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# Doing business and economic growth in Latin America, 2010-2020

## Facilidad en los negocios y el crecimiento económico en América Latina, 2010-2020

**Bryan Josué NARANJO NAVAS**[1], **Christian Paúl NARANJO NAVAS**[2]

1 Pontificia Universidad Católica de Argentina, Doctorado en Ciencias Políticas. Buenos Aires, Argentina.
2 Universidad Nacional de Chimborazo, Facultad de Educación. Riobamba, Ecuador.

Email: eldestinobryan@gmail.com; cnaranjo@unach.edu.ec

### *Abstract*

*The article analyzes the ease of opening businesses in Latin America, and its relationship with economic growth during the decade 2010-2020. The objective of the study was to evaluate the correlation between these two variables. It started with the idea that the ease and policies that benefit business opening are highly correlated with economic growth. Through this research study, several important questions for analysis have been identified, such as: How have social mobilizations that occurred in South America in the 21st century influenced the creation of business promotion policies? How have gender inclusion policies impacted the creation of new businesses, and how has this affected or not economic growth? Finally, what has been the influence of the United States in South America in the 21st century in terms of promoting the creation of new businesses? The results show that our hypothesis is true: As the process of starting new businesses becomes simpler and bureaucratic hurdles are lowered, economic growth accelerates, resulting in a reduction in unemployment.*

### *Keywords*

*PPP GDP, 21st Century Socialism, Democracy, Liberalism, Social Democracy, Entrepreneurship*

### Resumen

El artículo realiza un análisis de la facilidad de apertura de negocios en América Latina y su relación con el crecimiento económico durante la década 2010-2020. El objetivo del estudio fue la evaluación de la correlación entre estas dos variables. Se partió con la idea de que la facilidad y políticas que beneficien la apertura de negocios está altamente correlacionada con el crecimiento económico. A través de esta investigación se han podido identificar varias preguntas importantes de análisis, entre estas: ¿cómo han influido las movilizaciones sociales ocurridas en el América Latina en el siglo XXI durante la generación de políticas de fomento empresarial? ¿cómo han impactado las políticas de inclusión de género en la creación de nuevos negocios y cómo ello ha afectado o no al crecimiento económico? Finalmente, ¿cuál ha sido la influencia de Estados Unidos en América Latina en el siglo XXI en cuanto al fomento de la creación de nuevos negocios? Los resultados muestran que nuestra hipótesis es verdadera: a medida que el proceso de creación de nuevas empresas se simplifica y se reducen los obstáculos burocráticos, el crecimiento económico se acelera, lo que se traduce en una reducción del desempleo.

### Palabras Clave

PIB PPA, socialismo siglo XXI, democracia, liberalismo, social democracia, emprendimiento.

## Introduction

This research studies the economic growth of South America from the perspective of new business creation in the years 2010-2020. Economic growth is established as the dependent variable and the ease of business creation as the independent variable. On one side, economic growth was measured through the Gross Domestic Product per capita. On the other side, business creation was measured in three variables:

1. The number of days it takes to open a business.
2. The number of procedures legally required to open a business.
3. The cost of the procedures required to open a new business.

Additionally, economic growth is quantitative, which is why GDP (PPP) was chosen as the variable. GDP (PPP) stands for 'purchasing power parity' and compares the prices of specific consumer goods across different countries. This helps to understand the absolute purchasing power of the countries being analyzed. The GDP PPP involves the relative cost of local goods and services, the inflation rate of each country, and leaves aside the management of exchange rates in the international market that could disturb and create real discrepancies in per capita income.

The importance of this research is based on the recognition of the processes, elements and factors that help economic growth in nations, considering the political contexts that could be affecting the development of the economy. The writing places special emphasis on South American region. The political transitions during the decade studied are considered in this research. A large part of this time was influenced by governments identified as part of 21st Century Socialism. Thus, the analysis is contextualized in the political changes in the region.

