The World Bank Insists on the Liberalization of Economies

CAROLINA VILLALBA*

The World Bank has released the new version of how to do "good business", covering 175 countries, with updated information about the reforms carried out by these economies to attract investments. The degree of protection of the economies to foreign investments and labor market flexibility can be highlighted among the areas taken into account in the report. However, social and environmental aspects are not included as part of good business.

The World Bank and International Finance Corporation have jointly released the 2007 edition of "Doing Business: How to Reform"[1]. This report offers views on the ease and difficulties of doing business in 175 countries. The document aims at supporting and fostering the classic market reforms and praises those countries that have consented to the liberalization of their economies and have created a stable legal framework for domestic and international investments.

According to the World Bank, the goal is to "inspire competition", thus implying that countries should learn from the best international practices and give priority to this type of reforms. However, from the other side, it is alleged that this report is another means used by the World Bank to promote orthodox measures such as trade liberalization and labor flexibilization, among others.

An Indicator of Competition

The ranking was built on the basis of ten categories that have influence on the ease of doing business. These categories are: Starting a Business, Dealing with Licenses, Employing Workers, Registering Property, Getting Credit, Protecting Investors, Paying Taxes, Trading Across Borders, Enforcing Contracts, and Closing a Business. Under these categories, an index was built for each country, which were then ranked in order of increasing difficulty for each one of the ten topics. Finally, an overall ranking was put together, weighing the ten thematic rankings in the same fashion.

This year, it is Singapore the country that seems to have done well its homework in terms of reforms to attract investments, being ranked first and moving New Zealand to the second place after two years at the top spot.

With regards to Latin America, according to this study, it is one of the worst-ranked regions, having fallen from the third to the fifth place, just ahead of East and South Asia. In this sense, the report considers the following as the major obstacles in Latin America: slow courts and high and complex tax systems. Besides, the fact that companies have little capacity to change the working hours of employees is regarded as a major difficulty since it imposes considerable rigidity and costs on them.

The top ranked country, Singapore, is the easiest place to do business, that is, where there is greater flexibility and less hurdles. Among Latin American countries, Puerto Rico is the best ranked, since it makes the 19th place in the ranking (Tabla 1 shows the ranking of all Latin American countries).

---

* Carolina Villalba is an economist and information analyst at D3E (Development, Economy, Ecology and Equity-Latin America: http://www.economiasur.com/). This article was originally published by Revista del Sur and translated into English by IFIs Latin American Monitor: http://ifis.choike.org

[1] See http://www.doingbusiness.org

The very low ranking of two Latin American giants, Brazil (121) and Venezuela (164) deserves to be dealt with separately. With regards to Brazil, the report states that reforms launched last year to improve the investment climate such as, for instance, improvements in the enforcement of contracts, are still regarded as insufficient.

On the other hand, in the case of Venezuela, the World Bank complains about the fact that the Venezuelan president is trying to impose a political project that fails to be endorsed by the institution. According to this study, Venezuela is currently one of the countries offering less incentives to do business, apart from being the fifth country in the world in terms of controlled economy. The institution ranks Venezuela at the bottom among Latin American countries.

The same considerations are applied to Bolivia, which has fallen from the 126 to the 131 place in the ranking. According to the report, both countries have resisted the global trend to create the best conditions for doing business. The report argues that both economies have insisted on hindering capitals, which according to the institution, can create employment. However, nothing is said about the possibility of such employment being productive. Although the creation of jobs undoubtedly requires a favorable macroeconomic environment for business undertakings, investment on its own is not enough to solve that type of problems.

Notwithstanding the fact that in countries like Venezuela and particularly Bolivia the difficulties of enforcing contracts and some regulations are real, the position of the World Bank has a certain “flavor” of political attack, since mostly the administration of Hugo Chávez in Venezuela, and to some extent that of Evo Morales in Bolivia, are facing disputes with the United States and the European Union. An example of this are the successive disputes of the Bolivian government with several foreign companies. Thus, it would seem that issues of foreign policy and international economic relations slip in at the moment of putting the report together.

Table 1: World Bank Ranking of Latin American Economies According to their Ease of Doing Business

Rank	Country
19	Puerto Rico
28	Chile
43	México
50	Jamaica
64	Uruguay
65	Peru
71	El Salvador
72	Dominica
81	Panama
101	Argentina
105	Costa Rica
111	Honduras
112	Paraguay
117	Dominican Republic
118	Guatemala
121	Brazil
123	Ecuador
164	Venezuela

Source: Doing Business Database

Table 2: Labor Flexibility in Latin America
Rigidity of Employment Index
(0=total flexibility; 100=very rigid)

Rank	Country
24	Chile
24	El Salvador
24	Nicaragua
27	Colombia
31	Uruguay
32	Costa Rica
34	Guatemala
36	Honduras
38	México
41	Argentina
42	Brazil
51	Ecuador
56	Panama
59	Paraguay
61	Peru
74	Bolivia
76	Venezuela

Source: Doing Business Database

The Reformers

The report also presents the list of top-10 reformers during 2005-2006, three of which are Latin American: Mexico was ranked third, Peru fifth and Guatemala eighth. According to the paper, there are four key steps to successful reform: to start simple reforms that do not need legislative changes, to reduce the number of bureaucrats that entrepreneurs interact with, to use standard publication forms and finally it warns that every frustration faced by companies results from the way regulations are administered.

