Unmaking “Make in India”: Weak Governance, Good Deals, and their Economic Impact

India's business climate has historically been considered poor, resulting in low rankings in the World Bank’s Doing Business Indicators. The NDA government has attempted to reverse this situation by improving the 'de jure' rules related to the business climate faced by firms. Can this approach really improve the ease of doing business in India? We answer this question by using firm level data on the number of days it takes to get an operating license or construction permit. Our analysis indicates that 'de facto' deals between the State and businesses, rather than 'de jure' rules, characterize the state-business relationship in Indian states. We also find that states with weaker quality of governance provide higher proportions of 'good' deals in terms of the speed of obtaining licenses and permits. This suggests that firms ensure greater ease of doing business through capture of weakly governed states. We also find that for most states, 'good' deals go to less productive firms, implying that easing the norms of business regulations need not necessarily lead to higher productivity. Thus, the government's attempt to improve the business environment by focusing on reforming 'de jure' rules related to doing business seems unlikely to succeed in its objective.

Prof. Kunal Sen,

Professor of Development Economics,

Global Development Institute, University of Manchester, UK