free-flowing information, increasing overall economic efficiency by helping economic players make decisions with all available relevant information. By contrast, poor infrastructure raises the cost of doing business. Low quality infrastructure poses significant investment constraints in the selected economies, particularly in rural areas, due to port bottlenecks and slow turnaround times, erratic and/or inadequate energy and water supplies, transport failures, and limited communications.

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19 Financial market sophistication is based on survey questions with responses on a scale of 1 to 7.An answer of 1 corresponds to the lowest possible score and an answer of 7 corresponds to the highest possible score. The survey questions measure financing through local equity markets, ease of access to loans, venture capital availability, restrictions on capital flows, strength of investor protection, soundness of banks, regulation of securities exchanges, and legal rights. Scores for 2008 are based on a 2008–2009 weighted average.

Infrastructure development in most of the selected economies has improved in the last few years, but still lags behind the benchmark economies (Figure 6). The main factors hurting the business climate in the selected economies include (i) port infrastructure, (ii) telephone lines, (iii) road quality, and the (iv) reliability of electricity supplies. Among the selected economies, infrastructure is the most well developed in Malaysia, with the major weakness being inadequate telephone lines.[20] While infrastructure in Thailand is considered to be well developed, a lack of spending on infrastructure has stalled progress on many projects. Poor infrastructure in the northern part of Thailand, for example, has deterred investors and contributed to an uneven distribution of investment.[21] Infrastructure development is also lagging in Indonesia, with nearly 80% of cargo bound for the country required to dock in Singapore or Malaysia because of Indonesia's poor port infrastructure. This, of course, adds to the time required for and costs of imports.[22] The Philippines also lags in basic infrastructure, particularly in the power sector (a key concern for foreign investors). In Viet Nam, the construction on a number of ports, power plants and road projects commenced in 2009 but infrastructure remains generally inadequate to cope with economic growth and links with the outside world[23]. Power demand has also increased significantly amid rapid industrialization and the country is struggling to expand electricity production. In the PRC, which remains one of the fastest developing economies with a nearly insatiable need for infrastructure development, a number of significant improvements have been made but the overall quality of roads remains poor and rail, the major mode of transportation, is still inadequate. To encourage infrastructure investment, the PRC's Ministry of Finance has published *Implementing Regulations of the Enterprise Income Tax Law* on the preferential policies that are applicable to private enterprises if they invest in infrastructure and environmental protection projects—a clear signal of the government's intent to encourage private sector participation in infrastructure.[24]

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20 Malaysia ranks 27 out of 133 economies according to the *Global Competitiveness Report* (2009). The quality of telephone lines ranks 72.

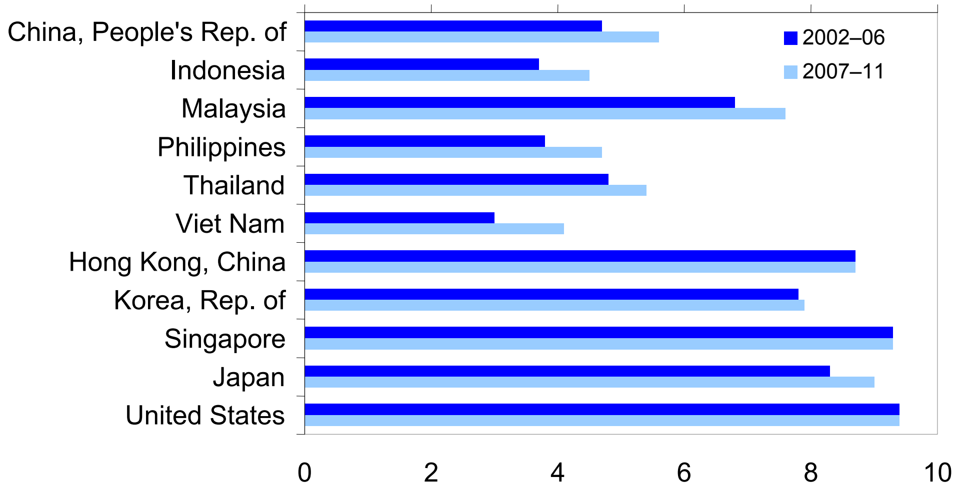
21 Jongwanich and Kohpaiboon (2008) find that Thailand is behind Malaysia and Singapore in electricity production, access to telephone services, and clean water, as well as public research and development expenditure relative to GDP. The availability of infrastructure service in Thailand is, however, better than in Indonesia and the Philippines.

22 *Business Monitor International.* 1st Quarter 2009. London.

23 *Business Monitor International*. 1st Quarter 2010. London.

24 ADB. 2008. *Country Partnership Strategy PRC 2008–2010*. Manila.

Figure 6: Infrastructure[25]



Note: Estimates for the period 2007–2011 do not fully take into consideration the weakening of the global economy since the 2007 edition of *World Investment Prospects*.

Source: Economist Intelligence Unit, *World Investment Prospects* (2006, 2007).

3.4 Skills and Labor Market Efficiency

As economies develop and become increasingly interlinked with global markets, they need to nurture pools of well-educated workers that can adapt to their changing environment. Quality education and training is crucial in order for economies to move up the value-added chain beyond simple production processes and products. Efficient contracting between employers and workers is also important for protecting workers from discriminatory or unfair treatment and providing a conducive business environment that will attract investment. It is also important to strike a balance between worker protection and labor market flexibility as excessive regulations governing hiring and firing constrain business operations and investment. Across the selected economies, there is a tendency towards overly rigid labor regulations, which in turn has been associated with increasing the likelihood of firms choosing to operate in the informal sector, where workers tend to lose out the most. Workers in the informal sector are generally paid lower wages and enjoy no legal protection or social benefits.

Rules governing the hiring of employees are relatively rigid in Indonesia and the Philippines, and are increasingly so in the PRC. They are more flexible in the other selected economies, especially Malaysia, which ranks well in this respect (Figure 7).

[25] Telephone density, reliability of telecoms network, telecoms costs, mobiles, stock of personal computers, internet use, broadband penetration, research and development expenditures as a percentage of GDP, research infrastructure, infrastructure for retail and wholesale distribution, extent and quality of the road network, extent and quality of the rail network, quality of ports infrastructure, quality of air transport infrastructure, production of electricity per head, and office rents.

However, government restrictions in Malaysia on the number of expatriates that foreign and domestic firms may hire—as well as the enforced hiring of ethnic Malays[26]—are perceived as deterrents to foreign investment. On the other hand, costs associated with firing employees are relatively rigid among all the selected economies. The pursuit of developed nation status will place huge demands on Malaysia's small pool of skilled labor, leading to higher wage costs. Also the PRC, Indonesia, Thailand, and Viet Nam are finding it difficult to move up the value-added chain due to a lack of skilled labor—mainly in the areas of engineering, technicians, accounting, finance as well as skilled managers. The PRC has also suffered labor shortages more generally in recent years with rising wages as a result. Labor in Indonesia is relatively low-cost by global standards but due to low educational levels and rigid labor markets, Indonesia is not able compete effectively with regional neighbors on cost. Viet Nam on the other has a large and low-cost work force that has contributed to increase investment flows from key Asian economies including Japan, South Korea and Taipei,China, but feel the brunt of a scarce pool of skilled labor. In the Philippines, there is abundant labor, English skills are good, and skilled professionals are relatively more abundant than in neighboring economies. However, about 11% of the labor force works overseas, leading to a potentially significant brain drain (Figure 8).

Labor reforms tend to have mixed results. In the PRC, for example, a new labor contract law empowers workers and recognizes their right to paid annual leave, but it also makes firing workers more difficult by introducing priority rules for redundancy dismissals and increasing dismissal costs, and reduces the flexibility of working hours. The International Labor Organization (ILO) Standards include eight conventions covering the right to collective bargaining, elimination of forced labor, and equitable employment practices. Respect for these standards helps create a labor environment in which business can develop.

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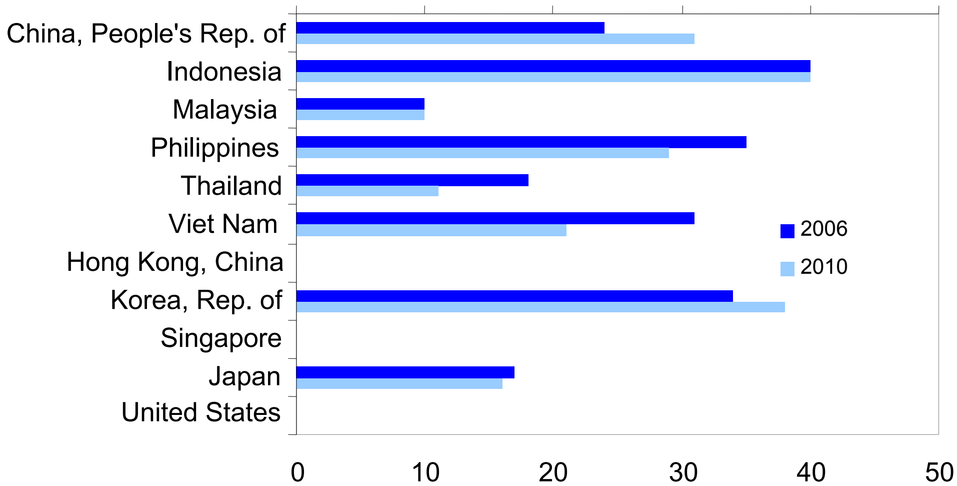
[26] Government policies favoring *bumiputera* (ethnic Malays and other indigenous peoples).

