1. How do emerging markets differ from developed markets? A conceptual and empirical analysis*

Olga E. Annushkina, Hemant Merchant, Renata Trinca Colonel and Elena Berselli

The study of emerging markets (EMs) is one of the most popular themes in international business research, at least in terms of the rise in published academic studies and those presented at conferences worldwide. Despite the substantial increase in academic interest in EMs, there is an alarming lack of consensus about what characterizes these markets as 'emerging'. An important part of management theory is being built without an accurate revision of some of its key assumptions. Implicitly the 'emerging-ness' is defined as the probability of the country achieving higher than average growth in the creation of economic wealth by including or attracting more resources or by using more efficiently existing factors of production. It appears that we academics view all countries that are not 'developed' as emerging—a problem that arises from the notable lack of a common definition of the term. We seem to be furiously investigating a phenomenon without really establishing its meaningful boundaries. Our study redresses this crucial neglect by testing the correspondence between existing definitions of EMs and countries that academics and practitioners deem to be 'emerging' markets.

But who are these EMs? And what differentiates them from markets that are not 'emerging'? These are important questions to the extent that defining the boundaries of a phenomenon enables a shared understanding of the nature of the phenomenon itself. Without such consensus, even the most well-intended scientific endeavours devolve into studies of the 'Blind Men and the Elephant' (a parable) variety in which different researchers ascribe very different meanings—with very different implications—to the same phenomenon (Merchant & Ford, 2011). Yet, a closer scrutiny of EM studies indicates a general reticence to define what the term 'emerging markets' actually means (Wilson & Ushakov, 2011)—and therefore who these markets really are, and what fundamentally characterizes them.

While scholars have offered several working definitions of EMs, there is no consensus about which, if any, of them most fully captures the essence

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of the term (Annushkina, Trinca Colonel & Berselli, 2011). Indeed, despite several suggestions that EMs should be viewed in terms of their institutional deficiencies (e.g., see Cuervo-Cazurra & Genc, 2008; Ghemawat & Khanna, 1998; Khanna & Palepu, 1997, 2000; Peng, Wang & Jiang, 2008), many other studies indicate that institutional weaknesses also exist in *developed* economies (Jackson & Deeg, 2008; Ring, Bigley, D'Aunno & Khanna, 2005). In fact, the World Economic Forum ranks the institutional quality of some EM countries to be *higher* than that of some developed countries (Schwab, 2010). Clearly, there is a need to address what characterizes EMs as 'emerging' from an empirical, as opposed to a purely conceptual, standpoint. This complementarity would better facilitate our understanding of the essence of EMs worldwide. Our study attempts to fill in that gap.

Our objective is to contribute—through empirical analysis—to gaining a more rigorous grasp of the 'emerging markets' term and, indirectly, to its more careful use in the literature. We begin by highlighting the large variance in EM definitions by practitioners as well as some leading academics, and discuss the salient themes arising from our review, which we then complement with empirical analysis. Next, we describe our protocol for selecting the academic EM studies (published in four leading journals over a recent 10-year period) included in this report. We analyse these studies for the criteria they have applied to isolate EMs. These criteria form the backbone of this study, which relies upon them to empirically predict which countries can be labelled 'emerging'. We conduct robustness tests (using a 'loose' and a 'tight' definition of EMs) to statistically analyse the predictive efficacy of various popular criteria used to characterize EMs. The next section reports our study's findings and discusses their implications, and the final section outlines potentially interesting extensions of our work.

CONCEPTUAL DEFINITIONS OF EMs

Despite widespread interest in EMs, there still is considerable disagreement as to what constitutes an 'emerging' market. Indeed, as Wilson & Ushakov (2011) observed: 'Even though the word "emerging market" is an often used phrase. . .most authors do *not* give a formal definition. Today, there is simply no commonly accepted definition of what constitutes an emerging market' (p. 6; emphasis added). As a first step to overcome this overwhelming neglect (Annushkina, Trinca Colonel & Berselli, 2011; Merchant & Ford, 2011), we summarize how some leading academics and global institutions view the notion of EMs. Table 1.1 reports these definitions and underscores just how much variance there is across existing definitions. Several trends are noteworthy.

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Table 1.1 Emerging markets: some definitions and selection criteria

Author/institution	Definition/criteria
Garten (1997)	No explicit definition. 'In identifying the [Big Emerging Markets], here are some of the key considerations used in selecting which countries qualify: [a] They have large populations, large resource bases, large markets, and are powerhouses in their respective regions, [b] They are bursting onto the world scene, shattering the status quo, [c] They are critical participants in the major political, economic, and social dramas taking place on the world scene, [d] They are the world's fastest expanding markets, and responsible for a good deal of the world's explosive growth of trade, and [e] They are all trying to open their economies, balance their budgets, and sell off their state companies. All but two [Big Emerging Markets] have instituted substantial political liberalization' (pp. 13–15).
Arnold & Quelch (1998)	'There is no commonly accepted definition of "emerging market," but there are three aspects of a country's economy that often underlie various definitions. *First* is the absolute level of economic development, usually indicated by the average GDP per capita, or the relative balance of agrarian and industrial/commercial activity. This overlaps with other categorizations such as "less developed countries" (LDCs) or "Third World countries." *Second* is the relative pace of economic development, usually indicated by the GDP growth rate. *Third* is the system of market governance and, in particular, the extent and stability of a free-market system; if a country is in the process of economic liberalization from a command economy, it is sometimes defined as a "transitional economy"' (p. 9; italics in original).
Hoskisson, Eden, Lau & Wright (2000)	'. . .a country that satisfies two criteria: a rapid pace of economic development, and government policies favoring economic liberalization and the adoption of a free-market system (Arnold & Quelch [1998])' (p. 249).
Khanna, Palepu & Carlsson (2006)	'We define emerging markets by the absence, or poor functioning, of specialized intermediaries [who provide the requisite information and contract enforcement needed to consummate transactions between buyers and sellers]. That is, emerging markets are, literally, emerging, as they struggle to find ways to bring buyers and sellers of all sorts together for productive exchange' (p. 2).

