Ease Of Doing Business Index In Global Trade And Turkey: A Comparative Review

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Abstract

The Ease of Doing Business Index, which has been prepared annually by the World Bank since 2004, analyzes the business regulations affecting the investment climate in member countries. In the index; a comparative evaluation is presented based on various indicators such as company formation, tax policies, employment, licensing process, investor protection. The top countries are those that are easy to do business with, regular and have strong protections for their assets. Improving the investment environment facilitates the inflow of foreign direct investment and gives countries momentum towards economic growth. Turkey, on the other hand, seems to have failed to make the expected economic leap since the 2008 crisis. Foreign direct investments in the country have decreased significantly, especially in the last three years. In this study, the situation of Turkey, the main countries and developing countries in the Ease of Doing Business Index will be examined comparatively. The change in foreign direct investments in the relevant countries will be analyzed and discussed together with the Index data.

Keywords: International Trade, Economic Growth, Ease of Doing Business, Foreign Direct Investment

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Introduction

Today, the inflow of foreign capital in the form of foreign direct investment (FDI) has increased significantly in developing countries over the past few decades. FDI entry meets increased investment requirements to boost economic growth at a higher rate and helps macroeconomic stability in the economy. The inflow of foreign capital relieves the pressures on the balance of payments and makes it somewhat easier for countries. Thanks to FDI, information and technology are transferred from developed countries to developing countries. This positively affects the development of developing countries.

In order to invest in a country, the availability of that country's investment ecosystem is very important. The appropriate investment environment shows that the owners of the capital can do business with the relevant country and allows them to choose the country. Empirical evidence suggests that ease of doing business is the most important factor determining the investment environment and that the investment environment is one of the reasons that triggers the inflow of foreign direct investment. Therefore, it is an important fact that the convenience of doing business needs to be improved in order to increase domestic investments and foreign direct investments and to make economic growth more stable. When investing in relevant countries, there are certain indicators that foreign investors take into account and use (Yasar ve Yasar, 2017: 102). In this context, the "Ease of Doing Business Index" is used to evaluate the suitability of the investment environment in a country and the index analyzes the business regulations affecting the investment environment in member countries. In the index; a comparative assessment is offered based on various indicators such as corporate establishment, tax policies, employment, licensing process, investor protection. The top countries are those that are easy to do business with, regular and have strong protections for their assets.

In this study, the situation of Turkey, the main countries and developing countries in the Ease of Doing Business Index will be examined comparatively. The change in foreign direct investments in the relevant countries will be analyzed and discussed together with the Index data.

1. Ease of Doing Business Index

The "Ease of Doing Business Index" published by the World Bank since 2003 is one of the world's leading reports and reveals important data on the world economies that may affect the investment environment of these countries (Koc, Kaya & Senel, 2017:19). The main purpose of the report is to make a ranking by evaluating the arrangements made in the name of the suitability of the investment environment of the countries and the ease of doing business by country. The World Bank defines its Ease of Doing Business Index as "encouraging economies to compete towards more efficient regulation and providing measurable criteria for reform by collecting and analyzing comprehensive quantitative data to compare business regulatory environments in the economy and over time." (Kangal, Eroglu & Coban, 2018:24).

In these reports, an annual comparative evaluation is presented based on various indicators such as company establishment, tax policies, employment, licensing process, and investor protection. The report sets forth the duration and costs of transactions such as fulfilling the conditions set by the government in establishing and maintaining a business, international trade, paying taxes and closing a business (Yardımcıoglu, Ilhan & Gerekli, 2014: 3). The indices that make up the report can be thought of as consisting of two types of indicators. First; The aim is to evaluate the efficiency of such processes, such as establishing a company or accessing electricity, to measure the complexity and costs incurred of regulatory procedures. The second is; measure of the strength of legal institutions. The specific features of the labor laws implemented by the countries are evaluated. An example of this is the protection of foreign investors or the convenience of obtaining loans (Kılıc & Aktas Senkardesler, 2020: 171). The most recent report, published in 2020, assesses and ranks 190 countries according to 12 criteria. The 12 criteria for evaluation are as follows (Doing Business 2020: 20):

1. Business establishment/start-up procedures: It covers the procedures that the entrepreneurs have to implement in order to establish an official business, the completion times of these procedures, the capital requirement and costs.