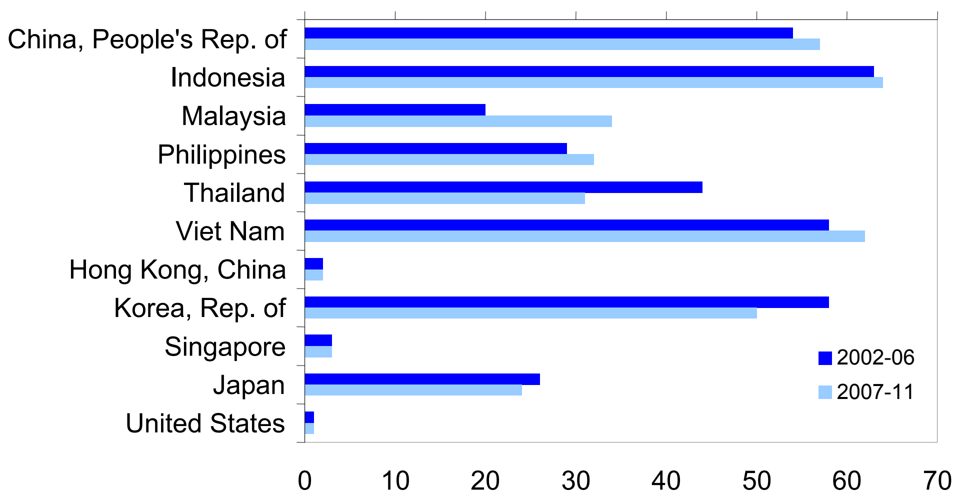
Figure 7: Employment Rigidity Index[27]



Note: Estimates for the period 2007–2011 do not fully take into consideration the continued weakening of the global economy since the 2007 edition of *World Investment Prospects*. Data is not available for Hong Kong, China; Singapore; and the United States.

Source: World Bank's Doing Business Database.

Figure 8: Labor Market (Rank Out of 82 Economies)[28]



Note: Estimates for the period 2007–2011 do not fully take into consideration the continued weakening of the global economy since the 2007 edition of *World Investment Prospects*.

Source: Economist Intelligence Unit, *World Investment Prospects* (2006, 2007).

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[27] Employment rigidity measures the difficulty in employing workers. Survey questions cover difficulty of hiring, rigidity of hours, rigidity of firing, rigidity of employment, and firing cost (number of weeks salary as compensation).

[28] The labor market index includes: labor costs adjusted for productivity, availability of skilled labor, quality of workforce, quality of local managers, language skills, health of the workforce, level of technical skills, cost of living, incidence of strikes, restrictiveness of labor laws, extent of wage regulation, and hiring of foreign nationals.

3.5 Governance and Institutions

This section provides a snapshot of the quality of the institutions necessary for the business environment to flourish. The discussion centers on the governance and business operating climate through which authority is exercised, as well as the more specific operational aspects that drive investment decisions.

Governance is generally defined as the traditions and institutions by which authority in a country is exercised, and includes the process by which governments are selected, monitored, and replaced; the capacity of the government to effectively formulate and implement sound policies; and the respect of citizens and the state for the institutions that govern economic and social interactions among them.[29] The importance of governance and institutions has become even more important during the current financial and economic crisis, especially given the increasingly direct role played by the government in many economies. Benefits include (i) voice and accountability; (ii) political stability and absence of violence; (iii) government effectiveness; (iv) rule of law; (v) regulatory quality; and (vi) control of corruption. While the study will focus on the latter four measures, it is important to keep in mind that the role of institutions is also about the government's attitude toward markets and freedoms, and the efficiency of its operations. Excessive bureaucracy and red tape, overregulation, corruption, dishonesty in dealing with public contracts, lack of transparency and trustworthiness, and the political dependence of the judicial system all impose significant economic costs on doing businesses and slow the process of economic development. Proper management of public finances is also crucial to ensuring trust in the national business environment.

3.5.1 Government Effectiveness

Policy certainty—proxied by an index gauging government effectiveness—has improved in the selected economies with the exception of Thailand, whose government coalition is faced with the challenge of both jump-starting the economy and restoring political stability. Despite progress being made, the selected economies still lag the benchmark economies (Figure 9). The only notable exception is Malaysia. A government's effectiveness in formulating and implementing public and civil policies, and the credibility of its commitment to such policies are crucial to an attractive business environment. But that ultimately depends on how it is organized to manage the delivery of its policy agenda. Decentralization, an important factor contributing to greater government effectiveness, has gained momentum in several of the selected economies. But there are still challenges such as sound intergovernmental organizational arrangements, the development of robust financial mechanisms for channeling money to sub-national governments, and the accountability of local governments. The effective implementation of competition law is also essential, especially as the primary goal of competition law is to encourage competition and prevent firms from gaining control of markets. For a variety of reasons, however, the effectiveness of competition law can be controversial, especially in developing economies. One reason is that agencies that enforce the laws in developing economies typically have fewer administrative and financial resources than agencies in industrialized economies. Another reason is that it can be difficult to

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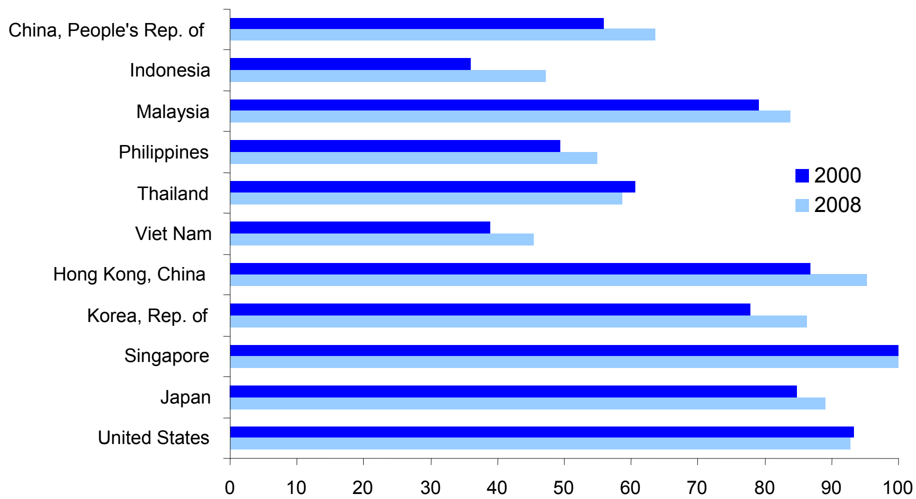
[29] Michael Heppell. 2008. *Improving Government*. Manila: Asian Development Bank.

prosecute politically connected firms, especially in developing economies where checks and balances may be lacking.[30]

Figure 9: Government Effectiveness[31]



Source: World Bank's Worldwide Governance Indicators Database.

3.5.2 Rule of Law

The importance of the effective rule of law as a prerequisite for a flourishing business environment cannot be overstated, as various studies show a high correlation between confidence in the legal system, growth in investment, and development of financial markets.[32] The existence of property rights and the ability to protect legal rights against private and public interests, for example, has an important influence on the incentives to engage in economic activity, especially transactions with others. If property rights are weak, assets cannot be brought to their best economic use and productivity suffers as a result. While the rule of law is not as advanced among the selected Asian economies compared with the benchmark economies, it has generally begun to receive attention from policymakers and commercial interests.

Investor perceptions of rule of law standards and regulatory quality have recently improved in the PRC, Indonesia, Malaysia, Philippines and Viet Nam. The rule of law,

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30 Clarke, George R.G. 2004. *How Does the Investment Climate Affect Competition in Transition Economies?* World Bank: Washington D.C.

31 Government effectiveness, the quality of public services, the quality of the civil service and the degree of its independence from political pressures, the quality of policy formulation and implementation, and the credibility of the government's commitment to such policies.

32 For example, regression analysis shows an extremely high correlation between effective rule of law and bond market liquidity (ADB. November 2006. *Asia Bond Monitor*. Available at http://www.asianbondsonline.adb.org).

however, deteriorated in Thailand (Figure 10) since 2000—but is still at a higher level than that in the PRC, Viet Nam, Philippines and Indonesia. Among the selected economies, poor coordination capacities, fragmented policy jurisdictions, low levels of job skills, and weak accountability mechanisms—all within the larger context of weak rule of law—conspire in various degrees to make successful reform difficult, even when the government demonstrates political commitment. Weak reform capacities mean that reformers often tackle less complicated issues, with marginal and unsustainable results.

In Viet Nam a new Common Investment Law, a Unified Enterprise Law and an Intellectual Property Law came into effect in July 2006. But the overall legal system is regarded as underdeveloped and cumbersome and the judicial system lacks in transparency and there are widespread concerns about its independence.[33] Vietnamese authorities are currently drafting a unified legal framework for the conduct of business. Though much work remains to be done, also the weak and inefficient legal system in the Philippines is being reformed. Intellectual property rights protection and enforcement is generally weak among the selected emerging Asian economies and the PRC, Indonesia and Thailand are on the US Special 301 "Priority Watch List"[34]—an annual review of the global state of intellectual property rights (IPR) protection and enforcement.

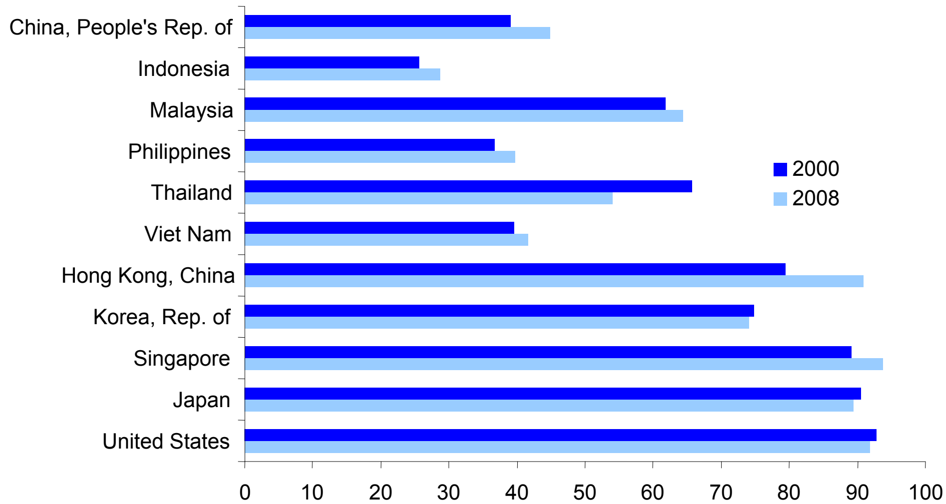
3.5.3 Regulatory Quality

Across the selected economies, regulatory quality has improved with the exception of the Philippines and Thailand (Figure 11). Burdensome and complex business procedures and regulations—and their inconsistent interpretation or application—are serious impediments to increasing investment. In particular, excessive regulation can limit access to credit (including affordable credit), especially for small- and medium-sized enterprises, derailing investment decisions. Simplifying and streamlining regulatory systems can significantly reduce operational costs, both in terms of time and the actual costs of investment, creating a more attractive environment for private investment.