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Table 1.1 (continued)

Author/institution	Definition/criteria
Kvint (2008)	'. . .a society transitioning from a dictatorship to a free market-oriented economy, with increasing economic freedom, gradual integration within the marketplace, an expanding middle class, improving standards of living and social stability and tolerance, as well as an increase in cooperation with multilateral institutions.'
Dow Jones (2010)	No explicit definition. 'Countries are categorized as either "developed" or "emerging" for the purpose of stock selection based on the stocks' International Monetary Fund (IMF) classifications.'
The Economist (2010)	No explicit definition. To determine whether a country qualifies as an EM, *The Economist* performs an annual analysis using eight criteria which it has employed consistently over the past decade. These criteria are: i) market size, ii) market growth rate, iii) market intensity, iv) market consumption capacity, v) commercial infrastructure, vi) economic freedom, vii) market receptivity, and viii) country risk.
FTSE (2015)	No explicit definition. 'The generic term "emerging markets" is used to describe a nation's social or business activity in the process of rapid industrialization. The term "rapidly growing economy" is now being used to denote emerging markets. The FTSE Group classified [EMs] according to a transparent, rules-based process that monitors markets status against fifteen defined Quality of Markets criteria. The FTSE Group has divided the emerging markets into advanced emerging and secondary emerging countries based on the development of their market infrastructure for greater granularity. These segments generally exhibit the following characteristics: Advanced Emerging: Upper middle-income GNI countries with advanced market infrastructures, and high-income GNI countries with lesser developed market infrastructures; Secondary Emerging: Lower middle and low-income GNI countries with reasonable market infrastructures and significant size, and Upper middle-income GNI countries with lesser developed market infrastructures.'

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International Finance Corporation (1981)	No explicit definition. 'What we did not have was an elevator pitch that liberated these developing economies from the stigma of being labeled as "Third World" basket cases. . .I at last came up with a term that sounded more positive and invigorating: *Emerging Markets*. "Third World" suggested stagnation; "Emerging Markets" suggested progress, uplift, and dynamism. . .I sat down at my desk at IFC and dashed off a memo that made my message explicit. . .Thus, a phrase was coined' (van Agtmael, 2007, p. 5; italics in original). Alternatively, middle to high-income economies among developing countries with stock markets in which foreigners could buy securities.
(2002)	All developing countries with a Gross National Income per capita of US$9,265 or less (Box 2, p. 8).
International Monetary Fund (2010a)	'Developing countries' financial markets that are less than fully developed, but are nonetheless broadly accessible to foreign investors.'
(2010b)	'. . .the capital markets of developing countries that have liberalized their financial systems to promote capital flows with non-residents and are broadly accessible to foreign investors.'
Morgan Stanley Capital Index (MSCI) (2010)	'In general, emerging markets are considered to be fast-growing economies which tend to offer an opportunity for higher return, but also may carry more risk relative to developed markets. What drives the categorization of any country as developed or emerging in the MSCI index is the size, depth, breadth and transparency of the country's equity capital market as well as the availability of stocks for purchase by foreigners.'
Standard & Poor's (2007)	'The term "emerging market" implies a stock market that is in transition—increasing in size, activity, or level of sophistication. Most often the term is defined by a number of parameters that attempt to assess a stock market's relative level of development and/or an economy's level of development. In general, Standard & Poor's classifies a stock market as "emerging" if it meets at least one of several general criteria: (i) it is located in a low or middle-income economy as defined by The World Bank, (ii) it does not exhibit financial depth; the ratio of the country's market capitalization to its GDP is low, (iii) there exist broad based discriminatory controls for non-domiciled investors, or (iv) it is characterized by a lack of transparency, depth, market regulation, and operational efficiency. Emerging markets generally fall short of the ideal standards for many of the [fifteen specific] criteria listed. . .

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Table 1.1 (continued)

Author/institution	Definition/criteria
Standard & Poor's	Until 1995, the index definition of an emerging stock was based entirely on The World Bank's classification of low and middle-income economies. If a country's Gross National Income (GNI) per capita did not meet The World Bank's threshold for a high-income country, the stock market in that country was said to be "emerging." More recently, this definition has proven to be less than satisfactory. . . Accordingly, [S&P's] adopted new and more far-reaching criteria to classify markets as "developed" or "emerging." To graduate from emerging status, GNI per capita for an economy should exceed The World Bank's upper income threshold for at least three consecutive years. . . For a market to graduate from the emerging market series, it should have an investable-market-capitalization-to-GDP ratio near the average of markets commonly accepted as developed, for three consecutive years. . . There are also numerous qualitative features to consider when analyzing specific stock markets.' (2010). A stock market is 'emerging' if it meets one of the following criteria: i) it has a regulatory authority with a strong [USA's] *Securities and Exchange Commission*-like structure, ii) it is in transition (increasing in size, activity or level of sophistication), iii) it is located in a low or middle-income economy, as defined by the World Bank, and iv) has a low market capitalization-to-GDP ratio.

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One, there often is no explicit definition of EMs and a clear admission to that effect (e.g., Arnold & Quelch, 1998; Garten, 1997). Two, when a definition exists, its foundations seem to depend upon who is defining the term. As expected, many academic definitions are qualitative, theoretically oriented, holistic in their foundations, and difficult to operationalize (e.g., see Khanna, Palepu & Carlsson, 2006; Kvint, 2008) because of tradeoffs involving the definitions' multi-dimensionality. In contrast, definitions by global institutions (e.g., World Bank, 2010) are usually quantifiable, based on a narrow set of criteria, invoke key macroeconomic indicators, and are relatively easy to operationalize. In other words, at least for these global institutions, the criteria indirectly hint at a definition which *per se* does not exist. Three, the essence of what is 'emerging' about EMs varies dramatically, although there is some overlap across definitions. To illustrate, Khanna, Palepu & Carlsson (2006) view EMs through a structural lens, in terms of 'institutional voids' (p. 2), whereas Standard & Poor's (S&P), for example, views EMs through the lens of a country's capital markets, and the FTSE Group, an independent company owned by the Financial Times and the London Stock Exchange, views EMs in terms of their market infrastructure. Four, some institutional definitions add, over time, new criteria for a country to qualify as an EM (e.g., S&P). At least theoretically, this evolving definition, while understandable from a relevancy standpoint, creates a situation where a country (previously labelled as an EM) might not requalify as an EM across definitions even a few years apart, or vice versa. Moreover, although the definition's basis is quantifiable (e.g., gross national income [GNI] per capita), the statistic's threshold itself is susceptible to change over time. Finally, very few definitions explicitly recognize tradeoffs and inter-temporal consistency as being essential ingredients of a multi-dimensional definition of EMs (see Khanna, Palepu & Carlsson, 2006; JP Morgan, 2010 for exceptions).

