DOING BUSINESS: Singapore style

In A-level and undergraduate economics courses, there's some discussion of the institutional conditions necessary for economic growth and development.

In this context, the World Bank's Doing Business report has provided useful information…but it's under attack from various campaign groups.

In this article, STEVE HANKE stresses the importance of good policy and institutions and the role of the World Bank's report in achieving these things…as well as examining Singapore's role as its star pupil.

Since 2004, the World Bank has produced the annual *Doing Business* report, which ranks countries on 10 factors reflecting the ease with which entrepreneurs and businesses may conduct economic activity in a given country.

At first glance, such a survey would hardly seem controversial. After all, with so much unreliable data coming out of official government statistics offices these days, one would think that an unbiased system for ranking the ease of doing business would be a useful tool – not only for businesses, but for governments as well.

Indeed, since 2005, a total of 1,940 reforms have been implemented by countries to improve their rankings. And, several prominent heads of state, such as Russia's Vladimir Putin, have made public pledges to improve their countries' *Doing Business* rankings.

As it turns out, however, a few countries (specifically those with low rankings) are none too happy about the *Doing Business* report. Most notably China (which ranks 91 out of 183) has been pressuring the World Bank to scrap the *Doing Business* rankings and weaken the report's analysis to the point of irrelevance. It hasn't helped that certain less-market-friendly NGOs, such as OXFAM, have also joined the Chinese government's crusade.

Indeed, under pressure from China, World Bank President Jim Yong Kim commissioned a panel to "study" the *Doing Business* rankings and present recommendations for "improvement." Not surprisingly, the commission recommended doing away with the actual ordinal rankings, and switching to a less embarrassing evaluation of each country.

Yes, the panel's recommendations are nothing more than a thinly-veiled attempt to gut the *Doing Business* report. Stripping the ordinal rankings and "reforming" the report's methodology would have the effect of completely destroying the report's credibility and usefulness as a policy tool.

Fortunately, the *Doing Business* report has one very important ally, Jim Yong Kim himself. A campaign to save the report has also been mounted by *Doing Business* report co-founder, former World Bank Group Vice President Michael Klein.

These World Bank insiders recognise a simple fact. The *Doing Business* report represents one of the few uniform, objective metrics available for measuring the ease of doing business across 183 countries. Indeed, in 2005, when asked what I thought then-newly-appointed World Bank President Paul Wolfowitz should do on his first day, I said his first stop should be at the office of the *Doing Business* report staff.

Good data, bad data

For an organisation whose stated goal is the alleviation of poverty, it is important to have objective metrics by which to measure economic prosperity over time (and thus the alleviation of poverty). One common metric for measuring economic prosperity is per capita income. The evidence is very clear that prosperity affects health – especially life expectancy – in a positive way.

Yes, economic growth is, quite literally, a matter of life and death. That said, relying solely on per capita income as a measure of economic progress can be problematic. For starters, this metric can be skewed for certain countries by "outside" factors such as famine, civil war, discovery of natural resource deposits, etc. There is also a more basic question of the quality of the data being used to produce these economic statistics.

As Morten Jerven illustrates in his recent book, *Poor Numbers*, economic statistics in Africa, for example, are often generated using incomplete data and faulty methodology – resulting in systematically flawed statistics in many countries.

Similarly, as Oskar Morgenstern documented (Morgenstern, 1950), the incompetence and wilful trickery of many governments often render data less than reliable. More recently, this "lying statistics" problem has been witnessed with official exchange-rate and inflation data in countries such as Iran, Venezuela, and Argentina.

ECONOMIC GROWTH IS, QUITE LITERALLY, A MATTER OF LIFE AND DEATH

Worse still, some governments will simply stop reporting official data when they don't like the results – see North Korea and Syria, as well as Zimbabwe circa 2008.

The solution to this problem is to develop unbiased statistics, using objective data. As Peter Blair Henry (Henry, 2013) shows, stock market data can provide a useful tool for measuring the effectiveness of economic reform efforts. Henry also highlights the importance of relying on objective data, rather than ideology, to develop tailored economic reform packages for different countries.

That said, objective data on macro-economic growth must also be complemented with micro-level data on specific reforms. This is where the *Doing Business* report comes into play. Rather than rely on often dubious official statistics, the *Doing Business* report uses data collected from over 9,000 accountants, lawyers, engineers and other business professionals around the world.

And, the *Doing Business* report provides vital data on the structural strengths and weakness of a given economy. By "structural" I simply mean the "rules of the game" for small and medium-sized businesses – in short, the government-imposed regulatory costs of starting, running, and closing a business in a given economy.

This also addresses the problem of data being skewed by outside factors such as famine and civil war, since the *Doing Business* report looks at factors over which governments have a greater degree of control: a few examples are in *Table 1*.

As it turns out, a country's *Doing Business* ranking can actually tell us a lot about a country's health as well. Countries with better *Doing Business* rankings also tend to have higher life expectancy rates.

A sceptic might claim that this simply results from richer countries being able to afford better healthcare.

But, the *Doing Business* report does not measure how rich a country is; it measures the costs imposed by government on businesses. So, what is going on here?

In short, when governments embrace market-augmenting, business-friendly policies, the cost of doing business goes down and economic prosperity tends to increase. Prosperity, in turn, leads to improvement in medical and public health factors that result in higher life expectancy rates.

For a real-life example of this transformation, simply take a look at the country that has held the number one spot in the *Doing Business* rankings for the past two years running: Singapore.

Lee Kuan Yew's "Singapore Strategy"

Singapore gained its independence in 1965, when it was, in effect, thrown out of Malaysia. At that time, Singapore was poor. Indeed, Singapore's real per-capita income in 1965 would be roughly equivalent to that of a country like Kosovo or Angola today.