[33] *Business Monitor International*, 1st Quarter 2010. London.

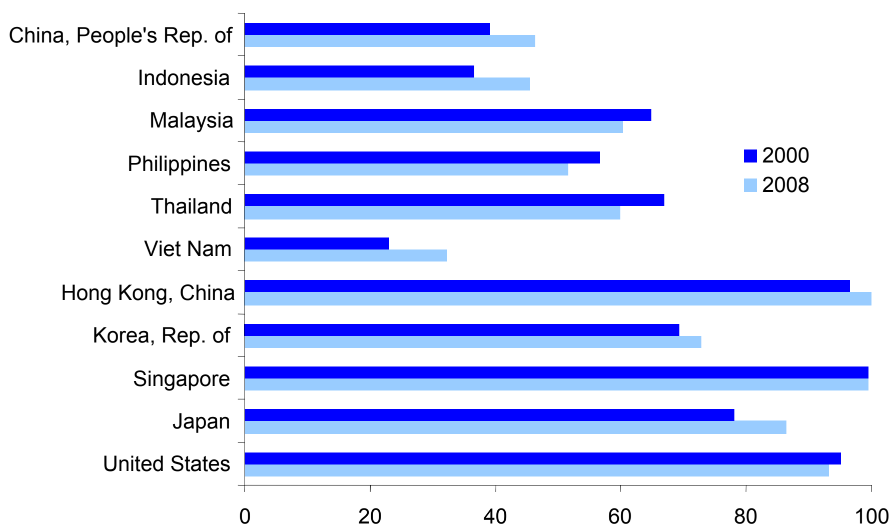
[34] The “Special 301” Report is an annual review of the global state of intellectual property rights (IPR) protection and enforcement, conducted by the Office of the United States Trade Representative (USTR) pursuant to Section 182 of the Trade Act of 1974, as amended by the Omnibus Trade and Competitiveness Act of 1988 and the Uruguay Round Agreements Act (enacted in 1994).

Figure 10: Rule of Law[35]



Source: World Bank's Worldwide Governance Indicators Database.

Figure 11: Regulatory Quality[36]



Source: World Bank's Worldwide Governance Indicators Database.

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35 Rule of law measures the extent to which agents have confidence in and abide by the rules of society and, in particular, the quality of contract enforcement, the police, and the courts; as well as the likelihood of crime and violence.

36 Regulatory quality measures the ability of a government to formulate and implement sound policies and regulations that permit and promote private sector development.

3.5.4 Controlling Corruption

Although efforts to measure corruption are fraught with difficulties, there is no shortage of international instruments designed to promote corporate responsibility and clean business standards. In addition, awareness of the economic and social damage caused by corrupt business practices has increased sharply in recent years.[37] If investors believe the courts and police to be corrupt, weak control of corruption can deter business and obstruct foreign investment from (mostly developed) economies with strict anticorruption laws. Two frequently used indicators of corruption are cross-country, perception-based indexes: the Transparency International Corruption Perceptions Index (CPI) and the Kaufmann-Kraay Control of Corruption Index (CCI) (Figures 12, 13).[38]

Perception-based indicators offer similar conclusions as far as the selected economies are concerned, but also illustrate that the level of corruption in the selected economies is largely in line with GDP per capita. Both indicators suggest that strong control of corruption in Hong Kong, China; Japan; and Singapore is correlated with high levels of GDP per capita. But it is only Japan that performs above or nearly above-average, as measured by an international benchmark given by a linear regression line based on 147 countries. The selected economies rank poorly in control of corruption, with correspondingly low levels of GDP per capita and below-average performance, with the exception of the PRC and Malaysia, which perform above average. However, despite the general correlation between the perception of corruption and GDP per capita, corruption is clearly not wholly determined by income. For example, Indonesia, with GDP per capita of USD3,519 ranks more corrupt than Viet Nam at USD2,454. While the level of control of corruption in Korea is only slightly higher than in Malaysia, Korea’s GDP per capita is nearly twice that of Malaysia. Korea also ranks below-average, while Malaysia ranks above-average.

The increased use of outsourcing for product supply and local entrepreneurial investments for sales and distribution of imported components provides a means to do business in corrupt environments without violating strict home country rules. Thus, there is little doubt that curbing corruption in economies where it has been a part of the culture of doing business for generations may likewise take generations to ameliorate.

In Viet Nam the expansion of the "One-Stop-Shop" (OSS) network is one tool for restricting opportunities for corruption. These are single agencies that deal with applications for a range of activities, including construction permits LUR certificates, business registrations and approvals for local and foreign investments.[39]

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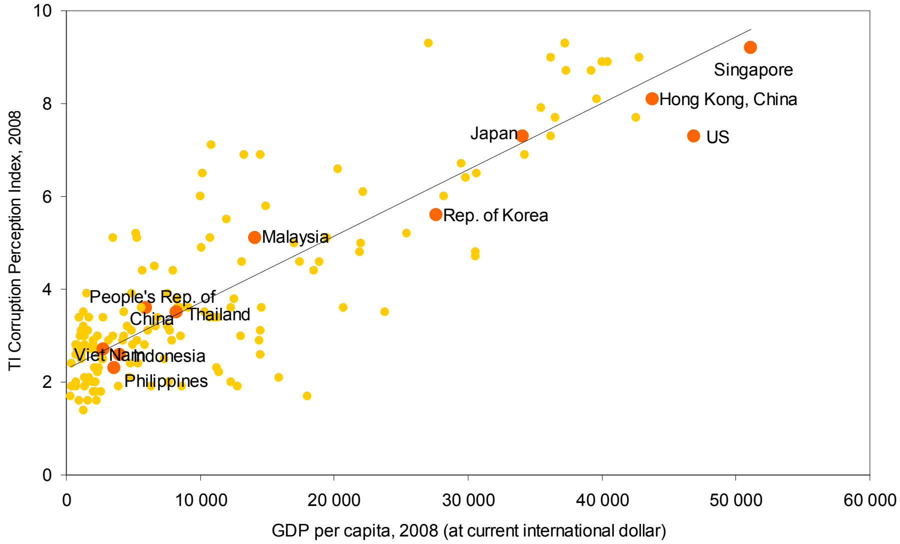
[37] The selected economies are, for example, signatories of the United Nations Convention Against Corruption and have joined the ADB–OECD Anti-Corruption Initiative for Asia-Pacific.

[38] Both measures are composite indicators drawing on multiple primary indicators of perception of corruption and producing country rankings. Like the CPI, the CCI focuses on public corruption, but otherwise treats corruption as a single, homogenous phenomenon. Whereas the CPI is a stand-alone indicator, the CCI is one of six Kaufmann-Kraay indicators, which also includes voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, and rule of law. Economies with indices below 3 on the CPI are for example considered highly corrupt.

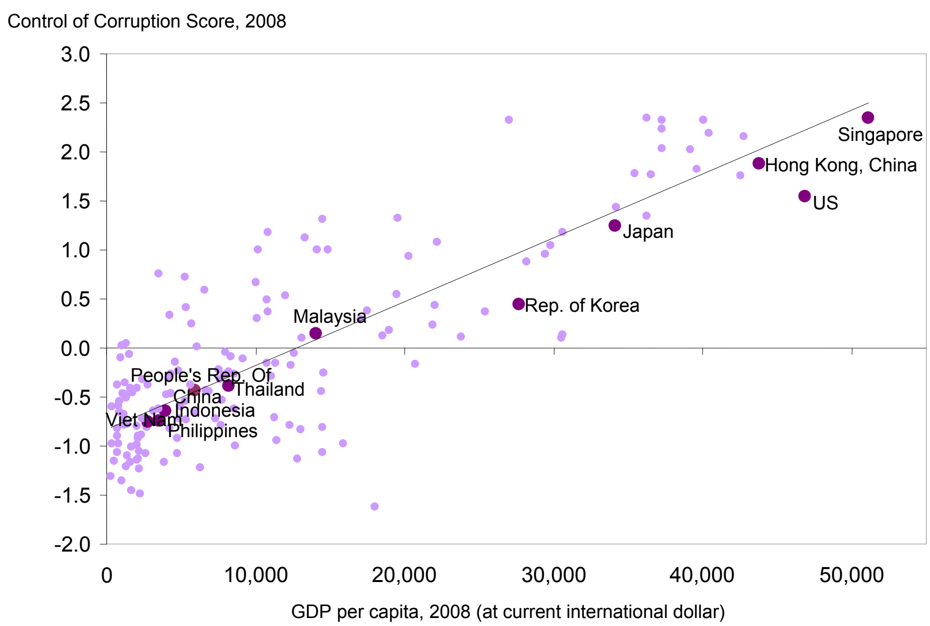
[39] *Business Monitor International*. 1st Quarter 2010. London.

Figure 12: Transparency International Corruption Perception Index and GDP per Capita (2008)[40]



Sources: Transparency International and IMF World Economic Outlook Database.

Figure 13: Control of Corruption Index and GDP per Capita (2008)[41]



Sources: World Bank Governance Indicators Database and IMF World Economic Outlook Database.

40 Relates to perceptions of the degree of corruption as seen by business people and country analysts, and ranges between 10 (highly clean) and 0 (highly corrupt).