The importance of this study lies in the distinction of relevant factors for economic growth, which are not easily identifiable macroeconomic elements, but rather through sub-national indicators that directly influence the reduction of unemployment and increases investment. In this case, the focus is on the variable 'ease of opening new businesses', which results from a compilation of the understanding of sub-variables such as: the cost, number of procedures and days necessary to open new ventures. The more strategies there are to support economic activity through ventures, the greater the benefits that the market may perceive. If the hypothesis is proven, it can be argued that new ventures can contribute to economic growth, even in the presence of low market purchasing power. On the other hand, growing purchasing power generates new incentives for opening new businesses, and this would contribute to economic growth.

The research has two methodological approaches that are intrinsically related:

1. A statistical approach using OLS (Ordinary Least Squares) regression involves estimating linear regression parameters by minimizing the perpendicular distances between the observed data points and the predicted values from the model.
2. A historical economic approach to the cause-and-effect relationship of public policies. The structure of the article is as follows: first, literary review; second, contextual analysis of political transitions; third, analysis and presentation of economic variables; fourth, regression analysis; fifth, results and discussion; and finally, the conclusions.

## Literature Review

For this study, have been considered several investigations related to the topic that support results and contribute to the affirmation of the established hypothesis. The first significant contribution comes from Labrunéne (2018), who demonstrates that economic growth consists of a series of periodic changes in economic activities, including financial flows, production factors, human capital, and exchange systems. All of this leads to the generation of tangible and measurable well-being, which depends directly on the dynamism of the market. Thus, it can be established that there is a relationship between economic growth and the creation of new companies.

On the other hand, the study by Bustamante (2004) suggests that economic growth generates a shock in businesses, either in their creation or disappearance, which generates a positive cyclical effect in which the creation of new businesses contributes to economic growth, and economic growth contributes to the opening of businesses. The dynamism of the market together with the presence of competition means that business ventures are constantly appearing, sustaining the economic growth of a nation. In other words, business creation is likely to have a significant impact on economic growth. This is demonstrated by Clarisa Zamora in her study "The Importance of Entrepreneurship in the Economy: The Case of Ecuador" (2017), the research asserts the positive impact of the increase in new ventures and businesses on the economic expansion of Ecuador. Similarly, it can be stated that an economically sustainable environment promotes the creation of more opportunities, thereby encouraging the establishment of new ventures.

Is important to establish that the opportunity to create new business ventures and its relationship with economic growth could be bidirectional.

This thesis is examined by Ausdretcsh and Keilbach (2004), who conclude that the formation of new companies has helped certain sectors in Germany to economically recover and, as a result, enhance their market power. However, this study also points out that this significant influence of entrepreneurship on economic growth was due to technological innovation and the opening of more opportunities that arose with economic growth. Ausdretcsh and Keilbach complement their conclusions with subsequent studies (2005), and with the studies carried out by Hotz-Eakin and Kao (2003), who demonstrate that the variation in entries and exits of new ventures impacts the performance of a region.

In the case of job creation, Mueller, Van Stel and Storey (2008) consider that as entrepreneurship increases, more job opportunities are generated and therefore progress in economic development. Furthermore, economic growth allowed for projections of improvements in education, transparency of institutions, and increases in bank loans. The creation of new businesses also influences the development of human capital, since as technology and the world in general advance, people must continue to prepare and update their knowledge. Thus Acs et al. (2005) mention that entrepreneurship and new opportunities to start new businesses not only have a relationship with the economic growth of a territory but also respond directly to the need for investment in human capital and research. On the other hand, Mueller (2006) supports the idea that human capital develops as business ventures increase and that is influenced by the advancement of industries, competition, research and job opportunities. It is important to mention that Mueller's work was carried out in 74 areas of Germany.

Furthermore, studies related to Latin American countries are considered of great relevance. Gustav Ranis & Frances Stewart (2002), with their study "Economic Growth and Development in Latin America" analyze the probable dynamism between economic growth and human development in spaces such as health and education. However, this study highlights that the impact of these variables is limited by the presence of external debt crises, a factor that most countries in Latin America have. Thus, they conclude that economic growth does not always end up positively influencing human development. The countries studied that obtained a negative result were Jamaica, Nicaragua, and Guyana; while, the countries that had a positive result were Mexico, Chile and Costa Rica.

