

## The Unease of Doing Business

The ability to attract international capital is for many governments a question of the utmost priority, and they continually vie for the attention of major global investors by marketing themselves as business-friendly jurisdictions. In Pakistan's transition from geo-politics to geo-economics, improving the country's Ease of Doing Business (EDB, now discontinued) ranking was early on identified as an important target, since a strong business climate is a natural precursor for a robust geo-economic strategy. Starting with more low-hanging fruit, the government aimed to systematically improve the country's ranking across all metrics that were stipulated in the EDB. This is a very prudent approach to economic reform, as it uses a standardised international rubric as its guide. Without this, the scope of required reforms would be too vast to implement in a coherent and targeted fashion, ranging from red-tape to respecting legal contracts, and from tax processes to the provision of utilities and infrastructure. Indeed, there were many components to the EDB, which made it a comprehensive schema for all countries to follow in seeking to improve their business climate.

However, the use of rankings such as the EDB as guides to initiating reform should be done while remaining mindful of a worrying caveat: politicisation; which is to say, the subjectivity of performance evaluation that is vulnerable to politically-engineered manipulation. Although the EDB was a wide-ranging rubric that did indeed cover the essentials of what most would consider to be a truly business-friendly climate, it was a normative schema, which means that it had discretion in deciding what might be of importance in ensuring a good business climate, and what might demonstrate that this was being achieved. The manner in which its subcomponents were evaluated, and the weights were accorded to the subcomponents, could easily make reforms seem more effective than they otherwise were, and vice-versa. In addition, the field data which was used to assess metrics could at times be inconsistent or not necessarily representative of the experience that a multinational would face in their actual dealings. For example, the field data for Pakistan's EDB score was taken from Lahore and Karachi, but a multinational may choose to build their business out of Islamabad, where various dimensions may score much higher.

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Furthermore, because the EDB ranking had taken on a heightened importance in many countries, the performance evaluation of EDB metrics fell prey to politicisation. A worrying example of this was in a recent independent investigation of the IMF and World Bank's (WB) leadership, which allegedly found a glaring degree of partisanship in the construction of EDB evaluations. The legal firm WilmerHale was commissioned by the ethics committee of the World Bank to conduct a probe on the 2018 and 2020 EDB

reports, and its findings highlighted lapses in “ethical matters, including the conduct of former board officials, as well as current and/or former Bank staff.” The concerns were centered around former World Bank head Jim Yong Kim and current IMF head Kristalina Georgieva, who along with their senior staff exerted “direct and indirect pressure” to change the EDB’s methodology to give countries altered rankings.

Saudi Arabia, China, Azerbaijan, and the UAE were four countries mentioned in the WilmerHale report where the IMF/World Bank attempted to fudge the numbers around their rankings. Saudi Arabia jumped 30 places to 62nd in the EDB 2020, while China jumped 7 places to 78th. The Azerbaijan example is particularly intriguing because the IMF was actually trying to downplay, according to WilmerHale, the improvements that the Azeri government had made, since it “froze” Azerbaijan’s scores on several metrics to make it seem as if the Azeris had not been making sufficient progress, when they indeed had. The IMF’s head Georgieva has said that she “fundamentally (disagrees) with the findings and interpretations” of the report, and the WB’s Kim has not commented publicly on the accusations in the report. Given the existing notoriety of the World Bank and IMF, and heightened power politics played in international fora, the idea of nonpartisan and technocratic analysis by these institutions comes into increasing question. One might ask, for example, what percentage of Saudi Arabia’s rise in the 2020 EDB ranking was attributable to Prince MBS’s reform efforts, and what percentage was a reflection of under-the-table pressure tactics?

There is, in a sense, an increasing unease of doing business in the world, with greater acrimony among major economic powers and competition at various levels. Those countries which are then genuinely seeking to improve their business climate, and fostering a new geo-economic paradigm, must be mindful of the difficulties in proving that they are truly realising improvements in their systems. For example, if Pakistan does make sincere and noticeable improvements in its general ease of doing business, what are the odds that this will be reflected in such a profoundly politicised ranking-system as the EDB? Since the fall of Kabul, there has been a torrent of publications, particularly op-eds and pundit commentary, in the Western press that are overtly hostile towards Pakistan. Many of these offer flimsy justifications and thinly-veiled venality which does not make sense. Unfortunately, a country that is not just working towards improving its domestic systems, but also looking for multinational approaches to rescuing its struggling neighbor (Afghanistan), may not be duly recognised for its efforts.

This is a challenge that delves into the realm of politics rather than economics. The Azerbaijan example in the EDB scandal suggests that the WB/IMF and other institutions could readily downplay Pakistan’s successes in the future. Although the EDB rankings were discontinued due to the scandal, other rankings of the future are likely to be equally

vulnerable to the machinations of those who would rather evaluate countries based on their prejudices rather than the facts on-the-ground. It is nevertheless a sad reality that Pakistan's business climate ranks poorly because the business climate is indeed poor. There are countless changes that must be made, especially along the metrics highlighted by the EDB rubric, before we have the luxury of complaining about unfair treatment in such rankings. However, as the current government pushes through its reform agenda, a time may come when the distortionary evaluations of outsiders will no longer appropriately capture the improvements that the country will have made, and that is when there will be an excessive unease of doing business.

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