UNDERSTANDING EMs: AN EMPIRICAL APPROACH

Given the large heterogeneity across various *conceptual* definitions of EMs, we adopted an *empirical* approach to better understand the operational (i.e., quantifiable) essence of EMs. This complementary approach is useful for at least four reasons. One, it enables a sharper focus on the nature of markets which are deemed to be emerging. Such a resolution is currently lacking, as underscored in the above section. Thus, a closer scrutiny of the concept would enable a more rigorous treatment of the

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core phenomenon, which is necessary to conduct 'good' science. Two, an empirical approach complements a recent meta-analytic study of academic work on EMs (see Merchant & Ford, 2011). Three, our approach is logically consistent with a considerable amount of academic work that underscores the growing economic clout of EMs both as a ground for future investment opportunity for developed country multinational corporations (MNCs) (e.g., Dunning, 1988; Narula, 2006) and as a basis of competition from local firms (Dunning, 2006; Dunning, van Hoesel & Narula, 1998; Mathews, 2006; Sauvant, Mendoza & Ince, 2008; Yeung, 1999). Four, current academic literature not only lacks an unambiguous operational definition of which countries are considered to be emerging and which are not (see next section), but also appears simply to ignore bridging this crucial gap.

METHODOLOGY

As a first step towards addressing the above-noted imperative, we approach the notion of EMs from an empirical perspective. Our efforts consisted of two phases. In phase 1, we identified all 61 academic EM articles published in four leading business journals and the criteria these studies applied to characterize EMs. This list of criteria helped us to select our study's independent variables. We relied on the academic articles because their list of definitions was not only more comprehensive but also included some criteria (e.g., economic growth) used by practitioners to define EMs. Thus, the criteria underlying some of our independent variables appeared in practitioner articles as well as academic articles. In phase 2, we generated a list of countries which these studies had identified as EMs. This list of countries (along with a list of developed countries) served as our dependent variable.

Generating a List of EM Studies

We restricted our analysis to studies published between June 2000 and June 2010 in four journals: i) *Academy of Management Journal*, ii) *American Economic Review*, iii) *Journal of International Business Studies*, and iv) *Strategic Management Journal*. We selected these journals for a variety of reasons, in addition to the usual resource constraints. One, these journals represent three managerially relevant disciplines: Economics, International Business, and Management. Two, these journals focus on a broad variety of issues and cover conceptual and empirical domains (Bruton & Lau, 2008). Three, there is general consensus

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that these journals are of high quality and therefore significantly impact the academic profession (Judge, Cable, Colbert & Rynes, 2007). Four, previous works with a similar focus have also included these journals (e.g., see Bruton & Lau, 2008; Lockett, Moon & Visser, 2006). Finally, these journals likely receive submissions from around the world and so presumably are comprehensive in terms of EM topics investigated by researchers worldwide. Moreover, the journals' editorial boards comprise scholars worldwide, suggesting a greater tolerance for the diversity of submitted manuscripts. Nonetheless, we note that many studies published in the above journals are authored by researchers based in 'developed' countries. Following precedent (e.g., see Merchant & Ford, 2011), and due to resource constraints, we excluded studies presented at the annual conferences of the above journals. Yet, we would argue that 40 journal-years (4 journals times 10 years per journal) adequately capture the published scholarly work in EMs—and the criteria used to define the term. We searched the above journals' archives using 'emerging' as a title or article keyword (supplied by authors). Our search returned a sample of 61 articles, a list of which is available upon request. Of these, only 5 articles (8% of all articles) explicitly defined the term 'emerging markets'; the remaining 56 articles did not define the term. Only Martin & Rey (2006) specified EMs as markets '. . .with GDP per capita equal or below that of South Korea' (p. 1631). The remaining four articles used definitions offered by the International Monetary Fund (IMF), International Finance Corporation (IFC), JP Morgan, and S&P (see Calvo, Izquierdo & Talvi, 2006; Carrieri & Majerbi, 2006; Hoskisson, Eden, Lau & Wright, 2000; McNamara & Vaaler, 2000).

Phase 1: Identifying Criteria Authors Use to Define EMs (Independent Variables)

To generate a comprehensive list of EM criteria, two of this study's authors independently read each of the 61 articles and identified *all* criteria mentioned in these articles. Our work produced an inter-rater reliability of 93%; we resolved the discrepancies through discussion. Appendix 1 lists these 14 criteria. For conceptual clarity, we assigned the 14 criteria to one of three categories: i) institutional traits (6 criteria; 38 articles), ii) macroeconomic development traits (5 criteria; 37 articles), and iii) local market traits (3 criteria; 9 articles). Needless to say, the authors of the 61 studies in our sample used multiple variables to operationalize each criterion. Appendix 1 also contains these details.

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Phase 2: Identifying the List of Developed Countries and EMs (Dependent Variable)

We identified a list of 26 developed countries from the IMF and the CIA World Factbook (2009). Next, we referred to the above-mentioned 61 studies again to generate a list of EM countries. In most cases, authors clearly identified these EMs. However, some authors merely referred to an EM list existing elsewhere (e.g., The World Bank). In such cases, we consulted the base source to update the list of EMs. Appendix 2 lists all 151 countries which academics (directly or indirectly) identified as EMs and for which data were available. We could not find reliable data for Greece and Taiwan, and therefore excluded these countries from our analysis. Unfortunately, this 151-country list was too coarse to be meaningfully used because some studies considered EMs to be practically every country that was *not* a developed country. Hence, we compared the 'academic' list with 'practitioner' lists of EMs identified by four prominent global institutions (FTSE, IMF, JP Morgan, and Standard & Poor's). Appendix 2 contains these five lists (i.e., one academic and four practitioner lists) and highlights the large discrepancy between academic and practitioner lists of EMs. To test the possible sensitivity of results to this discrepancy, we collapsed the academic and practitioner lists into two groups: i) EM-Broad group and ii) EM-Narrow group. The EM-Broad list consisted of 151 EMs whereas the EM-Narrow list consisted of 33 countries included in at least three sources. The latter approach is consistent with Merchant & Ford (2011), who applied a similar protocol to determine a list of 'core' EMs.