The most interesting investigative work towards the present study is the one carried out by Estevão, Dias, Penela, and Soares, with the topic "The Doing Business Ranking and the GDP. A Qualitative Study" (2020), which carries out a narrative review on the topics of economic development and the notability of the business environment. The objective of this study is to investigate the index of ease of doing business in African countries during the year 2008 and 2017, in relation to the increase or growth of GDP. To do this, they used the Fuzzy Set Qualitative Comparative Analysis (fsQCA) methodology, which is a method used mainly around marketing and entrepreneurship. As mentioned by Ragin (2008), the fsQCA methodology is created to identify causal 'recipes' and the individual independent variable. The fsQCA method provides a theoretical selection of the outcome of interest and its causes. This study used the fsQCA 3.0 software to analyze the indicators of the level of entrepreneurship in African countries, seeking to glimpse the indicators of 'Doing Business' (BD), to explain the GDP per capita of each country. In this sense, the study concludes that GDP growth allows increased investment for the creation of new businesses. The additional variables considered are dealperm and getcredit, which represent bureaucratic obstacles and the ease of acquiring credit.

The literature review also highlights two significant years of global impact: the financial crisis of 2008 and 2017, the year when most countries reported data on the "Doing Business" variable. This analysis is supported by research from authors such as Ragin (2008), Radaelli & Meuwese (2009), Fernández-Serrano & Romero (2014), and Benjamin, Bhorat, & Cheadle (2010). These studies also have great relevance to the present research study since they base the variables of economic growth and the reasons why it could be affected by the opening of new businesses and entrepreneurship rates.

Furthermore, Canavire, Martinez, and Vulovic (2013), on "Taxation and Economic Growth in Latin America", evaluate the effect of tax instruments on the economic growth of Argentina, Brazil, Chile and Mexico, through auto-vector techniques regression and panel data estimation. It was found that, for the most part, personal income tax does not negatively affect economic growth in Latin America, largely due to the low levels of tax revenue collected in the region. Meanwhile, evasion of taxes on corporate profits and greater dependence on tax collection could boost economic growth in the region, especially for countries that export natural resources. However, they also found some negative effects of the corporate income tax on the growth of individual countries, specifically Argentina, Chile, and Mexico. Finally, this study shows that greater dependence on consumption taxes has significant positive effects on economic growth in Latin America with some slight negative effects in the selected countries. Meanwhile, income from natural resources does not seem to contribute to economic growth.

Furthermore, the analytical study by Hilka Vier (2016) with the topic "Growth of Small Business: A Literature Review and Perspectives of Studies", provides a systematic review of the literature, which explains that the theories developed to explain the economic growth of small businesses large companies are not usually adapted to explain the phenomenon of small companies, by contrast, growth is important for the survival and development of small companies (Coad et al., 2013). This study conducts a literature review across 16 "Journals of Entrepreneurship and Small Business Management", along with research from the national search portal 'Spell', where is classified the search material into three categories: growth, antecedents and consequences. This study also carries out a review of scientific production in the last 15 years regarding the growth of small businesses with respect to entrepreneurship. It is concluded that the characteristics of companies can influence the level of schooling and experience, position in personal transportation, insertion in social networks, locus of internal control, growth aspirations, growth intentions, and the balance between work and family. They demonstrated that several characteristics of the environment positively influence the growth of small businesses, such as supply and demand conditions, entry impairments, investments and risk capital, technology transfer mechanisms, ease of access to human resources and raw materials, importance of stakeholders, business networks, and public policies and social subsidy programs for companies.

