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The Nature of Institutional Voids in Emerging Markets

Conventional wisdom holds that the diffusion of skills, processes, and technologies throughout global markets is resulting in convergence; the gap between emerging economies and their more developed counterparts is quickly closing.[1] This optimism has been bolstered by the development of high-tech global supply chains and the offshoring of professional services, but market transition and emergence often take more time than most decision makers anticipate. What is emerging in emerging markets is not only their forecast potential or liberalizing investment environments but also the institutional infrastructure needed to support their nascent market-oriented economies.

Institutional development is a complex and lengthy process shaped by a country's history, political and social systems, and culture. Dismantling government intervention and reducing barriers to international trade and investment can spark market development, but they do not immediately produce well-functioning markets. The world may be becoming flatter, as columnist Thomas Friedman has argued, but the landscape of emerging markets, in particular, remains deeply striated by institutional legacies.[2]