According to the World Bank, the biggest reformers are those governments that comply with all the requirements of foreign investors. That is to say, those that have simplified regulations for the private sector, and have also eased tax burdens, increased access to credit and reduced the cost of importing and exporting.

The top ranked country with regards to the implementation of reforms requested by investors – Georgia – is congratulated by the authors of the report for having reduced the minimum capital required to start a new business, for having simplified business registrations, customs and court procedures, and above all, for the flexibilization of labor laws.

This philosophy of labor market flexibilization professed by the World Bank has brought strong criticism. The International Confederation of Free Trade Unions (ICFTU), which is based in Geneva and gathers 155 million workers worldwide, questions the report for recommending governments to do away with labor market regulations. In doing so, it sets countries that have almost no labor protection and are not even members of the International Labor Organization (ILO) as example[2].

An example of this is the Marshall Islands, a small nation in the Pacific Ocean which lacks any sort of labor regulation and is ranked first in employing workers. However, Marshall Islands is not even a member of the ILO, on account of which it is not compelled to abide by core regulations such as the elimination of forced labor, child labor and discrimination and respect for freedom of association and right to collective bargaining.

In this country that is praised so highly by the World Bank, nothing prevents workers from being forced to work up to twenty-four hours a day and up to seven days a week, without neither the right to vacation nor advance notice of dismissal, as stated by the ICFTU. According to the General Secretary of ICFTU, Guy Ryder, "if the Bank truly believes that the ILO's core labor standards are good for development, it can't turn around and praise countries that don't join the ILO and don't respect the core standards as the world's 'Best Performer' for their labor standards".

This attachment to labor flexibility comes into contradiction with some standards of the same World Bank and International Finance Corporation, where it is stipulated that no loans will be granted to enterprises that fail to observe core labor standards.

World Bank Paradoxes

The analysis of the World Bank is based on the above-mentioned ten topics, which supposedly allow to evaluate those regulations that constrain investment or the operation of companies. Among them, some indicators should be highlighted: the topic "Starting a Business" examines the time and cost involved in launching a firm; "Dealing with Licenses" measures all the procedures and costs that are necessary to obtain licenses to operate in each economy; "Employing Workers" shows the degree of flexibility enjoyed by employers in hiring and firing workers. Besides, the report also measures investor protection based on three dimensions: transparency of transactions, liability for self-dealing and shareholders' ability to sue directors for misconduct.

Nevertheless, several issues are not included in the selection of indicators and it would seem that they are not important when it comes to doing "good business", according to the World Bank. For example, within the dimensions that make up the variable for measuring investor protection, the aspect of transparency in public procurement is given no consideration. On the other hand, nor the way in which companies manage (or not) their social and environmental impact is taken into account. This is clearly showing a paradox, since the World Bank has guidelines and handbooks for the evaluation of investment projects in terms of their social and environmental impact, but none of those variables are taken into account in this report to measure the ease of doing business. It is as if one department of the institution was unaware of the activities of the other departments.

Although from a financial point of view a large investment can represent a major influx of foreign currency into the country, the existence of collateral effects and externalities that should be measured when considering any undertaking goes unacknowledged. The amount to be substracted from each investment by way of possible environmental impacts, landscape loss, etc. is never assessed.

Investments are generally advocated in the name of the creation of jobs. However, in most cases, particularly in Latin America, this is about large investments aimed at exporting commodities,

---

[2] See ICFTU statement: http://www.icftu.org/displaydocument.asp?Index=991224962&Language=EN

which comparatively create few job opportunities but high social and environmental impacts. Examples of these are investments aimed at the extraction of hydrocarbons in Ecuador and Peru, the new mining projects in Peru and Argentina, and the pulp mills in Uruguay. The importance of the creation of employment as a form of doing business is not properly dealt with in this report.

All of the above shows that the report appears more interested in ensuring certain type of business linked to a globalized foreign trade than in the performance of national enterprises related to domestic markets. The emphasis placed on deregulation and liberalization seems to be inspired on the trade goals proposed by the World Bank and the International Monetary Fund – which are generally used as a foreign policy instrument by the United States – rather than on addressing the demands of national development. Doing "good business" from the perspective of the World Bank does not imply doing "correct business", and this is a difference that fails to be understood by the institution.