Editorial introduction

Entry and barriers to entry in emerging markets

Abstract

This note briefly introduces the symposium on entry and entry barriers in emerging markets edited by Nauro Campos and Saul Estrin. The symposium contains four inter-related case studies focusing in depth on the relationship between entry of new firms and institutional arrangements in four major emerging markets: Brazil, China, India and Russia. We find that entry rates are not necessarily low in emerging markets, and that institutional quality is a complex and “fuzzy” notion so that its impact on the entry process is not straightforward.

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In this symposium we report the findings from a cross-country study of entry and barriers to entry of new firms in developing economies. The purpose of the study was to understand the relationship between different aspects of institutions and the rate of creation of new firms in four leading developing economies: Brazil, China, India and Russia. It has been widely hypothesised that relatively high levels of regulation, weak market supporting institutions (for example with respect to the enforcement of private property rights) and corruption might contribute to rates of new firm creation that were lower than is observed in comparable sectors in more developed economies (see, e.g. De Soto, 1990; Tybout, 2000). It was also suggested that the lower entry rates, if these proved to exist, would lead to lower levels of productivity growth and therefore inferior economic performance, for example as a consequence of greater insider power and corruption, less competitive market structures and lower levels of “creative destruction” (see, e.g. Mauro, 1995; Rodrik, 2003; Johnson et al., 1998).

The testing of these ideas has been approached in the literature largely on the basis of large cross-country studies. Thus, in a pioneering work, Djankov et al. (2002) developed quantitative measures for entry barriers and sought to relate these to levels of corruption. More recently, Klapper et al. (2006) associated entry rates by sector across countries with industry entry barriers and indicators of institutional quality in a sample of developed and transition economies. Insightful though these studies are, they necessarily need to rely on relatively simple and quantifiable indicators of institutional quality, as well as highly aggregated measures of entry rates.
Our project was therefore devised to provide clear information on entry rates at a disaggregated level in a selected sample of developing countries, as well as a variety of supplementary evidence about the different forms of institutional development. For this reason, the analysis was restricted to only four countries, each of which is large (in terms of population and size of domestic market) and has been regarded in recent years as “emerging” in the sense that relatively high growth rates are being established, typically subsequent to a major programme of privatization and liberalization. The four economies in our study (plus South Africa) have been widely regarded as the trailblazers for other developing economies, as well as likely to be among the most important economies in the world over a 30 years horizon (see Goldman Sachs, 2001).

Our approach was to develop four comparative country case studies of entry, each containing two quite narrowly defined industries. We worked with country teams to devise a common intellectual framework and common “questionnaires”, whereby the same issues concerning entry rates and institutional characteristics could be teased out by interviews with business people, civil servants, policy makers, financial market specialists and academic observers. We also sought to focus on the same sectors in each country, but this was not always possible and in some cases alternative but comparable sectors had to be used. The particular interview pattern varied somewhat by country (for example relying rather more on policy makers and academics in Russia, and on business people in China). However, relatively frequent project meetings to compare findings and evaluate results reinforced the common themes for the project.

The four country case studies are reported in this special issue. The papers indicate the potential for careful research of this type. We find that entry rates are not necessarily low in developing economies; in fact they are only low in Russia and relatively high by the standards of developed economies in both Brazil and China. There are also very considerable differences in institutional quality within each country depending on which institutional aspect is being explored. It is not clear that it is sensible to consider measuring “institutions” by one or a few aggregate indicators. In particular, the distinction between formal and informal institutions suggested by North seems valuable in this context. Given the “fuzziness” in the notion of institutional quality, it is not surprising that taking the four papers together, we do not discern an unambiguous relationship between institutional quality and rates of entry of new firms.

References


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