Stoilova & Patonov (2012), in their article "An Empirical Evidence for the Impact of Taxation on Economy Growth in the European Union", study the trends in the distribution of the total tax burden in the EU member states during the period 1995-2010. They carry out a comparative analysis between countries with different total tax burdens, measured according to the tax/GDP ratio and the design of the tax structure, shown by the detail of tax revenues in components such as direct and indirect taxes and social contributions. They persevere above all in the impact of taxation on economic growth through regression analysis. And through the empirical results they conclude that there is a clear impact of direct taxes on the growth of the economy, due to efficiency gains in income accumulation through the taxation of wealth. Which exposes a lower efficiency of indirect taxes as a method of accumulating budgetary income, producing contraction effects on production and sales. Therefore, they conclude that the structure based on direct taxes is more efficient in supporting economic growth in EU countries.

Finally, the study carried out by Jonek and Wolnjak (2021), about "The Influence of Local Economic Conditions on Star-Ups and Local Open Innovation System" provides a meta-analysis, detailing the influence of local conditions for the new business development. For this purpose, they considered cities with high availability of infrastructure and human resources, and therefore conducive to innovation and creativity, with a sample of 287 polish cities. The results of this research, which are highly relevant to the present study, highlight the dominant influence of human and financial capital in the establishment of new companies. To a lesser extent, business incubators and technology parks also play a role in the creation of start-ups. Additionally, there is a notable relationship between the direct involvement of cities and the development of this type of entrepreneurship.

An additional study relevant to the present research is the meta-analysis by Alinaghi and Reed (2020), titled "Taxes and Economic Growth in OECD Countries: A Meta-Analysis." This study examines the

impact of taxes on economic growth in OECD countries. It addresses the challenge of synthesizing tax estimates, which arise from variations in studies regarding government budget constraints and differences in regression specifications. This study used a Gemmel, Kneller and Sanz taxonomy for predicting the growth effects of various fiscal deficit-spending combinations in 979 estimates from forty-nine studies of fiscal effects in OECD countries. The results show that a 10 % increase in taxes is associated with a decrease in the annual growth of gross domestic product (GDP) by approximately 0.2 %, when considered as part of the combination of fiscal deficit and government spending. Thus, they conclude that the tax increase is related to the increase in annual GDP growth of 0.2 % at the time of being part of the Tax Positive fiscal policy package.

## Material and Methods

For this study, the OLS (Ordinary Least Squares) regression methodology has been chosen, which allows a general regression to be carried out while keeping the other variables constant. This method also allows finding population parameters in linear regression models, because it reduces the sum of the perpendicular distances between all the responses observed in the analyzed sample and the responses of the base model.

The variables have been carefully chosen using the following parameters:

- The data regressors are exogenous.
- There is not perfect multicollinearity, that is, there is not a great correlation between the explanatory variables of the research.
- The errors are homoscedastic, in other words, that the variance of the error conditional on the explanation variables is constant in all observations.
- There is no autocorrelation, that means, there is no sequential dependence.

Furthermore, the chosen data have a normal distribution of errors, therefore, the OLS estimator will be of maximum likelihood, since it has allowed the analyzed parameters to be adjusted and estimated. The advantage of this methodology is that it is widely used in academic economic analysis and data collection. It allows for the examination of multiple economic, social, and political variables simultaneously, rather than focusing on a single one. This approach provides clear explanations of cause-and-effect relationships, while also enabling comparisons with historical data and theoretical models.

## Regressions

The study and analysis focus on the following independent variables:

- The ease of starting a business.
- The number of required procedures.
- The number of days a company has been in operation.
- The cost of opening a business as a percentage of GDP per capita.
- Additionally, the dependent variable, GDP (PPP), is also examined.

Table 1 shows the variable of the number of procedures necessary to open five companies that operate within a local limited liability company. A procedure is defined as any interaction between the founders of the company and external parties.

In addition, the pre- and post-incorporation procedures that are officially required or commonly carried out in practice are documented.