41 Measures perception of corruption, conventionally defined as the exercise of public power for private gain.

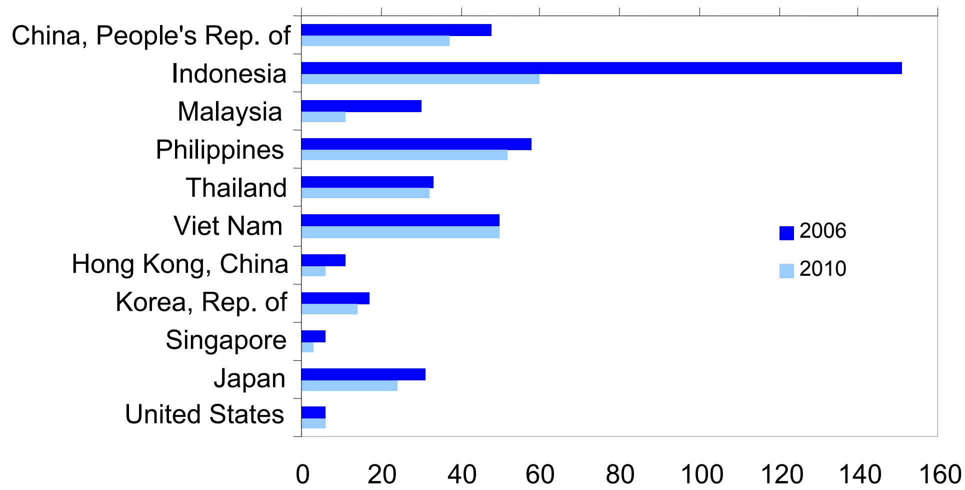
4. Policy Areas for Improving the Business Operating Climate

Beyond the generic governance framework, there is the more specific operating climate for doing business that drives investment decisions. Obtaining licenses and credit to start a business, finding and managing labor, ensuring investor protection, enforcing contracts, paying taxes, trading across borders, and identifying the requirements for closing a business are all important factors in assessing a business operating climate. Economies tend to differ significantly in the way that they regulate entry of new businesses. In some economies, the process is straightforward and affordable, while in others the process is significantly less so, with entrepreneurs choosing instead to run their businesses in the informal sector. Without access to courts and financing, informal businesses tend to remain small with low levels of productivity. Reforms, which many times do not require major legislative changes, can make it both easier and less costly to establish a business, while also encouraging greater participation in the formal sector.

Despite significant reform efforts over the past few years, it takes nearly four times the amount of time to establish a business among the selected economies than in the benchmark economies. The time it takes to start a business also varies significantly among the selected economies, with Indonesia[42] on the less efficient side and Malaysia on the more efficient (Figure 14). The procedures, days spent, costs, and minimum capital required in several of the selected Asian economies contribute to burdensome entry procedures that, in many cases, constrain private investment, push more people into the informal economy, increase consumer prices, and fuel corruption. The procedures for incorporating and registering a new firm before it can legally operate are among the hurdles.

[42] In June 2009, the government in Indonesia issued a presidential regulation on "a national single window for investment". This was meant to provide detailed measures to implement a "one-roof investment policy" as stipulated in the 2007 Investment Law. However, it is argued that these laws and regulations have not been sufficient to encourage more FDI inflows into the country as they do not address key obstacles to investment which include problems associated with high risks and costs of business arising from social and political insecurity, macroeconomic instability, policy and regulatory uncertainty (conflicting regulations), poor governance (lack of coordination among government ministries and cumbersome bureaucracy) and infrastructure bottlenecks all need to be addressed. The Jakarta Post. 10 December 2009.

Figure 14: Starting a Business—Duration (in Days)[43]



Source: World Bank's Doing Business Database.

4.1 Simplifying Registration

Among the reform measures observed in the selected economies to ease business start-up are simplified registration formalities, single-stop or single-window and online registration procedures, and the abolishment or reduction of capital requirements. For example, registration formalities such as requirements for a seal, publication, notary, and inspection can be simplified. Eliminating unnecessary procedures or reducing the approvals required to register property can be done quickly, usually require no significant legislative changes, and can be executed administratively.

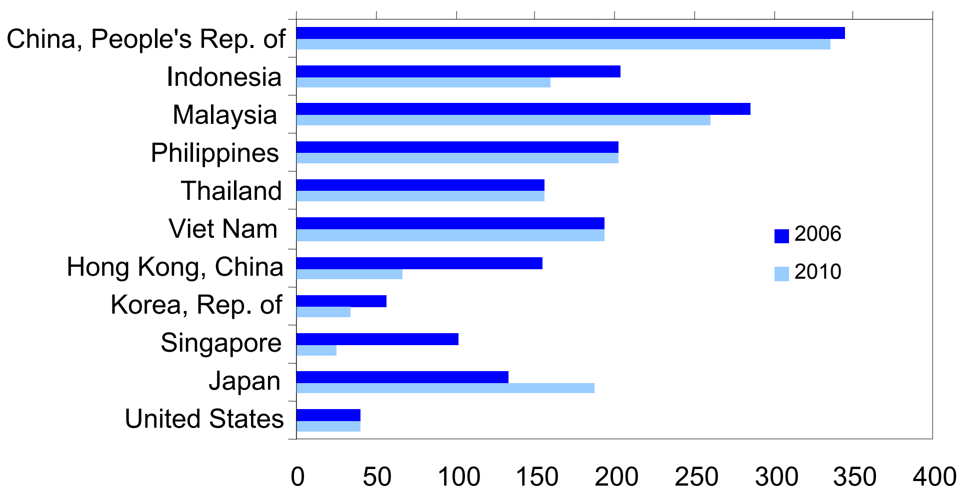
A single-window can also provide a quick way to build momentum for reform. For example, the key objective of the ASEAN single-window is to accelerate the customs clearance of goods and commodities in achieving higher economic efficiency through the (i) streamlining and simplification of procedures, (ii) standardization of data and information, and (iii) adoption of international best practices. While a single-window is designed to integrate services through a single point of contact between, for example, building authorities and entrepreneurs, its success hinges on coordination between the relevant authorities and the soundness of the overarching legislation, as well as on the political commitment to operate the single-window. A single-window has been—or is in the process of being—implemented in each of the selected economies.

[43] Identifies the bureaucratic and legal hurdles an entrepreneur must overcome to incorporate and register a new firm. It measures the time required to start a commercial or industrial firm with less than 50 employees and initial capital of 10 times the economy's per capita gross national income. The graph shows the average time spent during each procedure required to register a firm.

Allowing business registration online has proven an effective way to speed business start-up in many economies. Customers can save time and cost, and authorities can reduce administrative costs. Because electronic registration can be costly, it is not surprising that many Asian economies considerably lag more developed economies in this respect. In Asia, Singapore is one of the few economies that offer online registration. The Philippines allows entrepreneurs to reserve a company name and register online, but still requires payment in person. In Malaysia, it is possible to complete construction permits online and amendments to the Companies Act have also simplified business registration and reduced the time required by introducing the online filing of registration documents (Figure 15).

While abolishing or reducing minimum capital requirements has been found to contribute to an increase in new company registrations, it is by no means the chosen policy in all economies. In the PRC, for example, the amended Company Law of 2006[44] relaxed the minimum capital requirement, simplified company establishment requirements, and statutorily expanded the rights of shareholders in PRC companies.[45] Indonesia's New Company Law of 2007 made business start-up faster, but also increased the minimum authorized capital from IDR20 million to IDR50 million, and to more than IDR50 million for certain business activities such as banking, insurance, and freight forwarding.[46]

Figure 15: Obtaining Permits—Duration (in Days)[47]



Source: World Bank's Doing Business Database.

[44] In addition to lower minimum capital requirements, the amended law led to a drop in the number of days it takes to register a company and registration costs dropped as a percentage of per capita income.

[45] ADB. *Country Partnership Strategy PRC*. 2008. Manila; and ADB. *PRC: Private Sector Assessment Update and Roadmap*. 2007. Manila.

[46] Makarim & Taira S. *Indonesia World Services Group. Submission*. November 2008.

[47] Measures the average time spent during each procedure required to build a warehouse, including obtaining necessary licenses and permits, completing required notifications and inspections, and obtaining utility connections.

4.2 Facilitating Access to Credit

Credit is essential to setting up a business and running it efficiently. But according to survey results, businesses in the selected economies tend to rate access to credit as among the greatest barriers to their operation and growth. The effectiveness of the legal system in governing collateral and bankruptcy proceedings can serve to boost investor confidence in the financial system. Strengthening the legal rights of borrowers and lenders allows businesses to invest more in new technologies. Strong legal rights and new credit registries can also contribute to reduce income inequality and allow entrepreneurs to expand their businesses.[48] Economies with effective legal systems, strong legal rights, and credit risk screening mechanisms are often able to achieve higher credit-to-GDP ratios than those that do not have such institutions.[49] Malaysia ranks well in this area relative to the other selected Asian economies and to the benchmark economies (Figure 16).

Credit registries—institutions that collect and distribute credit information on borrowers—offer one way to encourage credit expansion by reducing information asymmetries and helping lenders assess risk and allocate credit more efficiently. Registries provide positive information (e.g., loan amounts and on-time payment patterns) and negative information (e.g., late payments and defaults), and allow borrowers to inspect and dispute their information. Credit registries also help boost the repayment rate as defaults or late payments can prevent future loans. In Korea and in the US, credit registries record and provide historical credit information on bank loans—as well as credit from utilities and retailers—for individuals and companies. In 2006, a new credit registry in the PRC provided more than 340 million citizens with credit histories for the first time. At end 2008 the database had records for 640 million people and covered 14.47 million companies.[50] Viet Nam's public credit registry keeps information on record longer, providing financial institutions with more data on repayment history and debt capacity of potential borrowers. In the Philippines, the Credit Information Corporation (CIC) was established in 2008 with a mandate to receive and consolidate basic credit data, and act as a central registry of credit information in order to provide access to reliable standardized information on credit history and the financial condition of borrowers. In addition, while rapid credit expansion, which was particularly noticeable in the run-up to the recent crisis, can contribute to serious risks for banking systems, the development of information collection and sharing mechanisms such as credit registries has made many such risks manageable. Privatization, consolidation, and the entry of foreign banks have also spurred banks to improve performance.[51]

In economies where effective collateral laws are present in addition to credit registries, banks tend to be more likely to extend loans. Among the benchmark economies, for

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[48] Claessens, Stijn, and Enrico Perotti. 2007. Finance and Inequality: Channels and Evidence. *Journal of Comparative Economics* 35.

