

Book Review

Doing Business in 2004: Understanding Regulation

Prepared by a team led by Simeon Djankov; collaborators including Caralee McLiesh and Michael Klein et al.

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Nowadays the average personal income in some countries is more than US\$40,000 a year, yet over half the people in developing countries live on less than US\$700 a year. The goal of World Bank is to bridge the gap and turn rich country resources into poor country growth. One of the most important missions of the World Bank over the years is to support the efforts of developing country governments to enhance hardware in health care, public education, utilities, as well as disease control and environmental protection. Nevertheless we are at a global market economy where the micro structure of doing business obviously deserves much better attention now than ever. To this end, a series of studies carried out by the World Bank Group in collaboration with prominent economists such as Andrei Shleifer and Oliver Hart are most welcome. The book under review, "*Doing Business in 2004: Understanding Regulation*," as the first in a series of annual reports presenting new quantitative indicators on the performance of business regulations which can be compared across more than 130 countries (or more precisely, economies) and over time, wraps up a collection of peer-reviewed non-technical papers.

How would a book like this stand out in the market? Readers of this journal, which is interdisciplinary and modestly tailored to our general interest in the market economies at large, are well aware of the fact that data helps explain our business environment. Existing notable organizations such as the Heritage Foundation, Fraser Institute, and the World Economic Forum all provide us with periodically updated indicators on economic freedom, country risk, and international competitiveness, from which at least two published papers of this journal were drawn. But why do we need more indicators? As the book rightfully points out in the preface, it is local firms which are responsible for most economic activities in developing countries. Yet no indicators assess specific laws and regulations regarding business activities or the administrations that enforce them. The phrase "micro structure of doing business" used above should not be interpreted seriously. It mainly accounts for focusing on domestic, primarily smaller companies as the targeted group; assessments of laws and regulations in force by way of inputs from local experts having hand-on experience with practical situations. Here come the indicators of the *cost* of doing business by quantitatively identifying specific regulations that enhance

or constrain business investment, productivity, and growth. From starting a business (Chapter 2) to bankruptcy (Chapter 6), we see how this study covers the fundamental aspects of a business life cycle.

Do the indicators represent a coherent new approach to measurement? The database differs from existing reports that address business environment issues -- such as Global Competitiveness Report and Fraser Institute's Economic Freedom of the World -- which tend to rely on business perceptions surveys and assessments made by analysts. The team led by Simeon Djankov strives to provide a new set of objective, quantifiable measures of business regulations and their enforcement based on targeted interviews with regulators or private sector professionals in each topic; cooperative arrangements with other departments of the World Bank, other donor agencies, private consulting firms, business and law associations worldwide. The project kicks off with a set of templates or questionnaires made by staff of the World Bank Group, which is not included in the volume. At first reading I was skeptical about the credibility of their findings in the sense that the sample size (within each country) is small; most importantly respondents consist of mainly lawyers (in the areas of labor, incorporation, and finance), credit registry managers, and very few municipal or tax officers in each country. What if they are biased? What if not confined to limited liabilities companies in each country's most populous city? On my second reading I concur with the authors in that those are equipped with extensive professional knowledge and experience in local data. Consider Taiwan for instance. From the list of contributors I see only big names in law firms there. When questionnaires or interviews are, as I gather, conducted without making monetary compensations, those employed in elite internationally-oriented law firms surely outrun managers in most companies in other industries. Whoever objects to my defense will have the luxury of replicating it by either broadening the type of business or having more respondents, hence potentially enriching the literature and standing up to rigorous empirical testing.

The study, as the first product, is surely an ambitious one. It attempts to provide answers to critical questions such as: *Which is the most expensive country for starting a new business? Which countries have the most rigid regulations on hiring and firing workers? Which countries have the most extensive business entry procedures? Which countries have the structure of public registry best designed to serve lenders? Why does heavy regulation lead to inefficiency and corruption? Which countries are most efficient in the area of contract enforcement? How do clearly-defined property rights enhance prosperity? What are the most successful regulatory models?* Whether those questions are adequately answered in this volume or not could be subjective. One thing I see clearly is that, to my surprise, Taiwan scores poorly in many categories. In Table 5.2, Taiwan credit registry turns out to best serve lenders; I have little surprise with Table 3.2 indicating that Taiwan (ranked 81) is among the countries having the least-flexible employment regulation while Hong Kong and People's Republic of China belong to the most-flexible employment regulation category. I wonder if top administrators and law-makers in Taiwan ever read this book. If so, they should find it easy to follow. Country Tables

(133 countries in 45 pages) give a quick look at important economic characteristics for each country (e.g., gross national income per capita, population, portion of informal economy, legal origin) as well as ranking for “starting a business”, “hiring and firing workers”, “enforcing a contract”, “getting credits”, and “closing a business”. Both the methodology and motivation are so elegantly and patiently presented in Chapter 1 that numerous hasty writers of empirical papers in economics should plead guilty. For example, they make 10 assumptions on page 3 to make business comparable across countries.

The background research is presented in conferences or even published in top journals. References in 8 pages (updated to 2003) make a good reading list should this volume be adopted in teaching. It should find a place in most courses related to economics and international business. It is also a comprehensive resource for economic advisers, business developers, policy-makers, and investors.

"What a schlemiel!" sighed by this reviewer who recently got upset by noticing dozens of pages getting off due to the binding problem. Luckily, just as promised, on the web site <http://rru.worldbank.org/doingbusiness>, more topics are added and indicator sets are updated. Now the data set covers 145 economies, including 22 high-income OECD economies. A two-volume set (Doing Business in 2004 and 2005) can be bought at US\$50 while *Doing Business in 2004: Understanding Regulation* can be downloaded at no charge!

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