Variables and Measures

Our dichotomous dependent variable is whether a country is 'emerging' or 'developed', where a value of 0 = developed country and a value of 1 = emerging market. To ascertain the meaningfulness of our dichotomy, we conducted MANOVA tests for 'Developed versus EM-Broad' and 'Developed versus EM-Narrow' groups. Our results strongly supported the above dichotomy. In both cases, the MANOVA models were significant (both Wilks' lambda $p<0.0001$). Additionally, for the 'Developed versus EM-Broad' comparison, 25 out of 28 individual ANOVAs were significant (most $p<0.05$). For the 'Developed versus EM-Narrow' comparison, 21 out of 28 individual ANOVAs were significant (most $p<0.05$). These results (available upon request) highlight that regardless of the EM group (Broad; Narrow), developed and EMs are empirically distinct along several dimensions.

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Our independent variables consisted of the above 28 variables which represented 7 (out of 14) sub-categories of criteria which authors have used to define EMs. These sub-categories were: i) quality of the local institutional environment, ii) role of the state in business, iii) level of development of financial markets, iv) prospects for economic growth, v) level of economic development, vi) quality of local resources and inputs, and vii) characteristics of the local competitive environment. These sub-categories represent *all* three categories of EM criteria: i) institutional traits, ii) macro-economic development traits, and iii) local market traits. Thus, our analysis is holistic in its treatment of criteria which studies have used to define EMs.

Some data for variables in the remaining sub-categories were available —but only for a very small sub-sample of countries and from proprietary sources that we did not have access to. In some instances, authors had collected data via surveys which our resource-constrained study could not replicate. Thus, including variables in the remaining sub-categories would have drastically reduced the number of observations in our sample and—importantly—eliminated many countries from our study, thus reducing its generalizability. Consequently, we tapped into the World Bank database to operationalize our independent variables. Appendix 3 describes the variables used in our study.

Source of Data

The World Bank is one of the most comprehensive sources of country-level variables; it contains historical as well as current data for several countries. Moreover, relying on a single data source minimized important methods-related concerns such as consistency, reliability, and validity. However, a downside of relying on a single data source was that it did not contain data on every EM criteria identified in the literature. In fact, no one data source cleared this hurdle—and all of them contained far fewer data series.

Our analysis focused only on data from 2008. When a 2008 data value was missing for a country, which was rarely the case, we substituted that value with the country's 2007 value for that data series. We restricted our analysis to a single year for several reasons. One, focusing on a single year allowed us to be consistent with our research objective. Our qualitative analysis indicated that many academic studies lagged 1–2 years behind available EM definitions. Thus, a study published in 2010 would typically refer to an EM definition offered in 2008. By focusing on the year 2008, we could reasonably tap the fundamental correspondence between EM definitions and empirical data. Two, focusing on 2008 also permitted

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us to leverage more recent lists of EMs. These lists can and do change depending upon updates/revisions to the criteria applied to determine EMs (Merchant & Ford, 2011). Three, resource constraints prevented us from collecting several years of data, a challenge also faced by many other researchers. Four, our preliminary data check indicated that, for most countries, there was very little year-to-year variance across many individual data series. Thus, collecting additional data would have added marginal incremental value. It is important to reiterate that our analysis is internally consistent: we use 2008 data to analyse EM definitions adopted in 2008–2009 by academics and practitioners.

Statistical Methods

We ran two multivariate logistic regression models to classify and predict whether a country was classified as Emerging or Developed (our dependent variable) based on 28 predictor variables. In model-1, our dependent variable was the list of 26 developed countries plus all 151 EMs in the 'EM-Broad' list; recall that these 151 EMs appeared in any one of the five EM lists created by academics and practitioners. In model-2, our dependent variable was the list of 26 developed countries plus 33 EMs in the 'EM-Narrow' list; these 33 EMs appeared in at least three of five EM lists created by academics and practitioners.

For both models, we estimated regression coefficients in two different ways: i) without iteration, and ii) with iteration. For the first set of regressions, we included 10 (out of 28) variables based on low multi-collinearity and significance of univariate F-tests. The regression model for the 'Developed/EM-Broad' country list was significant ($p<0.0001$) as were five variables (most $p<0.03$). The regression model for the 'Developed/EM-Narrow' country list was also significant ($p<0.0001$), but only two variables attained significance ($p<0.03$ and $p<0.08$).

For the second set of regressions, we estimated coefficients via an iterative maximum likelihood method. In particular, we estimated the models using a forward-stepwise procedure to (statistically) select the best predictors of EMs. The use of a stepwise procedure is justified due to the sensitivity of binary logistic regression models to multicollinearity and also to information redundancy. In other words, the iterative procedure allowed us to perform robust analyses. All correlations were less than ± 0.40. Given the statistical robustness of results based on the iterative method—and similarity of results between the non-iterative and iterative specifications—we report results based on the iterative specification.

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RESULTS AND DISCUSSION

Table 1.2 reports findings pertaining to the regression model for the 'Developed/EM-Broad' list of 177 countries, whereas Table 1.3 reports results for the 'Developed/EM-Narrow' list of 59 countries. Above all, the results in Table 1.2 indicate that the logit regression model is statistically significant (Chi-square $p<0.000$) with explanatory power between 48% and 87%, depending upon the particular form of the R-square test. Moreover, the results indicate three interesting findings. One, although the three variables representing economic growth rates and economic development are significant (all p-values between 0.001 and 0.046), the nature of their impact differs remarkably. The higher a 'flow' variable (of economic growth), the more likely that it is associated with EMs. In

Table 1.2 Results for the 'Developed/EM-Broad' country list

Dependent variable: List of 26 Developed countries and 151 EMs (i.e., 177 countries in total).