**Table 1.** *Opening a company: Required procedures*

| | Argentina | Chile | Colombia | Ecuador | El Salvador | Paraguay | Peru | Uruguay | Bolivia | Brazil | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2010 | 14 | 9 | 9 | 13 | 9 | 7 | 10 | 11 | 14 | | 10,67 |
| 2011 | 14 | 9 | 9 | 13 | 9 | 7 | 9 | 11 | 14 | | 10,56 |
| 2012 | 14 | 8 | 9 | 13 | 9 | 7 | 8 | 5 | 14 | | 9,67 |
| 2013 | 14 | 8 | 9 | 13 | 9 | 7 | 8 | 5 | 14 | | 9,67 |
| 2014 | 14 | 8 | 9 | 13 | 9 | 7 | 8 | 5 | 14 | 11,22 | 9,82 |
| 2015 | 14 | 8 | 9 | 13 | 9 | 7 | 8 | 5 | 14 | 10,61 | 9,76 |
| 2016 | 14 | 8 | 9 | 12 | 9 | 7 | 8 | 5 | 14 | 11 | 9,70 |
| 2017 | 14 | 8 | 8 | 11 | 9 | 7 | 8 | 5 | 14 | 11 | 9,50 |
| 2018 | 14 | 8 | 8 | 11 | 9 | 7 | 8 | 5 | 12 | 11 | 9,30 |
| 2019 | 11 | 7 | 8 | 11 | 9 | 7 | 8 | 5 | 12 | 10,61 | 8,86 |
| 2020 | 12 | 6 | 7 | 11 | 9 | 7 | 8 | 5 | 12 | 10,61 | 8,76 |

Source: World Bank, 2022

On the other hand, Table 2 presents the variable of the opening time of a company measured in days. This variable is based on the average duration that business formation experts show is necessary for five entrepreneurs to complete all the necessary procedures to start and operate a business with minimal follow-up and additional payments. This calculation is made in calendar days, which are added to calculate the total time required for the start and operation of a business in a simultaneity of processes. In this case, it is accepted that the minimum time intended for each procedure is one day, while those carried out online are assumed and recorded as half a day.

**Table 2.** *Opening a company: Time (days)*

| | Argentina | Chile | Colombia | Ecuador | El Salvador | Paraguay | Peru | Uruguay | Bolivia | Brazil | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2010 | 25 | 40 | 19 | 64 | 16.5 | 35 | 41 | 64 | 49 | | 39,28 |
| 2011 | 24.5 | 36.5 | 11 | 56 | 16.5 | 35 | 42.5 | 64 | 49 | | 37,22 |
| 2012 | 24.5 | 9.5 | 11 | 55.5 | 16.5 | 35 | 41.5 | 6.5 | 49 | | 27,67 |
| 2013 | 24.5 | 7.5 | 12 | 55.5 | 16.5 | 35 | 41.5 | 6.5 | 49 | | 27,56 |
| 2014 | 24.5 | 7.5 | 12 | 55.5 | 16.5 | 35 | 41.5 | 6.5 | 49 | 86.635 | 33,46 |
| 2015 | 24.5 | 7.5 | 12 | 55.5 | 16.5 | 35 | 41.5 | 6.5 | 49 | 83.585 | 33,16 |
| 2016 | 24.5 | 7.5 | 12 | 50.5 | 16.5 | 35 | 41.5 | 6.5 | 49 | 85.975 | 32,90 |
| 2017 | 24.5 | 7.5 | 11 | 48.5 | 16.5 | 35 | 41 | 6.5 | 45 | 82.465 | 31,80 |
| 2018 | 24.5 | 7.5 | 11 | 48.5 | 16.5 | 35 | 41 | 6.5 | 41 | 82.465 | 31,40 |
| 2019 | 11 | 6 | 11 | 48.5 | 16.5 | 35 | 26 | 6.5 | 39.5 | 20.145 | 22,01 |
| 2020 | 11.5 | 4 | 10 | 48.5 | 16.5 | 35 | 26 | 6.5 | 39.5 | 16.62 | 21,41 |

Source: World Bank, 2022

Table 3 shows the total cost required for five entrepreneurs to complete the procedures to add and manage a business. This calculation is made through the percentage of per capita income. In addition, all costs related to the procedures necessary to start a business are recorded, including official costs and legal and professional services costs.

