

## **EMERGING MARKETS: THE SIGNIFICANCE OF COMPETITION AND CORPORATE GOVERNANCE FOR FUTURE ECONOMIC GROWTH**

The received image of emerging markets as being basically characterised by pervasive and inefficient government controls on economic activity, lack of competition, immature and imperfect capital markets and poor corporate governance is far from being the whole picture. That is the broad message of a series of research papers edited by Professor **Ajit Singh** and published in the November 2003 issue of the *Economic Journal*.

Despite shortcomings in corporate governance in many countries, leading emerging economies have vibrant product markets and display as much intensity of competition as that observed in advanced countries. Furthermore, despite capital market imperfections, stock markets in these countries have been growing fast and contributing significantly to financing corporate growth.

The evolution of emerging countries' product and capital markets provides a solid basis for future advance. A central developmental issue is how to use these social assets for promoting and completing the industrial revolution that many developing countries embarked on in the second half of the twentieth century.

Institutions such as competition, stock markets, banks and good corporate governance are required not just for their own sakes but more as a means to an end – the fast growth of these countries' real economies, reduced poverty and other developmental goals. The mere existence of these institutional mechanisms is no guarantee of their being successfully harnessed for economic development.

Singh's introductory essay to the series of papers examines the relationship between on the one hand, long-term economic growth, and on the other hand, the intensity of competition and corporate governance. Overall on the basis of analysis and evidence from emerging markets, as well as transition economies, he concludes that:

- some competition is better than no competition;
- unfettered competition is not necessarily optimal;
- nations with highly imperfect markets can achieve fast long-term economic growth;
- and many economically successful countries have followed policies that combine competition with purposive co-operation. Nations need to develop appropriate institutions in order to combine competition and co-operation successfully.

Singh's introduction argues that the issues of competition and corporate governance are profoundly important both for the people of emerging

countries and for the world economy. Their international prominence stems from the Asian crisis, which devastated some of the world's fastest growing economies in 1997-9.

As the crisis developed, an influential view of it emerged in Washington policy-making circles, which asserted that the 'deeper causes' of the crisis were structural and involved the normal day-to-day interactions of corporations, banks and governments in these countries. Thus, in this view, the fundamental reasons for the crisis lay in the 'Asian way of doing business'.

As an explanation for the Asian crisis, the structural theory is by no means adequate or accepted by most economists. It has nevertheless helped concentrate minds on the nature of industrial structure and corporate organisations in emerging countries. The growing significance of these countries in the world economy, and the possibility of spill-over effects from the crisis in these economies onto the global economy, led to calls in the late 1990s for a new 'international financial architecture' so as to avoid future crises.

This discussion emphasises corporate governance and product market competition as important areas of reform for emerging countries. But compared with advanced countries, research on these subjects in developing countries has unfortunately been minimal. The papers in the *Economic Journal* are intended to advance knowledge on these topics in order to help provide a sound intellectual and empirical basis for policy interventions whether by governments or international financial institutions.

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**Notes for Editors:** 'Competition, Corporate Governance and Selection in Emerging Markets', a series of papers edited by Ajit Singh is published in the November 2003 issue of the *Economic Journal*.

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