Variables	Stdz. coeff.	Wald statistic	p-value
Net FDI outflows (% of GDP)	0.035	3.97	0.046
GDP per capita (PPP; Constant 2005 USD)	−0.000	13.07	0.000
CAGR of total GDP (PPP; Constant 2005 USD)	118.243	10.64	0.001
Number of procedures needed to enforce a contrast	0.239	7.87	0.005
Subsidies and other transfers (% of government expense)	−0.084	4.72	0.029
State contribution to tax revenue (% of GDP)	−0.219	8.41	0.004
Constant	−116.416	9.77	0.002

Notes:
FDI = foreign direct investment; PPP = purchasing power parity; CAGR = compound annual growth rate.
Model Chi-square = 98.74 ($p < 0.000$)
−2 Log likelihood = 27.118
Cox & Snell R-square = 48.40%
Nagelkerke R-square = 86.80%
Model's overall predictive power = 97.18%

	Predicted: Developed country	Predicted: Emerging market
Observed: Developed country	88% (23 countries)	12% (3 countries)
Observed: Emerging market	1% (2 countries)	99% (149 countries)

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Table 1.3 Results for the 'Developed/EM-Narrow' country list

Dependent variable: List of 26 Developed countries and 33 EMs (i.e., 59 countries in total)			
Variables	Stdz. coeff.	Wald statistic	p-value
CAGR of Exports of goods & services (% of GDP)	46.014	4.77	0.029
GDP per capita (PPP; Constant 2005 USD)	−0.000	7.06	0.008
CAGR of total GDP (Constant 2005 USD)	154.986	8.11	0.004
Time to resolve insolvency (Number of years)	1.287	2.89	0.089
Constant	−208.195	8.01	0.005

Notes:
Model Chi-square = 18.32 ($p < 0.019$)
−2 Log likelihood = 17.296
Cox & Snell R-square = 66.00%
Nagelkerke R-square = 88.40%
Model's overall predictive power = 96.61%

	Predicted: Developed country	Predicted: Emerging market
Observed: Developed country	96% (25 countries)	4% (1 country)
Observed: Emerging market	3% (1 countries)	97% (32 countries)

contrast, the higher a 'stock' variable (of economic development) such as gross domestic product (GDP) per capita, the greater the chance that it predicts a developed country. Two, as expected, a weaker quality of a local institutional context (measured here in terms of the number of procedures needed to enforce a contract) is associated with EMs ($p<0.005$). Three, contrary to received wisdom, a higher level of state involvement in an economy is associated with developed countries ($p<0.029$ and $p<0.004$) rather than EMs, which many believe are characterized by the visible hand of local government.

The regression model reported in Table 1.3 is also statistically significant ($p<0.019$), with an explanatory power between 66% and 88% depending upon the specific R-square test. Despite the model's focus on a more conservative set of EMs (i.e., those which appeared in at least three lists), two variables representing economic growth and economic development also attain significance here. As in Table 1.2, the 'flow' variables of economic development that predict EMs (Growth of goods/

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services exports and GDP growth rates) are significant below $p<0.029$ and $p<0.004$ respectively. In contrast, the 'stock' variable predicts developed countries ($p<0.008$). It is worth remarking that these patterns are consistent between the Broad and Narrow lists of EMs. A weak local institutional context (denoted by *greater* time needed to resolve insolvency; parameter estimate = 1.28; $p<0.089$) is associated with EMs.

Our efforts to understand the essence of EMs from an *empirical* perspective suggest that institutional and macro-economic development factors help to differentiate between EMs and developed countries. In contrast, the third category of criteria (i.e., local market factors) does not seem to be effective at discriminating between the two. This is possible to the extent that local market factors (e.g., Quality of local resources and Local competition) are subsumed under institutional factors: the two categories appear to be distinct from a conceptual standpoint, but not from an empirical standpoint. Our findings on the predictive role of institutional factors are in the expected direction for some indicators, but counterintuitive for other indicators of institutional quality—particularly in relation to the EM-Broad group. As expected, the two 'bureaucracy' indicators of institutional quality (Number of procedures needed to enforce a contract and Time needed to resolve insolvency) are associated with EMs. On the contrary, for the EM-Broad group, we were surprised that two other indicators of institutional quality (Subsidies and other transfers and State contribution to tax revenue) were associated with developed countries, not EMs.

Motivated by the existing diversity of 'emerging market' definitions—and the lack of agreement on them—we sought to uncover the *empirical* essence of these markets. Based on a literature review, we identified various criteria used by academics and practitioners to define EMs, sought out proxies of as many criteria as our resources permitted, and engaged these proxies to empirically isolate developed countries from EMs. Although our models did a fine differentiation job, we caution researchers that EMs are often distinguished from the *geography*-based point of view, rather than by the country *characteristics*-based point of view. To illustrate, a high GDP growth rate may indicate the emerging-ness of a country, but many countries presently deemed to be 'emerging' have, for several years now, been dormant in terms of their economic growth. It seems that, so far, our tendency has been to use geography as a proxy of emerging-ness, but this is a completely different—even superficial and, perhaps, incorrect—approach to classifying EMs. For sure, many leading EMs (e.g., Brazil, China, and India) rest on both above-mentioned bases of differentiation. But many EMs do not. And it is these latter EMs that need our closer empirical scrutiny. Clearly, we need to dig even

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deeper to search for a meaning (or two!) of what is 'emerging' about EMs. In the absence of such meaning, it is possible that a characteristics-based delineation of 'emerging' markets could identify fast-growth 'developed' markets as emerging! Hence, we need to fundamentally rethink our use of the 'emerging markets' label (Merchant, 2007). This is particularly important because the list of EMs is not static. Indeed, previous work (e.g., see Merchant & Ford, 2011) suggests that countries can and do both join and leave a list(s) of EMs. We should now seriously pursue the idea of letting empirical data guide a terminological fine-tuning of the EM label.

IMPLICATIONS AND FUTURE RESEARCH

The theory advancement of our study consists in improving the existing definition of EMs. We contribute to the advancement of the previous research on the EMs by investigating the empirical validity of the EM characteristics described in the mainstream managerial literature.

Our empirical analysis confirms the macro-economic growth- and institution-based views on the definition of emerging economies, while, contrary to the existing definitions, the level of indebtedness, of government intervention, and the rates of new business creation were higher for developed economies.

For managers and entrepreneurs, our study offers a better understanding of the nature of EMs, with the objective of stopping 'the errors of definitions multiply[ing] themselves' (Hobbes, 1988, p. 105). The term 'emerging markets' is frequently used in firms' annual reports and press statements, and an improved knowledge of the underlying meaning of the term and of the expected EM characteristics would create a better basis for decision-making processes.

Our research has some limitations, which we outline as possible future research areas. An obvious extension would be to extend our analysis to a multi-year period. A longitudinal view can better expose fundamental EM qualities which are robust over time. Such extensions could be supplemented with meaningful proxies of constructs that researchers operationalize using survey data. We attempted to pursue this latter avenue but were constrained in terms of resource availability. For conceptual triangulation, researchers can replicate our study using text-based data analysis software which can do content analysis (Weber, 1990) through various EM definitions.