[49] Monetary and Economic Department. 2006. The banking system in emerging economies: how much progress have they made? *BIS Papers* No 28. 2006.

[50] China Steel Business Investigation Center http://www.china-investigation.com/english/doc47.htm

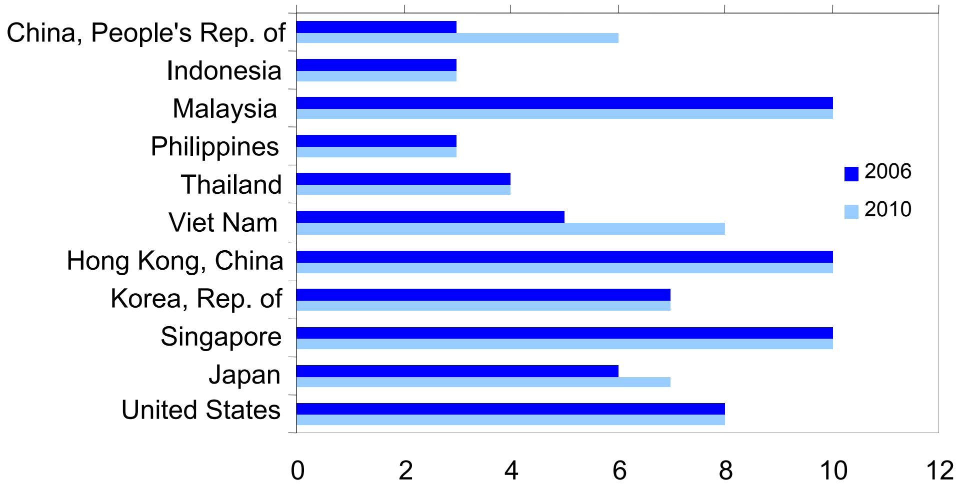
[51] Monetary and Economic Department. 2006. The banking system in emerging economies: how much progress have they made? *BIS Papers* No 28. 2006.

example, Singapore and Hong Kong, China facilitate access to credit through laws that allow all types of assets to be used as collateral, which must be available as security to allow the flow of capital, and do not require a specific description of the collateral or obligation. They also have unified collateral registries and allow out-of-court enforcement of security rights. The PRC revised its property law to allow borrowers to use a variety of revolving assets and a combined set of assets (e.g., raw materials, production equipment, and finished goods) as collateral.[52] Viet Nam has also made it easier for entrepreneurs to get a loan by expanding the range of assets that can be used as collateral and allowing out-of-court enforcement—a reform feature that strengthens the legal rights of borrowers and lenders. Geographically unified collateral registries that substantially cover all movable property can also inform potential lenders with certainty whether or not there are competing claims on the collateral.

A more diversified financial sector and capital market can also improve the business climate, especially for longer-term projects that involve cutting-edge technology. Creditors' over reliance on the use of private and corporate real estate as collateral for corporate credit, for example, contributed to the scale and rapidity of the 1997/98 Asian financial crisis. A broad, diversified, and mature investor base can play a key role in reducing volatility in capital flows to emerging markets, contribute to a more attractive business environment, and stimulate sustainable domestic growth. In domestic financing, developing Asia relies less on bond markets than on equity or bank financing. Captive market arrangements and other restrictions, such as on investing in higher-risk assets, or requirements for minimum returns on pension funds, often restrain investors. The lack of diversity and sustained bank dominance, in particular, are also impediments to creating counterparty lines to secondary markets to lengthen the average maturity of local bonds. Introducing a broader investor base with different investment views and time horizons can provide an important source of stability and liquidity to financial markets, and promote the efficiency of price discovery. Guaranteeing a borrower's right to inspect his credit data can also help improve the quality and accuracy of the information that financial institutions use in assessing the risk profiles of borrowers. Indonesia, for example, made getting credit easier by guaranteeing the right of borrowers to inspect their credit data at Bank Indonesia.

[52] PRC property law in October 2007.

Figure 16: Getting Credit—Legal Rights Index[53]



Source: World Bank's Doing Business Database.

4.3 Strengthening Investor Protection

Strong investor protection increases investor confidence in local businesses and governments, makes firms more attractive to investors, widens the ownership base, and increases share value. Companies can expand by for example raising capital—either through bank loans or by attracting equity investors—or by selling shares—which does not require them to provide collateral or to repay bank loans. But in many emerging economies, equity markets are not always well developed and banks become the main source of finance. Investors may also have concerns about getting their money back. With limited sources of financing, businesses may fail to reach efficient size and economic growth may be held back. In contrast, good protection for minority shareholders is associated with larger and more active stock markets. Reforming investor protection can also be part of a larger initiative to curb self-dealing among directors and other corporate officers, while it also protects corporations and investors against political interference. Good corporate governance supports financial development and improves the efficiency of resource allocation by enhancing savings and channeling them into more productive investment, and increasing investor control over investment decisions.

Economies that rank high in terms of an investor protection index generally have extensive disclosure requirements and give shareholders broad access to information before and during trials to determine director liability. In the selected economies, the level of investor protection is highest in Malaysia, which has levels above those for Japan and the US, but slightly below Singapore and Hong Kong, China. Thailand compares well with Japan; and Indonesia with Korea. Meanwhile, the Philippines and Viet Nam afford relatively weak investor protection (Figure 17). In Thailand, amendments to the Securities and Exchange Act have strengthened minority shareholder rights and

[53] Measures the degree to which collateral and bankruptcy laws facilitate lending.

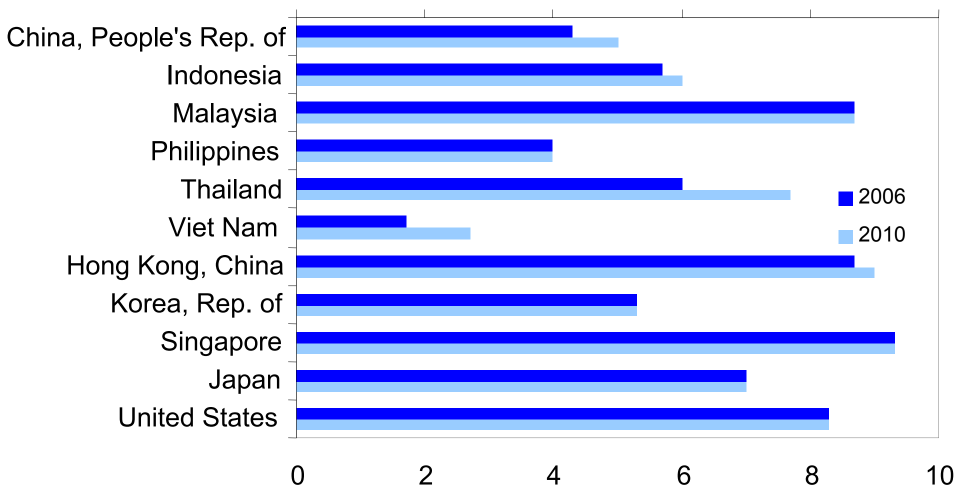
put more responsibility on company directors with respect to transactions between interested parties. Viet Nam has adopted clear legislation through the reform of the Law on Securities and the Law on Enterprises, which helped to substantially increase the number and value of daily trades on the Ho Chi Minh Stock Exchange. The PRC tightened its rules on the enforcement of judgments, making it harder for debtors to prevent enforcement. Reforms of corporate governance and, in particular, company laws have taken place in Viet Nam and Indonesia. Across the region, a frequent reform feature has been to require greater disclosure of related-party transactions.

Increasing transparency in the day-to-day management of companies can also enhance the attractiveness of business environments. This includes unified accounting standards, immediate disclosure of major transactions, and more involvement of minority investors in major decisions and transactions. However, requirements for greater disclosure are unlikely to succeed everywhere. Extensive disclosure standards require the necessary infrastructure to communicate the information effectively and, more importantly, ensure that lawyers and accountants comply with the standards. But while developing economies may have stock exchanges, they may not necessarily have an effective website on which to post the relevant information. They may also have certified accountants, but in such small numbers that complying with disclosure requirements becomes difficult. In Viet Nam, for example, the securities law implemented in 2007[54] has significant reporting and disclosure requirements, but the country still lacks the systems to store and monitor the information electronically.[55]

[54] On 17 January 2007, the Government of Viet Nam issued Decree 14 implementing the Securities Law with regard to public offerings, listings, and the regulation of securities companies, fund management companies and securities investment companies. The Ministry of Finance also issued a number of other regulations to implement the Securities Law and Decree 14.

[55] World Bank. 2009. *Doing Business*. Washington DC.

Figure 17: Corporate Governance: Investor Protection Index[56]



Source: World Bank Doing Business database.

4.4 Making Paying Taxes Attractive

Among the selected economies, paying taxes is particularly burdensome in the PRC and—to a lesser extent—the Philippines. Yet, taxes are essential because without them, there would be no funds for the basic public services vital to a well-functioning economy and an inclusive society. Businesses and individuals share concerns about what benefits they receive for paying their taxes, such as the quality of infrastructure and social services. Efficient tax systems tend to have less complex arrangements, with straightforward compliance procedures and clear laws, and taxpayers often getting more for their taxes. Simple, moderate tax rates and fast, cheap tax administration provides greater incentives for businesses to pay taxes, increased government revenue, and better public services.