2. Construction permit acquisition procedures: It covers the procedures required for entrepreneurs to build a place for the official business established, the completion time, cost, building quality control mechanisms of each of these procedures.

3. Access to electricity connection: Procedures for its supply to the electricity grid cover time and cost, reliability of electricity supply and transparency of tariffs.

4. Real estate registration: Procedures for the transfer of a property, time and cost and the quality of the land management system for entrepreneurs are measured.

5. Access to credit: It covers the content and accessibility of credit information of credit reporting organizations, while looking at the legal rights, collateral transactions and bankruptcy laws of borrowers and creditors regarding how much existing laws and regulations facilitate the provision of credit.

6. Investor protection: Covers the protection of minority shareholders' rights in related party transactions and corporate governance.

7. Tax payment: Payments, time and total tax and contribution ratio processes are measured for a company to comply with all tax regulations.

8. Cross-border trade: Time and costs for facilitating import and export processes are measured.

9. Implementation of contracts: The time and cost required to resolve a commercial dispute and the quality of judicial processes for entrepreneurs are measured.

10. Liquidation transactions: The return rate for the liquidation of the enterprise and the framework of liquidation activity cover the index.

11. Labor regulations: Covers issues such as the content of the employment regulation and flexibility.

12. Agreement with the Government: It covers procedures and time-regulating structure to participate in and win a construction work contract through public procurement and public procurement.

2. Foreign Direct Investment

Foreign investment is defined as the movement of capital funds from one country to another. The movement of capital from one country to another is through international money and capital markets or in the form of direct investment. Foreign direct investment can be defined as the establishment of a new company in foreign countries, alone or with partners, by spreading the production of a company beyond the borders of the country where the head office is located, or the acquisition of an existing domestic company or making it dependent on itself by increasing its capital (Kurtaran, 2007:367).

The issue of foreign direct investment can be handled in two ways, in terms of host countries and foreign investors. Host countries seek to gain some social and economic benefits through foreign investments. These include increasing employment, utilizing natural resources, improving management and production knowledge, reducing the foreign trade deficit, and increasing economic growth. For foreign investors, being close to cheap input sources and benefiting from the profit opportunities offered by an unsaturated market can be counted as priority targets. The employment effects that foreign direct investments will create in the host countries, among other effects, is one of the issues that host countries, especially developing economies give the most importance (Karagoz, 2007: 931).

Foreign direct investments are considered as one of the necessary and important tools for the realization of economic growth and development goals all over the world. When a foreign direct investment is made, the firm making this investment enters into a relatively long-term relationship with the country in which it invests. Therefore, it is not possible for such foreign investments to suddenly leave the host countries. Moreover, foreign direct investments often bring other opportunities such as new technology, new management techniques, employment creation and new access channels to world markets, as well as capital, to the host countries that accept them (Saray, 2011: 384). Therefore, host countries mostly prefer foreign direct investment types. Because the expectations of the host country are realized only through direct investments. For this reason, countries have to attract such investments and give them legal assurance. Governments are trying to attract foreign investments to their lands by providing more favorable political and economic environmental conditions and applying various incentive measures (Kurtaran, 2007: 369).

Well-planned and effectively directed foreign direct investments create various positive economic effects on the economy of the host country where the investment is made. These are effects such as production, employment, income, export growth, balance of payments, economic development and general welfare. The main effect of foreign direct investments is the net contribution of the host country to the national income (Mucuk & Demirsel, 2009: 366). However, in addition to the positive effects mentioned, foreign direct investments increase the control of foreigners over the economy by providing a direct control over the business management, while applying advanced production techniques on the one hand, disrupting the economic integrity by laying the groundwork for the continuation of the traditional structure on the other, removing protective restrictions such as customs tariffs and import bans. It also discusses possible negative effects such as creating unfair competition against small-scale domestic companies, causing exclusion and resulting in technological dependency (Ullah, Shah & Khan, 2014: 2).