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NOTE

* An earlier version of this chapter was presented during the 2011 Academy of International Business conference held in Nagoya, Japan.

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APPENDIX 1

Table 1A.1 Criteria used to define emerging markets

Criteria	Articles	Countries mentioned in articles as 'emerging'
PANEL A: INSTITUTIONAL TRAITS		
A1: Quality of the Local Institutional Environment ● Imperfections and inefficiencies of the institutional environment of emerging markets, including 'hard' and 'soft' institutions, general weakness of institutions; ● Weak and ineffectual intellectual property protecting laws; ● Market inefficiencies leading to extra costs and delays; ● Law and order, corruption and state autonomy indices; ● Inefficient data dissemination; ● Severe information asymmetry and uncertainties. A2: Role of the State in Business ● Importance of state-owned or state-supported enterprises; ● Significant state support to firms with assets and inputs, including information and financial resources via tax policies and export subsidies;	Aulakh, Kotabe & Teegen, 2000; Bhaumik, Driffield & Pal, 2009; Calvo & Mendoza, 2000; Chang & Hong, 2000; Choi, Lee & Kim, 1999; Dharwadkar, George & Brandes, 2000; George & Prabhu, 2000; Filatotchev, Buck & Zhukov, 2000; Filatotchev, Liu, Buck & Wright, 2009; Filatotchev, Strange, Piesse & Lien, 2007; Fang & Zou, 2010; Gao, Murray, Kotabe & Lu, 2010; Kroszner, 2003; Guillén, 2000; Hitt, Dacin, Levitas, Arregle & Borza, 2000; Hoskisson, Eden, Lau &	Argentina; Belarus; Brazil; Chile; China; Colombia; Croatia; Czech Republic; former Eastern Germany; Egypt; Estonia; Hungary; India; Indonesia; Israel; Malaysia; Mexico; Peru; the Philippines; Poland; Romania; Russia; Singapore; Slovakia; South Korea; Taiwan; Thailand; Turkey; Ukraine; Vietnam

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Table 1A.1 (continued)

Criteria	Articles	Countries mentioned in articles as 'emerging'
A2: Role of the State in Business ● Strong protectionism; ● High degree of political and ideological influence on business; ● Low credibility of political institutions. A3: Importance of Formal and Informal Networks ● Importance of government, institutional capital and personal relationships, both formal and informal, due to the absence or underdevelopment of market mechanisms for resource allocation. A4: Firms Ownership ● Prevalence of family control firms, concentrated ownerships and conglomerates due to inefficiencies of the institutional environment. A5: Reforms ● Increasing openness of the economy; ● Economic and political liberalization; ● Extensive and fast reforms and changes in social, legal, and economic institutions;	Wright, 2000; Kim, Kim & Hoskisson, 2010; Isobe, Makino & Montgomery, 2000; Khanna & Rivkin, 2001; Lewin, Massini & Peeters, 2009; Lu, Zhou, Bruton & Li, 2009; Luo, 2002; Luo, 2003; Luo, Chung & Sobczak, 2008; McDermott & Corredoira, 2009; May, Stewart & Sweo, 2000; Meyer & Estrin, 2001; Miller, Li, Eden & Hitt, 2007; Miller, Lee, Chang & Le Breton-Miller, 2009; Khanna & Palepu, 1997; Tan & Peng, 2003; Peng, Wang & Jiang, 2008; Siegel, 2009; Su, Yang, Zhuang, Zhou & Dou, 2008; Uhlenbruck & De Castro, 2000; Zhang, Li, Hitt & Cui, 2007; Zhou & Li, 2008; Zhou, Tse & Li, 2006	Plus 'transition economies in East EU and Asia' as defined by The World Bank Plus IMF/EBRD definitions of EMs (i.e., 51/52 developing economies and 13 transition economies)

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• Privatization in progress; • Quick liberalization and dismantling of central planning mechanism to improve the productive efficiency and global competitiveness of the formerly state-owned enterprises.		
A6: Level of Development of Financial Markets • Low level of development ('immaturity') of financial markets, including (from a legislative point of view) lack of formal legal shareholder protection and law enforcement; • Financial markets failures: lack of adequate disclosure and weak corporate governance and control, weak and erratically enforced securities regulations, absent or not fully evolved intermediaries (e.g., financial analysts, mutual funds, investment bankers, venture capitalists, and financial press); • Limited creditworthiness of markets, inefficient accounting practices, low level of protection of creditor rights, and limited contract enforcement by laws; • Weak rule of law and weak safeguards against self-dealing by corporate insiders; • Active presence of developmental international financial institutions.		
PANEL B: MACRO-ECONOMIC DEVELOPMENT TRAITS		
B1: Prospects for Economic Growth • Rapid growth due to the economic/political liberalization and despite volatile/weak legal systems; • High potential for economic growth;	Aulakh, Kotabe & Teegen, 2000; Bae & Lawler, 2000; Boubakri, Cosset & Smaoui, 2009; Burnside, Eichenbaum & Rebelo, 2007;	Argentina; Brazil; Bulgaria; Chile; Colombia; China (incl. Hong Kong);

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Table 1A.1 (continued)

Criteria	Articles	Countries mentioned in articles as 'emerging'
B1: Prospects for Economic Growth ● Growth of outward FDIs; ● IMF list of EMs; ● GDP growth; ● Shift from import substitution towards outward-oriented export-led growth; ● Importance of manufacturing for the economic growth. B2: Economic Instability ● Recurring financial crises; ● IMF criteria: default history; ● Real exchange rate and interest rate variability in particular in the case of primary products exporters and high foreign debt; ● Sudden stops of capital inflows and 'phoenix miracle' (i.e., quick output recovery from a sharp economic collapse with virtually no recovery in credit or capital inflows); ● Sudden stops in economic growth characterized by sharp, abrupt current-account reversals, deep recessions, and price collapses.	Caballero & Krishnamurthy, 2002; Calvo, Izquierdo & Talvi, 2006; Calvo & Mendoza, 2000; Carrieri & Majerbi, 2006; Chang &Velasco, 2000; Delios & Henisz, 2000; Dharwadkar, George & Brandes, 2000; Du & Choi, 2009; Gubbi, Aulakh, Ray, Sarkar & Chittoor, 2009; George & Prabhu, 2000; Guillén, 2000; Hoskisson, Eden, Lau & Wright, 2000; Isobe, Makino & Montgomery, 2000; Hitt, Dacin, Levitas, Arregle & Borza, 2000; Kim, Kim & Hoskisson, 2010; Krueger, 2003; Liu, Lu, Filatotchev, Buck & Wright, 2009; Luo, 2003; Luo, Chung & Sobczak, 2008; Luo & Tung, 2007; Makhija, 2004; Martin & Rey, 2006; May,	Croatia; Czech Republic; former Eastern Germany; Egypt; Estonia; Greece; Hungary; India; Indonesia; Israel; Kazakhstan; Kenya; Kuwait; Latvia; Lithuania; Malaysia; Mexico; Morocco; Pakistan; Panama; Peru; the Philippines; Qatar; Poland; Romania; Russia; Saudi Arabia; Singapore; Slovakia; Slovenia; South Africa; South Korea; Taiwan; Thailand; Tunisia; Turkey;