Reform often takes the form of reductions in tax rates. For example, the PRC reduced its Enterprise Income tax which levels the playing field between foreign invested enterprises ("FIEs") and domestic enterprises[57]. The total tax rate in percent of profit, however, remains high at nearly 80%. Malaysia has also reduced its company tax rate[58]. Malaysia's total tax rate at close to 35%, compares well with the benchmark economies

56 The Investor Protection Index measures how well minority shareholders are protected against misuse of corporate assets by directors for personal gain. It also assesses transaction transparency, liability for self-dealing, and shareholders' ability to take legal action against officers and directors for misconduct.

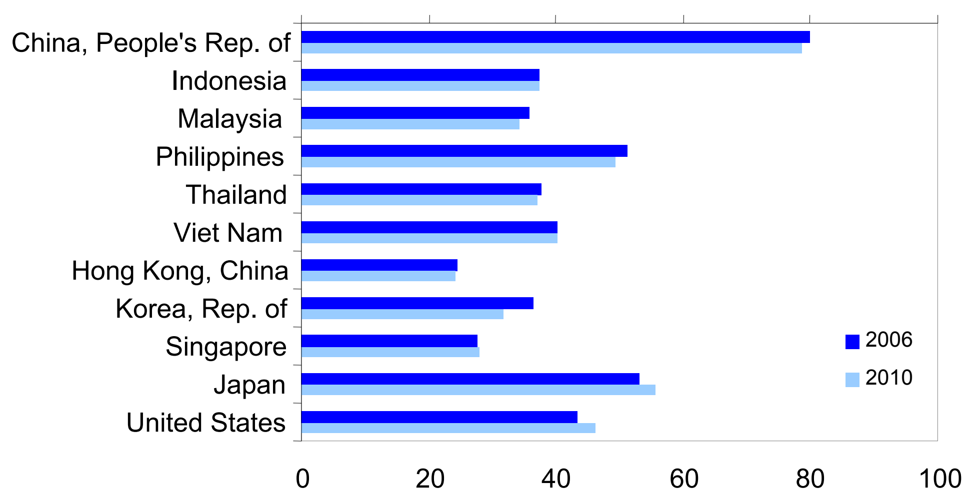
57 The new PRC Enterprise Income Tax Law (the "New Law"), which took effect on January 1st 2008, levels the playing field between foreign invested enterprises ("FIEs") and domestic enterprises. The New Law sets an enterprise income tax ("EIT") rate of 25% applicable to both FIEs and domestic enterprises.

58 Effective from the year assessment of 2007, the corporate tax rate is reduced to 27%. The tax rate is further reduced to 26% in 2008 and 25% in 2009.

(Figure 18). Corporate income tax rates have been reduced in the PRC, Malaysia, and Thailand. Malaysia has also abolished its real property gains tax. Tax reform is, however, not just about tax rates—administrative aspects are equally important. Viet Nam, for example, has the most time consuming tax administration system among the selected economies, with firms spending nearly double the time preparing taxes as firms in the PRC and seven times as long as firms in Malaysia.[59] Transparency in tax collection and a government's broader fiscal strategy can also help secure the trust of businesses in paying taxes. In addition to being a way of raising revenue for necessary public expenditures, tax systems can include incentives for establishing small- and medium-sized enterprises or businesses geared toward research and development.[60]

Introducing electronic filing has helped ease the burden on taxpayers. Businesses can for example enter financial information online and file, allowing for the immediate identification of errors and for returns to be processed quickly, while also limiting interactions with tax officials. In Hong Kong, China, it is possible for businesses to file an electronic corporate tax return and to pay corporate income tax on an annual basis. Thailand has also made online tax filing and payments easier. However, it can take time for electronic filing to make a real difference. Small firms may for example lack the software needed for electronic filing and payments and taxpayers often distrust online systems when dealing with financial information.

Figure 18: Paying Taxes: Total Tax Rate (% of Profit)[61]



Source: World Bank's Doing Business database.

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59 Based on the World Bank's *Doing Business 2009,* measures the hours spent per firm each year in doing taxes: 1,050 hours in Viet Nam; 504 hours in the PRC; and 145 hours in Malaysia.

60 World Bank. 2009. *Paying Taxes*. Washington DC.

61 Paying taxes measures number of payments per year, hours spent each year in paying taxes, and total tax rate measured as a percent of profit.

4.5 Facilitating Trade Across Borders

Businesses in several of the selected economies face a number of obstacles when exporting or importing goods. These include tariffs, quotas, and distance from large markets which greatly increase the cost of goods or prevent trading altogether. Where efficient customs processes are in place, transport networks are developed, and where there are fewer document requirements, compliance with export and import procedures tend to be both faster and cheaper. These factors can lead economies to not only being more globally competitive, but also to more exports and, in turn, to faster growth and more jobs.

Several of the selected economies have worked to introduce practices that reduce the time and costs associated with trade, although the results vary across economies. Progress has been made in reducing the time for export and import delays in Indonesia, the Philippines, and Thailand. The cost of exporting and importing, however, varies substantially among the selected economies and the benchmark economies. Among the selected economies, it is the least expensive to export and import across borders in Malaysia, followed by the PRC. The most costly economies for importing and exporting are the Philippines and Viet Nam. Among the benchmark economies it is comparatively costly for importing and exporting in both the US and Japan. (Figures 19, 20).

Cross-border trade agreements, which facilitate the flow of goods and services across international land borders within a reasonable distance, allow traders to take advantage of differences in the supply, demand, and prices of goods and services available on either side of the border. The unique feature of cross-border trade lies in geographical proximity that renders transportation costs almost irrelevant. Its success depends critically on the ability of individuals to routinely cross the border without paying a large unofficial payment, or prohibitive tariff duties and border charges, and to cross the border with either their own passenger vehicles or light vehicles from bordering regions. The Greater Mekong Subregion[62] East–West Economic Corridor is one regional initiative that aims to make cross-border trade easier.

One reform feature in facilitating trade has been to implement an electronic data interchange system. The electronic transmission of documents not only speeds up the clearance of goods, it also often reduces opportunities for soliciting bribes. In Thailand, for example, a Customs computer automation system known as “e-Customs” was introduced in 2007. It provides exporters, importers, customs brokers and shipping companies with a paperless environment and a one stop service. With e-Customs, clients are generally no longer required to submit hard copies of the customs declaration, the air waybill, bill of lading, invoice, packing list and other supporting documents.[63]

Putting in place electronic data interchange systems can also make it easier to apply risk management to customs clearance. The Philippines, for example, has introduced new scanners to reduce the level of physical inspection at ports, allowed traders to submit

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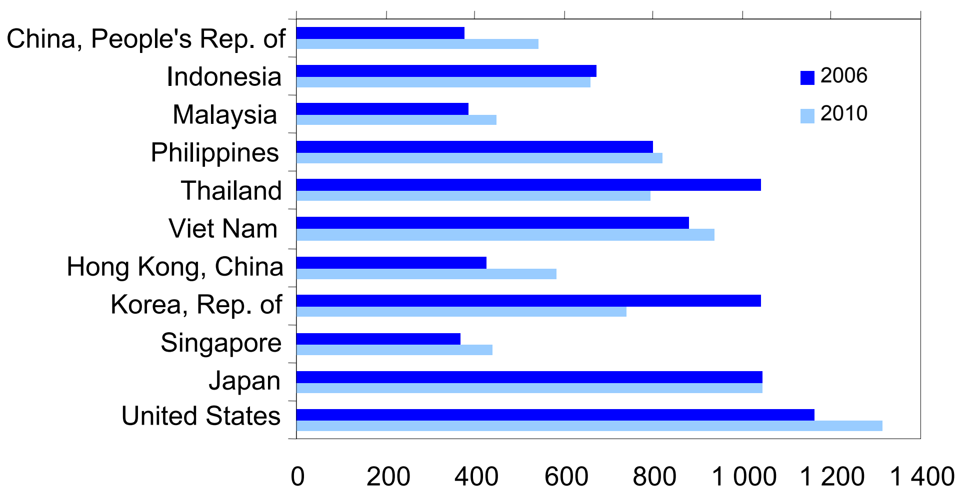
[62] The Greater Mekong Subregion (GMS) comprises Cambodia, the People's Republic of China, Lao People's Democratic Republic, Myanmar, Thailand, and Viet Nam.

[63] The Customs Department of the Kingdom of Thailand.

customs declarations electronically through value-added service providers, and upgraded the risk management and electronic data interchange system (EDI) for customs. Exporters benefit as, for example, the EDI offers a faster flow and processing of export documents, minimizes delays in export shipments, allows a longer lead time for production, gives accurate information on documents and reduces cost.[64]

As already mentioned, providing a single-stop or single-window for obtaining different permits and authorizations can help reduce the time spent preparing documents and the number of approvals required from ministries, health authorities, security agencies, inspection agencies, port authorities, banks, and immigration authorities. An efficient banking system can also help speed up the processing of trade finance instruments, such as letters of credit. Introducing a bond or financial guarantee, as Malaysia did, can help gain the release of goods pending completion of the necessary paperwork. This lowers costs by synchronizing documents and procedures at the border. In addition, clarifying the rules can make a difference, as well as providing training and regular meetings with exporters on the clearance process.