3. Analysis of Turkey and Selected Countries

In the study, the ease of doing business index and foreign direct investment data were examined between 2015-2019. When making comparisons between countries, two separate country communities were formed. The first of these is the countries that are mostly in the top 10 among the selected years in the ease of doing business index. The second community includes 10 developing countries. In addition to the countries in these two communities, Turkey's position in the index and foreign direct investment inflows to the relevant countries will be analyzed together.

The first country community includes New Zealand, Singapore, Hong Kong, Denmark, Korea, United States, Georgia, United Kingdom, Norway, Sweden, and Turkey. The rankings of the relevant countries between 2015 and 2019 in the ease of doing business index are shown in the table below.

Table 1. Ease of Doing Business Ranking 2015-2019

Ease of Doing Business Ranking					
Economy/Year	**2015**	**2016**	**2017**	**2018**	**2019**
New Zealand	2	2	1	1	1
Singapore	1	1	2	2	2
Hong Kong	3	5	4	5	4
Denmark	4	3	3	3	3

Korea Rep.	5	4	5	4	5
United States	7	7	8	6	8
Georgia	15	24	16	9	6
United Kingdom	8	6	7	7	9
Norway	6	9	6	8	7
Sweden	11	8	9	10	12
Turkey	55	55	69	60	43

Source: Doing Business 2015-2019, https://www.doingbusiness.org/

According to Table 1, New Zealand and Singapore were the countries that consistently ranked in the top two in the data years. Georgia, on the other hand, has jumped the list especially in the last two years and has found itself in the top ten. The change in the ranking of other countries has not changed much over the years. Turkey fell from 55th place in 2015 and 2016 to 69th place in 2017 and reached 43rd place on the 2019 list.

Table 2. Foreign Direct Invesment, Net Inflows

Foreign Direct Investment, Net Inflows (Million USD Dollars)					
Economy/Year	**2015**	**2016**	**2017**	**2018**	**2019**
New Zealand	-73.372	1.875	2.093	2.614	2.943
Singapore	69.774	67.912	100.786	83.110	120.439
Hong Kong	181.047	133.259	125.716	97.036	58.299
Denmark	1.850	7.804	3.607	8.142	-7.499
Korea Rep.	4.104	12.104	17.912	12.182	9.634
United States	511.434	474.388	366.995	261.482	351.631
Georgia	1.735	1.658	1.918	1.259	1.341
United Kingdom	45.333	324.813	125.358	81.158	2.236
Norway	7.274	-18.668	5.900	-5.664	17.055
Sweden	10.254	15.642	28.044	-952	16.611
Turkey	19.263	13.835	11.042	12.822	9.266

Source: World Bank Data Base, https://databank.worldbank.org

Table 2 shows foreign direct investment net inflows to the relevant countries between the years. Foreign direct investment inflow to New Zealand, which is at the top of the list, has increased since 2016. Foreign direct investment in second-placed Singapore decreased in 2018 after the rise in 2017 and increased again in 2019. Although the economy ranks high in the ease of doing business index, the data on foreign direct investment inflows has declined over the years.

Similarly, the inflow of foreign direct investment into the United Kingdom has decreased significantly since 2017. In this context, when we look at Turkey's situation, it is seen that the inflow of foreign direct investors to the country has decreased since 2015. Although 2018 was an increase compared to the previous year, a significant decrease is observed in 2019. It should be noted that Covid-19 also had an impact on the overall decrease in foreign direct investment in 2019.