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B3: Level of Economic Development ● Low or middle per capita income for at least one of the past 3 years according to World Bank classification or local or external debt restructuring over past 10 years; ● GDP per capita equal or below that of South Korea (period 1975–2001); ● Definition of emerging markets according to S&P/IFC Emerging Market Database (EMDB); ● IMF criteria: GDP per capita, inflation, fiscal balance, external balance, external debt; ● Bid-ask spread 2–4 times higher compared to developed economies; ● Stock market capitalization; ● Asymmetric development of the foreign trade and foreign investments; ● High unemployment; ● High level of inward FDI; ● High rates of return on capital.	Stewart & Sweo, 2000; McNamara & Vaaler, 2000; Mendoza, 2006; Meyer & Estrin, 2001; Siegel, 2009; Mishkin, 2000; Uhlenbruck & De Castro, 2000; Uribe, 2006; Yiu, Lau & Bruton, 2007; Zhang, Li, Hitt & Cui, 2007	United Arab Emirates; Ukraine; Venezuela; Vietnam; Zimbabwe Plus IMF/EBRD definition: 51–52 developing and 13 transition economies
B4: Macro-economic Policies ● Past inefficient monetary policies, high level of inflation, and economy ‘dollarization’; ● Strict monetary control of exchange rates through the explicit use of exchange rate bands and also frequent intervention in the foreign exchange market.		

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Table 1A.1 (continued)

Criteria	Articles	Countries mentioned in articles as 'emerging'
B5: Quality of Local Resources and Inputs ● Low input costs and inexpensive labour; ● Local management and marketing skills adapted to the local conditions; ● Relatively low level of technology or ethnic standards; ● Low resource efficiency, in particular skills and material inputs; ● Scarce availability and high cost of capital; ● Low availability of supporting industries and infra-structure; ● Underdeveloped labour markets characterized by a shortage of experienced managerial talent.		
PANEL C: LOCAL MARKET TRAITS		
C1: Volatility of the Business Environment ● Unpredictable business environments; ● Complexity and fast change of the market environment.	Aulakh, Kotabe & Teegen, 2000; Bae & Lawler, 2000; Dou, Li, Zhou & Su, 2009; Fang & Zou, 2010; Isobe, Makino &	Brazil; Chile; China; Czech Republic; Croatia; former Eastern Germany;

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C2: Demand Characteristics ● Heterogeneous consumer segments and idiosyncratic marketing systems; ● Fast evolution of consumer demand; ● Loss of former captive markets; ● Uncertain local demand conditions; ● Growing importance of consumption-oriented values in the society.	Montgomery, 2000; Luo, 2002; Luo, 2003; Sharma, 2011; Uhlenbruck & De Castro, 2000	Estonia; Hungary; Mexico; Poland; Romania; Russia; South Korea; Singapore; Slovakia; Taiwan
C3: Characteristics of the Local Competitive Environment ● Constant emergence of new global and domestic competitors; ● Important intensification of competition; ● Formation of a large array of new firms; ● Entrance of competent foreign companies.		

Note: EBRD = European Bank for Reconstruction and Development.

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APPENDIX 2

Table 1A.2 Classifications of emerging economies

Country	Classification		Sources				
	EM-Broad	EM-Narrow	FTSE	IMF	MSCI	S&P	Academics
Afghanistan	x			x			x
Albania	x			x			x
Algeria	x			x			x
Angola	x			x			x
Antigua and Barbuda	x			x			x
Argentina	x		x	x		x	x
Armenia	x			x			x
Azerbaijan	x			x			x
Bahamas	x			x			x
Bahrain	x		x	x		x	x
Bangladesh	x			x			x
Barbados	x			x			x
Belarus	x			x			x
Belize	x			x			x
Benin	x			x			x
Bhutan	x			x			x
Bolivia	x			x			x
Bosnia and Herzegovina	x			x			x
Botswana	x			x			x
Brazil	x	x	x	x	x	x	x
Brunei	x			x			x
Bulgaria	x			x			x
Burkina Faso	x			x			x
Burundi	x			x			x
Cambodia	x			x			x
Cameroon	x			x			x
Cape Verde	x			x			x
Central African Republic	x			x			x
Chad	x			x			x
Chile	x	x	x	x	x	x	x
China	x	x	x	x	x	x	x
Colombia	x	x	x	x	x	x	x
Comoros	x			x			x
Congo, Dem. Rep.	x			x			x
Congo, Rep.	x			x			x
Costa Rica	x			x			x
Cote d'Ivoire	x			x			x
Croatia	x			x			x
Czech Republic	x	x	x		x	x	x

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Table 1A.2 (continued)