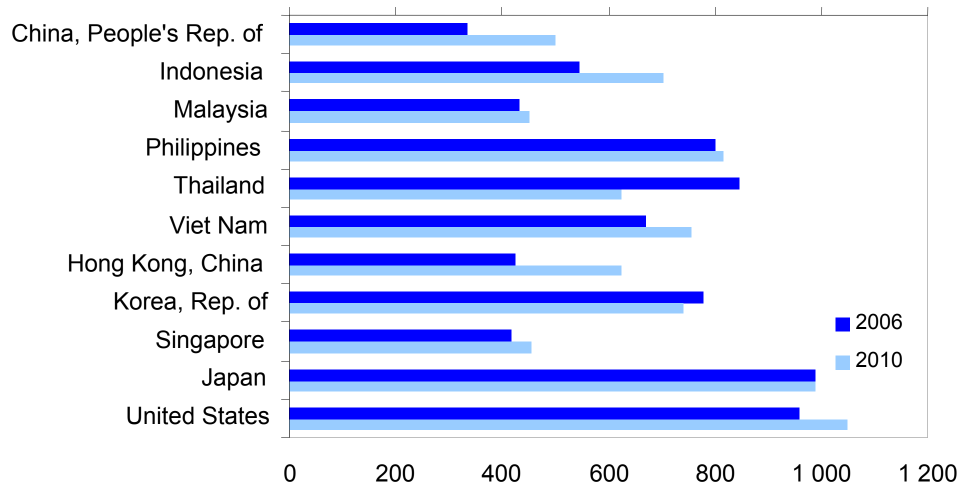
Figure 19: Trading Across Borders: Import Cost (USD/Container)



Source: World Bank's Doing Business database.

[64] Department of Trade & Industry - Cebu Provincial Office.

Figure 20: Trading Across Borders: Export Cost (USD/Container)



Source: World Bank's Doing Business database.

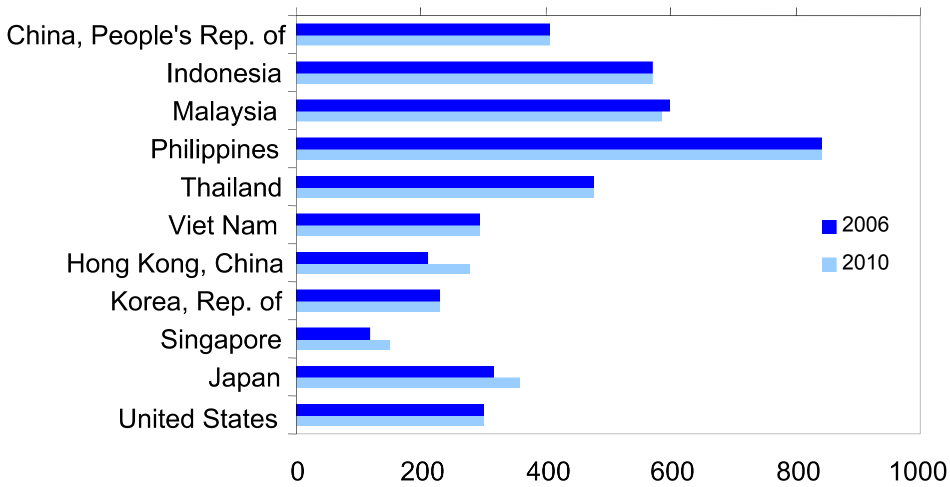
4.6 Strengthening the Enforcement of Contracts

Contract enforcement is weak across the selected economies and is frequently cited as a major impediment to investment. Contract enforcement—in terms of how long it takes to resolve a dispute from filing a lawsuit to compensation—is quickest in Viet Nam (295 days) and slowest in the Philippines (842 days) (Figure 21). Efficient contract enforcement allows firms to enter into agreements for new financing, suppliers, and customers. Yet, in many economies, courts are slow, inefficient, or involve excessive (or illegal) administrative costs to resolve disputes. These factors are frequently cited as major impediments to investment. In many cases, economies with weak contract enforcement and unstable institutions have low investment rates and slower growth. In contrast, those with legal systems that enforce contracts and protect creditors' rights tend to be more financially developed. More importantly, they tend to have better developed capital markets that can translate savings into productive investment.

Reforms for strengthening contract enforcement include introducing case management, implementing strict procedural time limits, establishing specialized commercial courts or e-courts, streamlining appeals, and making enforcement of judgments faster and cheaper. In Singapore, for example, court documents can be filed electronically through the Electronic Filing System (EFS) and each case is monitored from the moment the action is filed until the moment it is finally decided. The PRC has adopted a new set of procedural rules that aim to speed up the enforcement of judgments.[65]

[65] To reduce the time for enforcement, the PRC's new rules require parties to disclose their assets at the beginning of the court procedure. Enforcement officers can take measures to prevent parties from concealing or transferring their assets during or immediately after court proceedings.

Figure 21: Enforcement of Contracts: Duration (in Days)[66]



Source: World Bank's Doing Business Database.

4.7 Facilitating Business Closures

It can take up to 6 years to resolve bankruptcy cases in Indonesia and the Philippines—almost double the amount of time it takes in Thailand and Malaysia, and triple the amount of time in the PRC (Figure 22). The design of bankruptcy systems to liquidate or restructure viable companies—reallocating assets and human resources to more productive uses—affects investment decisions. The restructuring of corporations and financial institutions following the 1997/98 Asian financial crisis allowed the selected economies to gain substantial experience handling bankruptcies (along with nonperforming loans and assets). Ten years on, the region is once again faced with a financial crisis, albeit of different cause and scope. Past experience can be used to meet today's challenges and streamline bankruptcy regimes to ensure that potential investors know what to expect when businesses fail.

Bankruptcy bottlenecks reduce the amount that claimants can recover, which is a strong deterrent to investment. As a result, access to credit shrinks and nonperforming loans and financial risks grow because creditors cannot recover overdue loans. Conversely, efficient bankruptcy laws can encourage entrepreneurs and help put people and capital to their most effective use, thereby boosting productivity and creating jobs.

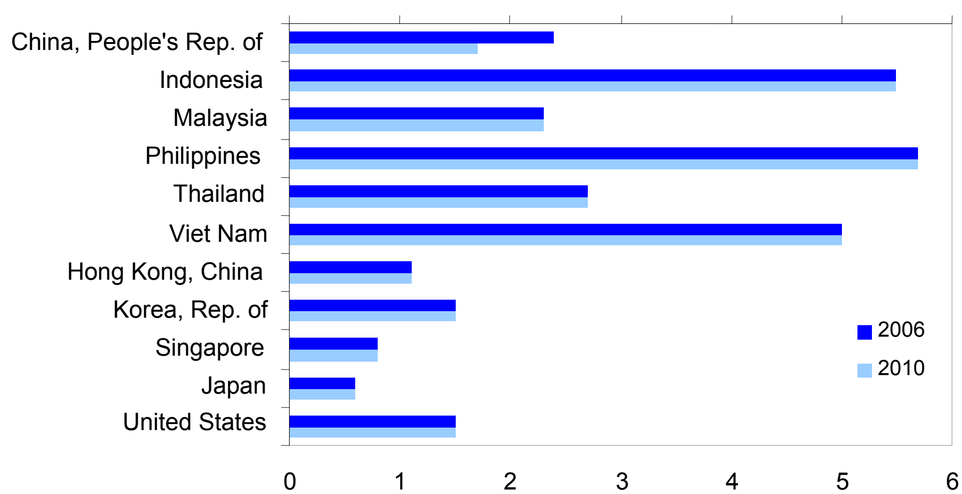
Effective bankruptcy laws achieve three main goals: (i) help rehabilitate viable businesses and liquidate unviable ones; (ii) maximize the value received by creditors, shareholders, employees, and other stakeholders; and (iii) establish a clear system for ranking creditors. Expanding creditors' rights by giving creditors more say in the decision making process increases the recovery rate, speeds the resolution of bankruptcy, and is

[66] Measures the efficiency of contract enforcement by tracking how long it takes to resolve a dispute from filing a lawsuit to compensation.

more likely to result in the continuation of the business. Indonesia has, for example, expanded the powers of creditors' committees so they can file and vote on reorganization plans. The PRC adopted a new bankruptcy law in 2007—the first since 1949—significantly strengthening creditors' rights. As a result, secured creditors now rank first in payment priority. In 2004, Viet Nam gave higher priority to secured creditors and removed priority for tax claims through changes to its 1993 bankruptcy law. Tightening deadlines in court procedures and streamlining appeals is a potential reform feature in the closing of a business. Reorganization is another possible course of action in reforming bankruptcy regulations. However, reorganization does not necessarily lead to the highest return for creditors. In many developing economies, major shortcomings with bankruptcy regimes include frequent adjournments and courts' failure to hand down timely decisions. In such cases, reforms that focus on debt enforcement or foreclosure are more likely to show results. And reforms that ensure properly resourced and well-functioning courts can help a larger number of viable businesses to reorganize successfully.

Overall, reforms in the selected economies are gradually creating more efficient bankruptcy systems. The PRC Bankruptcy Law of 2007,[67] for example established a legal framework for corporate bankruptcy. As a result, both domestic and foreign companies now face clearer procedures when filing for bankruptcy and creditors' interests are better protected. The law also sets out clear procedures for the bankruptcy of the PRC's financial institutions.

Figure 22: Closing a Business: Duration of Bankruptcy Proceedings (in Years)[68]



Source: World Bank's Doing Business Database.

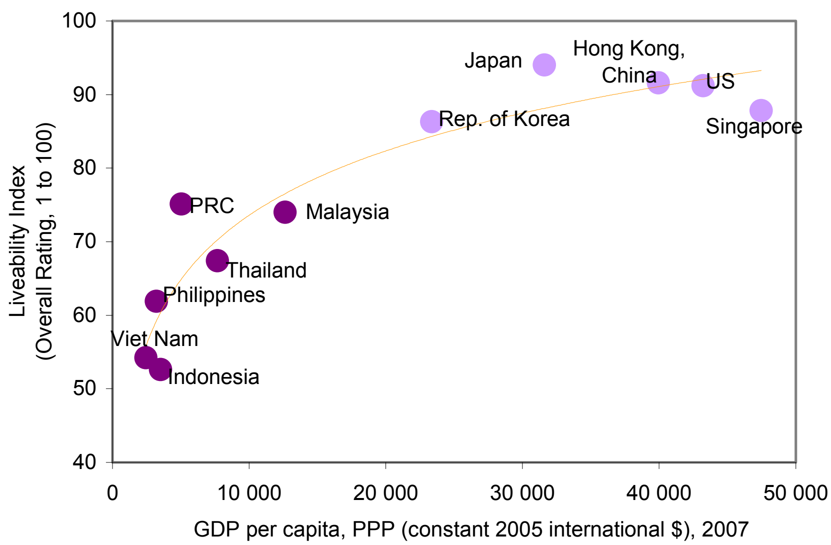
[67] ADB. *Country Partnership Strategy PRC*. 2008. Manila.

