

Why start-ups still choose to register overseas? Economic Survey 2020 has the answer

Economic Survey 2020 latest: The Economic Survey 2019-20 stated that a simple business-friendly environment is essential. Here's all that you need to know

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To achieve the target of a \$5 trillion economy, a simple and business-friendly regulatory environment is essential. Over the last few years, India has made significant improvement in its World Bank's Doing Business rankings. It has risen from 142 in 2014 to 63 in 2019, mainly due to reforms such as the Goods and Service Tax (GST) and the Insolvency and Bankruptcy Code (IBC).

In spite of the progress, a lot more is required to simplify the compliance regime in India.

A LocalCircles survey said that 11 per cent of start-ups in India are considering moving their business to another country due to the heavy compliance burden. The Economic Survey 2020 compares India with other developed economies to show where it needs to improve and how to meet international standards.

It says the steps required to set up a company in India has reduced to 10 (it was 13 earlier) over the last 10 years. The time to incorporate a business takes 18 days (down from a month in 2009). On the other hand, in New Zealand, a single form has to be submitted in a dedicated agency to start a business. All of this gets done within six to ten hours.

Another area where India lags behind substantially is in enforcement of contracts and slow dispute resolution. It ranks 163 out of 190 with countries such as Afghanistan and Mozambique trailing behind it in enforcing contracts. The survey says it takes 1,445 days to resolve dispute in India whereas it takes 216 days in New Zealand. Earlier Economic Surveys too have cited this as the main impediment to ease of doing business in India.

Also, India has a maze of compliances and legislation requirements that have to be met by manufacturing firms leading to a sharp increase in the cost of doing business. Manufacturing units have to duly comply with 6,796 items, says the survey. Services sector isn't any different. The survey finds that China and Singapore require only four licences to open a restaurant, in India it varies in different states and is easily over 20 - even going to 45 in certain cases.

"It's time that government realises that this needs to be a single focal point for them. They have taken great initiatives in terms of highlighting and recognizing the issue. Now they need to walk the walk," says Pratibha Jain, Partner at law firm Nishith Desai Associates. She adds that every new law that is being passed needs to be looked at from the ease of doing business lens. She suggests that someone in the government has to be made responsible to speak up and push back on laws that are not facilitating ease of doing business for start-ups, SMEs, exports and other sectors. For instance, the Data privacy Bill is being drafted to protect national security. It should also be seen from the angle of ease of doing business so that it doesn't impact the cost of access to technology in India.