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Institutional export barriers on exporters from emerging markets: evidence from China

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Abstract

The emerging markets have become the increasingly important trading nations in global economy. Given its significance to practitioners and policy-makers, export barriers has been the popular topic in the international business studies. However, research about export barriers caused by the local institutions are under developed, though institutional voids and institutional inefficiency are reported as the major determinants for business development in emerging markets. This paper aims to fill in this gap by exploring the institutional export barriers in emerging markets. Based on existing studies on export barriers and institutional perspective, a conceptual framework is initially developed by separating formal and informal institutional export barriers. Then three specific institutional export barriers are identified，including government policy, weak legal system and informal and personal networks. In the meanwhile, this paper sheds light on how the institutional export barriers are developed and obstruct exporting in emerging markets.

Keywords
institutional export barriers, exporting, emerging markets, China

Introduction

Emerging markets have become an increasingly important source for the world's growth in the last two decades (Cavusgil, Ghauri, & Agarwal, 2002), with rapid integration into global production networks as well as successful exporting performance. In 2015, the share of international trade from developing countries accounted for approximately 43% of the global total (WTO, 2016).

Export barriers, defined as "all those constraints that hinder the firm's ability to initiate, to develop, or to sustain business operation in overseas markets" (Leonidou, 2004, p281), are discussed in existing literature. Firms must take account of export barriers in their exporting decisions and subsequent exporting activities. These export barriers can be both internal factors such as lack of physical resources and managerial and marketing knowledge, and external factors derived from home/host countries' business environment (Kahiya, 2013; Leonidon, 1995).

Firms from emerging markets are more likely to be affected by the external barriers associated with distinctive institutional environments, where institutional voids (Miller, Lee, Chang & Le Breton-Miller, 2009), uncertainty of institutional change (Child & Tse, 2001), misalignment between institutional supply and firm demand (Witt & Lewin, 2007), jointly exist. Export barriers display highly country-specific characteristics (Leonidon, 1995). However, to our knowledge, studies on export barriers for emerging market firms are limited and fail to identify such variances associated with emerging economies.

This article aims to fill the gap by identifying the specific institutional export barriers confronted by emerging market exporters. Specifically, what are the institutional export barriers that Chinese exporters and foreign buyers encounter when undertaking exporting activities in China? The identification and understanding of export barriers may not only help firms to respond to the obstacles and enhance exporting performance but also help policymakers to identify and develop appropriate simulation and assistance for exporters (Leonidou, 2004). We use China as a case to investigate the question as one of the most representative of emerging markets. It is widely acknowledged that China's 35-year economic reform and export-orientated development strategy have considerably contributed to substantial economic growth, yet less is known about how China has overcome the huge challenges that obstructed international business activities and made itself the leading trading nation (Li & Liu, 2012). By echoing the statement in existing literature that institutions have played the most important role for business in emerging markets (Meyer & Peng, 2016; Peng, Wang, & Jiang, 2008), we make two contributions to the field: conceptualizing institutional export barriers as the most important export barriers for firms from emerging markets; and identifing three major institutional export barriers in China, considering how they are developed and obstruct exporting.

Institutional export barriers

Exporting is an effective entry strategy for firms' international expansion, because it incurs lower costs, risks, and resource commitment compared with other market entry modes (Katsikeas, Leonidou, & Samiee, 2009). There are many existing studies on export, including export stimulation (Leonidou, 1995), exporting process (Leonidas C. Leonidou & Katsikeas, 1996), determinants of export performance (Shoham, 1998; Zou & Stan, 1998), relationship between the exporter and importer (Leonidou, Barnes, & Talias, 2006), and export intermediaries (Peng & Ilinitch, 1998). However, the existing conceptual classifications pay less attention to the dynamics, and are less likely to find the key barriers and original cause of these barriers. For instance, the shortage of certain resources for exporters may come from ill-developed environmental factors.