**Table 3.** *Starting a business: Cost (% of per capita income)*

| | Argentina | Chile | Colombia | Ecuador | El Salvador | Paraguay | Peru | Uruguay | Bolivia | Brazil | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2010 | 16.1 | 9.4 | 13.1 | 35.1 | 43.6 | 62.6 | 16.3 | 40 | 93.7 | | 36,66 |
| 2011 | 20.7 | 9.3 | 14.7 | 32.6 | 45.2 | 64 | 16.7 | 42.1 | 95.2 | | 37,83 |
| 2012 | 17.7 | 7.6 | 8 | 28.8 | 45.6 | 60.5 | 17.1 | 24.9 | 85.4 | | 32,84 |
| 2013 | 15.4 | 7 | 7.6 | 29.9 | 45.7 | 60.6 | 15.1 | 24 | 70 | | 30,59 |
| 2014 | 23.2 | 5.9 | 7.5 | 25.3 | 45.4 | 60.1 | 14.4 | 23.5 | 67.6 | 5.9 | 27,88 |
| 2015 | 17.7 | 5.9 | 7.5 | 24 | 44.7 | 57.4 | 13.5 | 22.8 | 60.8 | 5.5 | 25,98 |
| 2016 | 11.4 | 5.9 | 14.3 | 22 | 43.4 | 58 | 9.7 | 21.7 | 51.1 | 4.8 | 24,23 |
| 2017 | 10.8 | 5.9 | 14.1 | 32.4 | 41.4 | 58.1 | 7.4 | 22.5 | 49.7 | 5.2 | 24,75 |
| 2018 | 10.4 | 5.9 | 14 | 34 | 41.4 | 58.2 | 7.5 | 22.5 | 46.6 | 4.8 | 24,53 |
| 2019 | 5.3 | 5.7 | 14 | 33.3 | 45.1 | 58.4 | 7.5 | 22.6 | 39.2 | 4.7 | 23,58 |
| 2020 | 5 | 2.7 | 14.1 | 33 | 43.3 | 52.2 | 9.4 | 24.1 | 37.3 | 4.2 | 22,53 |

Source: World Bank, 2022

Table 4 shows the GDP PPP that represents the Gross Domestic Product transformed into international dollars applying purchasing power parity rates. In this sense, an international dollar has the same purchasing power over GDP as the US dollar. In this way, GDP represents the sum of the gross value added of all producers residing in the country added with taxes on the products and reducing the unattached subsidies in the value of the products. These data are presented in constant 2017 international dollars.

**Table 4.** *GDP PPP (constant 2017 international dollars)*

| | Argentina | Chile | Colombia | Ecuador | El Salvador | Paraguay | Peru | Uruguay | Bolivia | Brazil | Average |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 2010 | 9.6E+1 | 3.6E+1 | 5.3E+1 | 1.6E+1 | 4.5E+1 | 6.5E+1 | 2.9E+1 | 6.5E+1 | 6.6E+1 | 2.9E+1 | 5.5E+1 |
| 2011 | 1.0E+1 | 3.8E+1 | 5.7E+1 | 1.7E+1 | 4.7E+1 | 6.8E+1 | 3.1E+1 | 6.8E+1 | 7.0E+1 | 3.0E+1 | 5.7E+1 |
| 2012 | 1.0E+1 | 4.1E+1 | 5.9E+1 | 1.8E+1 | 4.8E+1 | 6.7E+1 | 3.3E+1 | 7.1E+1 | 7.3E+1 | 3.1E+1 | 5.9E+1 |
| 2013 | 1.0E+1 | 4.2E+1 | 6.2E+1 | 1.9E+1 | 4.9E+1 | 7.3E+1 | 3.5E+1 | 7.4E+1 | 7.8E+1 | 3.2E+1 | 6.1E+1 |
| 2014 | 1.0E+1 | 4.3E+1 | 6.5E+1 | 1.9E+1 | 5.0E+1 | 7.7E+1 | 3.6E+1 | 7.6E+1 | 8.3E+1 | 3.2E+1 | 6.1E+1 |
| 2015 | 1.0E+1 | 4.4E+1 | 6.7E+1 | 1.9E+1 | 5.2E+1 | 7.9E+1 | 3.7E+1 | 7.7E+1 | 8.7E+1 | 3.1E+1 | 6.1E+1 |
| 2016 | 1.0E+1 | 4.4E+1 | 6.8E+1 | 1.9E+1 | 5.3E+1 | 8.2E+1 | 3.8E+1 | 7.8E+1 | 9.0E+1 | 3.0E+1 | 6.0E+1 |
| 2017 | 1.0E+1 | 4.5E+1 | 6.9E+1 | 2.0E+1 | 5.4E+1 | 8.6E+1 | 3.9E+1 | 7.9E+1 | 9.4E+1 | 3.0E+1 | 6.1E+1 |
| 2018 | 1.0E+1 | 4.7E+1 | 7.1E+1 | 2.0E+1 | 5.5E+1 | 8.9E+1 | 4.1E+1 | 7.9E+1 | 9.8E+1 | 3.1E+1 | 6.2E+1 |
| 2019 | 9.9E+1 | 4.7E+1 | 7.3E+1 | 2.0E+1 | 5.7E+1 | 8.9E+1 | 4.2E+1 | 8.0E+1 | 1.0E+1 | 3.1E+1 | 6.2E+1 |
| 2020 | 8.9E+1 | 4.4E+1 | 6.8E+1 | 1.8E+1 | 5.2E+1 | 8.8E+1 | 3.7E+1 | 7.5E+1 | 9.2E+1 | 3.0E+1 | 5.9E+1 |