Table 3. Ease of Doing Business Ranking 2015-2019

Ease of Doing Business Ranking					
Economy/Year	2015	2016	2017	2018	2019
China	90	84	78	78	31
Russian Federation	62	51	40	35	28
India	142	130	130	100	63
Mexico	39	38	47	49	60
Brazil	120	116	123	125	124
Argentina	124	121	116	117	126
South Africa	43	73	74	82	84
Indonesia	114	109	91	72	73
Hungary	54	42	41	48	52
Korea Rep.	5	4	5	4	5
Turkey	55	55	69	60	43

Source: Doing Business 2015-2019, https://www.doingbusiness.org/

Table 3 shows the ranking of emerging economies, as a second country community in the ease of doing business index between 2015 and 2019. Looking at the list, it is seen that China, Indonesia, the Russian Federation, India and Indonesia in particular have shown a significant rise. On the other hand, the opposite is true for Mexico, Argentina, South Africa and Hungary. Korea Republic, has maintained its top position over the years. Turkey, has shown a remarkable increase in ranking since 2017.

Table 4. Foreign Direct Invesment, Net Inflows

Foreign Direct Investment, Net Inflows (Million USD Dollars)					
Economy/Year	2015	2016	2017	2018	2019
China	242.489	174.749	166.083	235.365	187.169
Russian Federation	6.852	32.538	28.557	8.784	31.974
India	44.009	44.458	39.966	42.117	50.610
Mexico	35.737	38.779	33.016	37.643	29.375
Brazil	64.738	74.294	68.885	78.162	69.174
Argentina	11.758	3.260	11.516	11.872	6.663
South Africa	1.521	2.215	2.058	5.569	5.116
Indonesia	19.779	4.541	20.510	18.909	24.993
Hungary	-5.266	69.881	-12.133	-64.701	92.164
Korea Rep.	4.104	12.104	17.912	12.182	9.634
Turkey	19.263	13.835	11.042	12.822	9.266

Source: World Bank Data Base, https://databank.worldbank.org

Table 4 shows foreign direct investment net inflows to selected countries between 2015 and 2019. In this context, foreign direct investment inflows in China decreased in 2016 and 2017, and a significant increase was recorded in 2018. In 2019, despite the rise in the ease of doing business index, there was a decrease in foreign direct investment inflows. The inflow of foreign direct investment into Russia increased significantly, especially in 2016. After the significant decline in 2018, a significant increase in the inflow of foreign direct investment was observed in parallel with the ease of doing business index ranking. In addition, foreign direct investment inflows in India and Indonesia have increased similarly to the rise in the index position.

In South Africa, the opposite is true. Although the country's index ranking has decreased over the years, foreign direct investment inflows have increased at a certain level. There are significant fluctuations in Hungary. For example, although there was an increase in the index ranking in 2017, a negative situation emerged in the inflow of foreign direct investment. Looking at Mexico, it is seen that foreign direct investment inflows have changed in parallel with the decrease and increase in the index ranking.

When the situation of Turkey in this group is analyzed, a decrease was observed in foreign direct investment inflow in parallel with the decrease in the index ranking in 2017. However, despite the significant increase in the index ranking in 2019, a significant decrease was recorded in foreign direct investment inflows.

4. Conclusion

The ease of doing business index is one of the reports that investors frequently examine. In the related report, the development of the countries and the facilities provided in the relevant headings affect the decisions of the investors positively. In this context, significant capital and investment inflows have been realized in the last 20 years, especially to developing countries. It is possible to say that foreign direct investments made to countries develop according to the situation of the countries in the ease of doing business index. As a matter of fact, this issue was expressed in the review section of the study.

However, as can be seen, foreign direct investment inflows to some countries and economies are not compatible with the change in index rankings. The reason for this is that investment decisions are not made only according to the rankings in the index. There are many factors that affect investment decisions, the ease of doing business index is one of them, but it does not cover all of them. Economic, political, social and natural factors also significantly affect the investment decision. Investors make decisions by taking all the facts into account. On the other hand, it seems that foreign direct investment inflows decreased in most of the countries examined in the study in 2019. It should be known that the Covid-19 pandemic has a serious impact on this situation.

Looking at the situation of Turkey in the light of the relevant data in the study, it is seen that the foreign direct investment inflow moves in parallel with the index data. The exception to this situation is 2019. While Turkey showed a significant increase in the index rankings in 2019, a significant decrease was recorded in foreign direct investment inflows.

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