Institutions, as the rules of the game, constrain and shape individual interactions (North, 1990). Some institutions help to reduce uncertainty and benefit market transactions and business, while others can constraint market entry, raise transaction costs and damage business transactions. In the

real business world, the imperfect market gives rise to both types of institution (North, 1990). For emerging markets, institutions have turned out to be the most important business characteristic, as they impact and construct unique business practices (Meyer & Peng, 2016). Moreover, the negative impacts from institutions on business are more significant. Different from developed economies with stable and effective institutions, emerging markets experience a special period of mixed institutions (Nee, 1992), and result in a series of institution-related problems, such as institutional instability (Hitt, Ahlstrom, Dacin, Levitas, & Svobodina, 2004), restrictive legislation (Meyer, 2001), and institutional voids (Khanna & Palepu, 2000). The exporters from these emerging markets are confronted with different export barriers related to institutions. In this study, we define those export barriers, which are considerably related to local institutions and impede firms' exporting ability, as *institutional export barriers*.

Building on existing literature on institutional theory and emerging markets, this study proposes a framework that separates formal and informal institutions. Formal institutions contain political, legal and economic rules (North, 1990). In emerging markets, it is widely reported that formal institutions, like government policy and legislation, turn out to be problematic for business (Hitt et al., 2004). Informal institutions refers to culture, customs, traditions, and codes of conduct, which "come from socially transmitted information" (North, 1990, p37). They are usually enforced by business and social groups, family or private entities and can substitute and supplement formal institutions (Keefer & Shirley, 2000, p96). The informal institutions, such as Chinese Guanxi and Russian blat, are quite unique and hard-to-master for foreign and even domestic firms, as their complexity is rooted in local social and cultural factors over time (Hitt et al., 2004). Figure 1 displays a framework of *formal and informal institutional export barriers*. Under it, we identify three important formal and informal institutional export barriers in China, and the next section demonstrates how these barriers are developed and obstruct exporting.

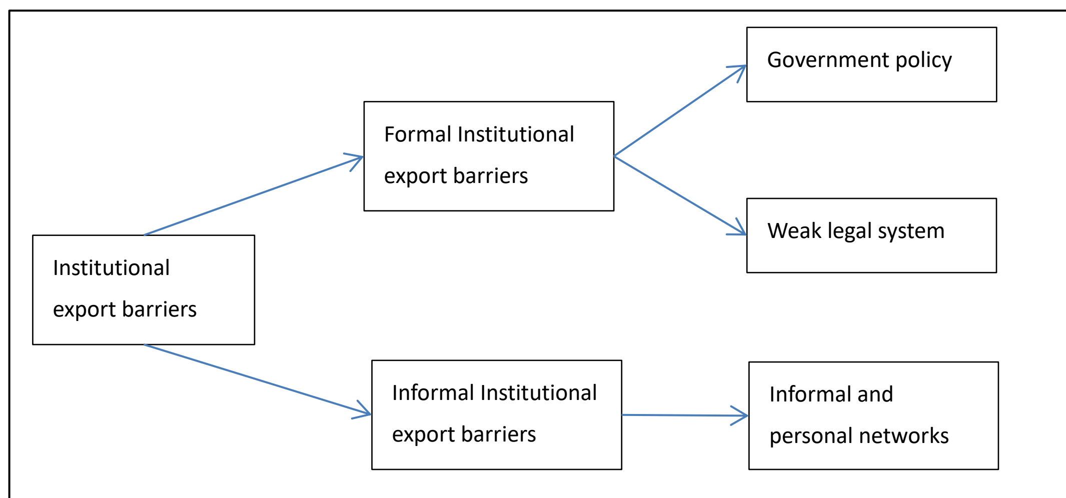

Figure 1. Institutional export barriers in Chinese exporting market

Formal institutional export barriers

Government policy

Government policy, as a formal institution, is often labelled as an important institutional barrier for international companies(Kahiya, 2013), which is true for Chinese exporters. With continuous influence from the former central-planned economy, the government is still playing an important role in the emerging market economy in China (Child. & Yuan, 1996). One serious problem is the superfluous business licenses and permits. Jia and Ling (2012) reported that Chinese exporters had to obtain many export-related approvals and permits from different government departments for each export transaction. The application and process of such licenses and permits inevitably incur inefficient and opaque beaucratic administrative procedures (Estrin, Meyer, & Bytchkova, 2008),