However, Singapore's leader, Lee Kuan Yew, had clear ideas about how to modernise the country – a strategy which I have dubbed the "*Singapore Strategy*." This strategy contained the following elements:

- *Stable money:* Singapore started with a currency board system – a simple, transparent, rule-driven monetary regime. Currency boards operate on autopilot, with automatic adjustments keeping the system in balance. Accordingly, currency boards deliver discipline to the spheres of money, banking and fiscal affairs. For Singapore, a currency board provided stable prices and free convertibility at a fixed exchange rate, which attracted foreign investment.
- *Singapore refused to accept foreign aid:* This is a far cry from many developing countries, where, when you pick up the paper, all you see are politicians and bureaucrats trying to secure foreign aid from someone, be it an NGO, a foreign government, or an international financial institution such as the World Bank. By contrast, "no foreign aid" signs hung, and still hang, figuratively, outside every government office in Singapore.
- *Singapore strived for competitive private enterprises:* This was accomplished via light taxation and light regulation, coupled with completely open and free trade – in short, policies that enabled Singapore's private businesses to become Asian tigers.
- *The rule of law:* The Singapore strategy emphasised personal security, public order and the protection of private property.

To accomplish these goals, the key was a "small", transparent government – a minimalist government that avoided complexity and "red tape" – hence its top ranking in the *Doing Business* report.

To implement this principle, Singapore appoints only first-class civil servants and pays them only first-class wages. In exchange for these high salaries, the Singapore Strategy demands that the government run a tight ship, with no waste or corruption.

By embracing Lee Kuan Yew's Singapore Strategy of stable money, no foreign aid, first-world competition, and law and order; and by demanding a government that is absolutely free of waste and corruption, Singapore has transformed itself from a poor, barren speck to a global financial centre. Indeed, a recent survey ranking the world's top five financial centres put Singapore as number one – ahead of Switzerland, Hong Kong, London and New York.

THE DOING BUSINESS REPORT REPRESENTS ONE OF THE FEW UNIFORM, OBJECTIVE METRICS AVAILABLE FOR MEASURING THE EASE OF DOING BUSINESS ACROSS 183 COUNTRIES

ABOUT THE AUTHOR

STEVE HANKE – seen here addressing the IEA's State of the Economy conference – served as a Senior Economist on President Reagan's Council of Economic Advisers and as a Senior Advisor to the Joint Economic Committee of the US.

In his long and distinguished career, he has advised governments around the world and was once named by *World Trade Magazine* as one of the 25 most influential people in the world.

In Singapore, the market is the guiding principle of the economy, just as Lee Kuan Yew's 1965 manifesto provides the guiding principles for Singapore's government. Indeed, the key to understanding the Singapore Strategy is to realise that it is a strategy in which the Singaporean government is mandated to produce market-augmenting policies that encourage economic growth.

It should thus come as no surprise that Singapore today is one of the freest, most flexible and prosperous economies in the world, as reflected by its number one *Doing Business* ranking. And, lo and behold, Singapore ranks in the top ten with regard to health outcomes.

As William A. Haseltine noted in his recent book (Haseltine, 2013), Singapore achieved dramatic, cost-effective healthcare results by embracing efficiency and fostering competition between private healthcare providers and the government.

Doing business topic	Methodology (summarised)
Starting a business	Procedures to start up and formally operate a business
Dealing with construction permits	Procedures required for a business in the construction industry to build a warehouse
Getting electricity	Procedures required for a business to obtain a permanent electricity connection
Registering property	Procedures necessary for a business to purchase a property and to transfer title
Getting credit	Legal rights of borrowers and lenders with respect to secured transactions and the sharing of credit information
Protecting investors	The strength of minority shareholder protections against directors' misuse of corporate assets for personal gain
Paying taxes	Taxes and mandatory contributions and the administrative burden of paying taxes and contributions
Trading across borders	The time and cost (excluding tariffs) associated with exporting and importing a standardised cargo of goods by sea transport
Enforcing contracts	The efficiency of the judicial system in resolving a commercial dispute
Resolving insolvency	The time, cost and outcome of insolvency proceedings

Table1: Doing Business report methodology

Source: World Bank (www.doingbusiness.org/methodology, accessed 12 August 2013)

References

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Henry, P.B. (2013), Turnaround: Third World Lessons for First World Growth, Basic Books, USA.

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THE SINGAPORE STRATEGY DEMANDS THAT THE GOVERNMENT RUN A TIGHT SHIP, WITH NO WASTE OR CORRUPTION

Indeed, when it came to health care, Lee Kuan Yew once again ruled out passing the begging bowl and instead insisted on personal responsibility, via fee-based services and personal health savings accounts, among other innovative solutions.

While the Singaporean government does play a central role in the country's healthcare market, the key fact is that Singapore's health system is one characterised by simplicity and transparency – resembling neither the massive public monopolies of Europe, nor the complex regulatory nightmare of the US system.

If developing countries were to embrace the Singapore Strategy, they too would climb the *Doing Business* rankings very rapidly. Corruption and poverty would decrease, income and growth would increase, and, I suspect, health outcomes might just improve, as well.

At the end of the day, the key to implementing meaningful economic reform is objective data by which countries can measure their progress.

So long as Jim Yong Kim holds fast and preserves the *Doing Business* report, as is, countries will continue to be able to make strides and measure their progress.

The *Doing Business* report provides a framework for economic reform and serves as a challenge to implement it around the world. If countries such as China are embarrassed by a poor *Doing Business* ranking, they should leave Jim Yong Kim alone, and give Lee Kuan Yew a call•

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