Country	Classification		Sources				
	EM-Broad	EM-Narrow	FTSE	IMF	MSCI	S&P	Academics
Djibouti	x			x			x
Dominica	x			x			x
Dominican Republic	x			x			x
Ecuador	x			x			x
Egypt	x	x	x	x	x	x	x
El Salvador	x			x			x
Equatorial Guinea	x			x			x
Eritrea	x			x			x
Estonia	x			x			x
Ethiopia	x			x			x
Fiji	x			x			x
Gabon	x			x			x
Gambia	x			x			x
Georgia	x			x			x
Ghana	x			x			x
Grenada	x			x			x
Guatemala	x			x			x
Guinea	x			x			x
Guinea-Bissau	x			x			x
Guyana	x			x			x
Haiti	x			x			x
Honduras	x			x			x
Hong Kong (SAR, China)	x						x
Hungary	x	x	x	x	x	x	x
India	x	x	x	x	x	x	x
Indonesia	x	x	x	x	x	x	x
Iran	x			x			x
Iraq	x			x			x
Israel	x		x		x	x	x
Jamaica	x			x			x
Jordan	x		x	x		x	x
Kazakhstan	x			x			x
Kenya	x			x			x
Kiribati	x			x			x
Korea, South	x		x		x	x	x
Kuwait	x		x	x		x	x
Kyrgyzstan	x			x			x
Laos PDR	x			x			x
Latvia	x			x			x
Lebanon	x			x			x
Lesotho	x			x			x
Liberia	x			x			x
Libya	x			x			x

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Table 1A.2 (continued)

Country	Classification		Sources				
	EM-Broad	EM-Narrow	FTSE	IMF	MSCI	S&P	Academics
Lithuania	x			x			x
Macedonia, FYR	x			x			x
Madagascar	x			x			x
Malawi	x			x			x
Malaysia	x	x	x	x	x	x	x
Maldives	x			x			x
Mali	x			x			x
Mauritania	x			x			x
Mauritius	x			x			x
Mexico	x	x	x	x	x	x	x
Moldova	x			x			x
Mongolia	x			x			x
Montenegro	x			x			x
Morocco	x	x	x	x	x	x	x
Mozambique	x			x			x
Myanmar	x			x			x
Namibia	x			x			x
Nepal	x			x			x
Nicaragua	x			x			x
Niger	x			x			x
Nigeria	x		x	x		x	x
Oman	x		x	x		x	x
Pakistan	x	x	x	x		x	x
Panama	x			x			x
Papua New Guinea	x			x			x
Paraguay	x			x			x
Peru	x	x	x	x	x	x	x
Philippines	x	x	x	x	x	x	x
Poland	x	x	x	x	x	x	x
Qatar	x		x	x		x	x
Romania	x			x			x
Russia	x	x	x	x	x	x	x
Rwanda	x			x			x
Samoa	x			x			x
Sao Tome and Principe	x			x			x
Saudi Arabia	x		x	x		x	x
Senegal	x			x			x
Seychelles	x			x			x
Sierra Leone	x			x			x
Singapore	x						x
Slovakia	x						x
Slovenia	x						x
Solomon Islands	x			x			x

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Table 1A.2 (continued)

Country	Classification		Sources				
	EM-Broad	EM-Narrow	FTSE	IMF	MSCI	S&P	Academics
South Africa	x	x	x	x	x	x	x
Sri Lanka	x		x	x		x	x
St Kitts and Nevis	x			x			x
St Lucia	x			x			x
St Vincent and the Grenadines	x			x			x
Sudan	x			x			x
Suriname	x			x			x
Swaziland	x			x			x
Syria	x			x			x
Tajikistan	x			x			x
Tanzania	x			x			x
Thailand	x	x	x	x	x	x	x
Togo	x			x			x
Tonga	x			x			x
Trinidad and Tobago	x			x			x
Tunisia	x			x			x
Turkey	x	x	x	x	x	x	x
Turkmenistan	x			x			x
Uganda	x			x			x
Ukraine	x			x			x
United Arab Emirates	x	x	x	x		x	x
Venezuela	x						x
Vietnam	x			x			x
Yemen	x			x			x
Zambia	x			x			x
Zimbabwe	x		x	x		x	x

Note: Neither Greece nor Taiwan appear in the above table due to a lack of reliable data on these countries.

Source: Reports and articles by rating agencies, banks, multilateral organizations and academics (Goldman Sachs, 2007a, 2007b; IMF, 2007; FTSE, 2009; MSCI Barra, 2009a, 2009b; Standard & Poor's, 2007) (refer to the body of the chapter for academic references).

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APPENDIX 3

Table 1A.3 Independent variables and their operationalization

Definition criteria: Quality of Local Institutional Environment (i.e., Category A1 in Appendix 1)	
Burden of customs procedure	1 = Extremely inefficient to 7 = Extremely efficient
Documents needed to export goods	Number
Documents needed to import goods	Number
'Ease of doing business' ranking	1 = Most business-friendly
Procedures needed to enforce contract	Number
Procedures needed to register property	Number
Time required to enforce a contract	Number of days
Time required to register property	Number of days
Time required to start a business	Number of days
Time required to prepare & pay taxes	Number of hours
Time required to resolve insolvency	Number of years
Definition criteria: Role of the State in Business (i.e., Category A2 in Appendix 1)	
Government expenses assigned to subsidies/ transfers	Percentage of (total) government expenses
State contribution to tax revenues	Percentage of GDP
Definition criteria: Level of Development of Financial Markets (i.e., Category A6 in Appendix 1)	
Companies listed on the local stock market	Number
Total value of stocks traded	Percentage of GDP
Definition criteria: Prospects for Economic Growth (i.e., Category B1 in Appendix 1)	
GDP annual growth rate	USD in current prices / Cumulated average growth rate (2003–2008)
GDP annual growth rate (PPP basis)	USD in current prices / Cumulated average growth rate (2003–2008)
GDP per capita annual growth rate	USD in current prices / Cumulated average growth rate (2003–2008)
GDP per capita (PPP basis)	USD in constant 2005 prices / Cumulated average growth rate (2003–2008)
Exports of goods and services	Percentage of GDP / Cumulated average growth rate (2003–2008)

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Table 1A.3 (continued)

Level of outbound FDI	Percentage of GDP / Cumulated average growth rate (2003–2008)
Definition criteria: Level of Economic Development (i.e., Category B3 in Appendix 1)	
GDP per capita (PPP basis)	USD in constant 2005 prices
Share of central government debt	Percentage of GDP
Level of inbound FDI	Percentage of GDP
Total unemployment rate	Percentage of total labour force
Definition criteria: Quality of Local Resources and Inputs (i.e., Category B5 in Appendix 1)	
Capital availability	Gross capital formation as percentage of GDP
Definition criteria: Characteristics of the Local Competitive Environment (i.e., Category C3 in Appendix 1)	
Number of new business registrations	Percentage of total number of businesses registered
Growth rate of new business registrations	Increase in the number of total businesses registered/Cumulated average growth rate (2003–2008)

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