[68] Measures the average time it takes to complete a bankruptcy procedure.

4.8 Improving Livability in Investment Locations

Other factors that were not within the specific scope of this study, such as urbanization, raise concerns about the livability of certain investment locations and how this increasingly affects investment among the selected economies. On a scale from exceptional to intolerable living conditions, cities in the selected economies all rank below the benchmark economies. Jakarta, Ha Noi, and Manila rank close to the intolerable end of the curve; while Bangkok, Shanghai, and Kuala Lumpur are on the somewhat-more-tolerable end (Figure 23). Urbanization in the selected economies brings opportunities for investment and growth, but also raises huge challenges for service delivery, infrastructure, real estate, environmental protection, development of neighboring rural regions, employment creation, and urban poverty. In addition to improving infrastructure and implementing regulations necessary for firms to do business in a safe and cost-effective environment, efficient and widely available basic services are also essential to attract investment. For example, pollution controls and effective traffic management must be addressed to support living standards and attract investment.

Figure 23: Overall Livability Rating and GDP Per Capita Relationship[69]



Source: EIU Livability Survey and World Bank World Development Indicators Online.

[69] The Economist Intelligence Unit survey takes over 40 factors across 5 different categories into consideration: stability, healthcare, culture and environment, education, and infrastructure.

5. Policy Issues

The current global financial crisis has shown how weak lending standards and lax governance can permeate legitimate market structures and disrupt supply chains along the way, whether of multinational corporations, SMEs, or even small farmers without a bank account. As deleveraging continues across the global financial system, 2010 will be the year in which the breadth of the global financial crisis becomes more evident. Lessons will need to be learned to tackle the many challenges facing policymakers around the world, and a new financial architecture will need to be shaped.

An attractive and competitive business climate, combined with strong growth in regional demand, can help alleviate the pressure of an abrupt adjustment to global imbalances and reduce the frequency of financial instability by putting capital inflows to better use. The post-crisis recovery in investment remains incomplete in many of the region's economies, especially among crisis-affected economies. Key weaknesses identified in this study include policy uncertainties; the quality of governance, and legal and institutional frameworks; and inadequate regulatory capacity. Addressing these problems will require more comprehensive structural reforms to improve efficiency and competitiveness by minimizing unnecessary regulatory barriers in business activities, encouraging private incentives and market discipline, creating a level playing field across all sectors, and fostering competition to upgrade institutional capacity.

Recognizing the importance of national requirements in developing an attractive and competitive business environment, this study does not offer specific recommendations for policies that must be developed at the national level. However, the paramount need to make the business environment more attractive and competitive warrants providing general guidance to policymakers as they consider strategies for advancing the range of appropriate institutional reforms. The challenge for policymakers is to create a supportive environment for business development that attracts investment and enables businesses to exploit the potential benefits arising from increasing global connectivity. Policymakers must do this, however, while avoiding protectionist measures or intervening in ways that displace, distort, or crowd out market solutions to the detriment of building market capacity. Drawing on various aspects highlighted in this study, the broad reform imperatives outlined below merit attention for improving the business environment.

The global economic downturn will undoubtedly place greater pressure on many economies. Following decades of liberalization and openness to FDI, retrenchment in the form of protectionism could exacerbate many economic problems. Policymakers will need to consider the unintended consequences of increased regulation and government interventions, which carry the risk of rewarding failure or propping up inefficient corporations and industries. There is also the inherent risk of creating uneven playing fields for those companies excluded from access to government funds. This tends to impede competition among locally and globally active businesses, and ultimately hurts consumers. And where intervention is necessary, governments should develop exit strategies by setting firm milestones for their duration and clear conditions for the industries concerned.

Asia's infrastructure financing gap—the funding needed to maintain the quality of the existing infrastructure network and meet rising demand—is estimated to be USD370–470 billion per year over the period 2006—2015. A lack of infrastructure investment, or investment in unsustainable areas, will ultimately be paid for in terms of environmental degradation, poor living conditions, a deteriorating business climate and, eventually, weaker economic growth. Policies are needed to encourage investment in infrastructure, which is crucial to developing an attractive and competitive business environment, as well as sustainable economic growth. In the short-term, investment in infrastructure can help governments boost spending and jobs; in the long-term better roads and railways can help boost productivity.

Relatively rigid labor markets and a lack of skilled labor in several of the selected economies are combining to constrain firms' productivity and competitive edge, thereby pushing up wage costs and making it difficult for economies to move up the value-added chain. Given the increasing importance of innovation for a country's competitiveness, higher education takes on a special dimension, where the quantity and quality of knowledge can help economies absorb new ideas more rapidly and grow more quickly. Policymakers will need to strike a balance between worker protection and labor market flexibility, as well as accelerate skills development through enhanced higher education,[70] vocational and English language education,[71] and information technology.

There is a need to strengthen global governance and the institutions charged with developing such frameworks of governance. From a corporate perspective, the crisis has underlined the need for new approaches to managing price levels and volatility patterns, as well as regulatory reforms aimed at strengthening the business climate in an increasingly interconnected world.

Governments need to better establish and manage appropriate regulatory frameworks that support overall policy objectives. They need to strengthen legal systems—including the police and courts, contract enforcement, property rights, and the ability to protect legal rights. Governments also need to streamline regulatory systems and control corruption. Specific actions include the need to develop political leadership, sound intergovernmental organizational arrangements, and robust financial mechanisms for channeling money; and to strengthen the accountability and capacity of local governments. The effectiveness of government policy in promoting competition in these countries is also essential. For example, businesses are less likely to increase prices without losing customers when competition policy is better enforced and tariffs are lower.

There are also a number of policy areas for strengthening the business operating climate, some of which are easier and perhaps less costly to implement than others:

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70 According to the World Bank Development Indicators, enrollment in secondary education increased in Indonesia, Malaysia, and Thailand during the period 2001–2004. Data is not available for the Philippines prior to 2004.

71 In the Philippines, according to the Economist Intelligence Unit, declining English proficiency among workers is an increasing concern.

- Registration of new businesses can be simplified by eliminating excessive and unnecessary procedures; establishing single-stop and single-windows, and online registration procedures; and abolishing or reducing capital requirements.

- Access to finance can be facilitated by developing credit registries; establishing effective collateral laws and unified collateral registries; providing incentive structures that encourage a more diverse investor base; and guaranteeing borrowers the right to inspect their credit data, which can help to improve the quality and accuracy of the information financial institutions use in assessing the risk profiles of borrowers. Competition is also greater in economies where access to finance is easier.

- Investor protection can be strengthened by implementing corporate governance principles, in particular, extensive disclosure and transparency requirements. Reforms for strengthening contract enforcement include introducing case management, strict procedural time limits, and specialized commercial courts or e-courts; streamlining the appeals process; and making the enforcement of judgments faster and cheaper.

- Paying taxes can become easier and more attractive if businesses and individuals are given proper incentives. Policymakers can introduce less complex tax arrangements with straightforward compliance procedures and clear laws. Online filing and the consolidation of the number of taxes can also help ease the taxpayer's burden.

- Alongside cross-border trade agreements and electronic data interchange systems, reforms introducing single-stop and single-window can facilitate trade in economies where electronic data interchange systems have been implemented. This would also make it easier to apply risk management to customs clearance. Clarifying clearance rules and introducing bond or financial guarantees can also expedite the release of goods and facilitate cross-border trade.

- Facilitating business closures entails several policies. More efficient bankruptcy laws are needed to rehabilitate viable businesses and liquidate unviable ones; to maximize the value received by creditors, shareholders, employees and other stakeholders by requiring that businesses be turned around, sold as going concerns, or liquidated; and to establish a clear system for ranking creditors. Other policies include expanding creditors' rights by giving them more say in decision making, introducing or tightening deadlines in court procedures, and streamlining appeals. Reorganization is also a possible course of action, but it would not necessarily lead to the highest return for creditors. Reforms that focus on debt enforcement or foreclosure are more likely to show results in those economies. And reforms that ensure properly resourced and well-functioning courts can help a larger number of viable businesses to reorganize successfully.

- In addition, apart from improving infrastructure and implementing regulations necessary for firms to do business in a safe and cost-effective environment, policymakers will need to support investment aimed at improving living standards, which includes basic services such as health care, education, pollution control, and effective traffic management.

The regular monitoring of relevant indicators and comparative benchmarking provides important incentive structures that support the implementation of good practices through peer pressure mechanisms. Structured evaluations that are regularly updated allow economies to gauge their reform progress among themselves and identify areas where reforms have been successful as well as areas where more reform is needed. Comparative benchmarking allows economies to compare their degree of success, strengthens the reform process, and reinforces public and private sector consultation and involvement. Regional collaboration encourages economies to examine each other's reform progress, strengthens co-operation, and promotes dialogue on successful reform measures and best practices.

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Regulatory Reforms for Improving the Business Environment in Selected Asian Economies—How Monitoring and Comparative Benchmarking Can Provide Incentive for Reform

Lotte Schou-Zibell and Srinivasa Madhur examine the determinants of a business friendly environment that underpin rapid and sustained economic growth. The authors suggest that regular monitoring of relevant indicators and comparative benchmarking can provide incentive structures that serve as a starting point for dialogue between government and the private sector on improving the business environment.

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ADB's vision is an Asia and Pacific region free of poverty. Its mission is to help its developing member countries substantially reduce poverty and improve the quality of life of their people. Despite the region's many successes, it remains home to two-thirds of the world's poor: 1.8 billion people who live on less than $2 a day, with 903 million struggling on less than $1.25 a day. ADB is committed to reducing poverty through inclusive economic growth, environmentally sustainable growth, and regional integration.

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