which increase Chinese exporters' costs of money and time and make them less competitive. Moreover, it results in uncertainty for Chinese exporters. Similar to other emerging markets, fundamental and continuous institutional transition towards market economy is a major characteristic of the business environment in China (Buck, Filatotchev, Nolan, & Wright, 2001; Mike W Peng, 2003). It leads to unstable and changing government policy, and hence notable uncertainty. Many studies confirm that unstable and changing government policies with institutional change largely raise uncertainty and problems for business in emerging markets (Bevan, Estrin, & Meyer, 2004; Estrin et al., 2008; Mike W Peng & Heath, 1996). In general, these government policies increase uncertainty and costs for Chinese exporters.

Weak legal system

The legal system is a major formal institution (North, 1990), and directly influences transaction enforcement and related costs (Furubotn & Richter, 2005). China has the reputation of having a weak legal system (Child & Tse, 2001), which fails to efficiently protect property rights (Peng & Heath, 1996) and intellectual property (Beata, 2004; Child & Tse, 2001), and enforce contracts (Luo, 2002).

Exporting involves many different organizations, including manufacturers, suppliers, middlemen, exporting intermediaries, shipment companies and forwarders, and requires efficient cooperation among them. Inevitably such kinds of cooperation are based on variable contracts and their enforcement. A weak legal system incurs a number of problems for exporting, including product quality and timely delivery, most of which are reported as key barriers for foreign buyers' purchasing from China (LFRC, 2010; Nassimbeni & Sartor, 2006). In other words, many of the current problems with exporting from China are actually contributed by a main institutional exporting barrier, weak legal system.

Informal institutional export barriers

Informal and personal Networks

The common use of informal and personal networks is a remarkable business phenomenon in emerging markets (Ahlstrom & Bruton, 2006). Significant cultural and social characteristics in the Chinese business environment (Park & Luo, 2001) mean networks have an important role in international trade (Rauch, 2001; Rauch & Trindade, 2002). Generally, networks considerably reduce matching and enforcing costs in exporting (Rauch & Trindade, 2002). As stated above, exporting involves many different organizations. Without an effective market mechanism, including legal system, searching for business partners and monitoring contract enforcement among these organizations are costly in emerging markets. In turn, networks are able to reduce these costs by mitigating information asymmetry and opportunistic behaviours (Rauch & Trindade, 2002).

With long-established networks, Chinese exporters are able to find reliable business partners with appropriate products and services, and informally enforce contracts to secure quality and time. However, the popularity of networks has turned out to be a barrier for Chinese exporters, especially those small exporters. First, the involvement of such networks requires skill, time and resources, which make these exporters less capable of exporting. It can also cause additional costs for Chinese exporters, as exporters from developed countries can easily rely on market mechanisms with effective contract enforcement. In addition, these personal networks are established on long-term commitment (Cavusgil, Ghauri, & Akcal, 2012), which is another disadvantage for Chinese exporters. Chinese exporting and relevant industries also experience institutional transition from central-planned to market-based economy in China (Li & Liu, 2012). Most networks are still in the hands of former managers of state-owned trading companies. With economic reform and privatisation in China, these network assets become rare for most emerging private exporters. It is not uncommon that a considerable number of enterprieneurs of the export intermediaries are fomer employees of state-owned trading companies who took away their clients and suppliers.

Conclusion

The studies on export barriers are significant for research and practice. They can benefit exporting managers to identify, reduce and overcome these obstacles and improve exporting performance. They are also able to help policymakers to identify barriers and develop appropriate stimulations and assistances for exporters (Leonidou, 2004).

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