Source: World Bank, 2022

Table 5 presents the average of the dependent variable and the independent variables, respectively.

**Table 5.** *Average of the variables*

| | GDP, PPP (constant 2017 international $) | Starting a business: Time-Men (days) | Starting a business: Cost-(% of income per capita) | Starting a business: Cost-Men (% of income per capita) |
|---|---|---|---|---|
| 2010 | 5.45317E+11 | 39.28 | 36.66 | 10.67 |
| 2011 | 5.72797E+11 | 37.22 | 37.83 | 10.56 |
| 2012 | 5.85694E+11 | 27.67 | 32.84 | 9.67 |
| 2013 | 6.06069E+11 | 27.56 | 30.59 | 9.67 |
| 2014 | 6.11309E+11 | 33.46 | 27.88 | 9.82 |
| 2015 | 6.07534E+11 | 33.16 | 25.98 | 9.76 |
| 2016 | 5.99651E+11 | 32.90 | 24.23 | 9.70 |
| 2017 | 6.10414E+11 | 31.80 | 24.75 | 9.50 |
| 2018 | 6.19312E+11 | 31.40 | 24.53 | 9.30 |
| 2019 | 6.24899E+11 | 22.01 | 23.58 | 8.86 |
| 2020 | 5.86987E+11 | 21.41 | 22.53 | 8.76 |

Source: World Bank, 2022

Below is Regression 1, which presents the ordinary least squares (OLS) regression of the dependent variable, GDP (PPP), and the independent variable, representing the number of days a business has been open.

**Regression 1**. *Business opening regression, time*

| | |
|---|---|
| Multiple correlation coefficient | 0.49 |
| Coefficiente of determination $R^2$ | 0.24 |
| Adjusted $R^2$ | 0.16 |
| Standard error | 21188262395 |
| Observations | 11 |

Analysis of variance

| | Degrees of freedom | Sum of squares | Average of squares | F | Critical value of F |
|---|---|---|---|---|---|
| Regression | 1 | 1.30E+21 | 1.30E+21 | 2.906 | 0.122 |
| Residuals | 9 | 4.04E+21 | 4.49E+20 | | |
| Total | 10 | 5.35E+21 | | | |

| | Coeffi-cients | Standard error | T-statistics | Probability | Lower 95 % | Upper 95 % | Lower 95 % | Upper 95 % |
|---|---|---|---|---|---|---|---|---|
| Intercept | 6.60E+11 | 3.71E+10 | 17.778 | 2.56E-08 | 5.76E+12 | 7.44E+11 | 5.76E+11 | 7.44E+11 |
| Starting a business: Cost % of income per cápita | -2.03E+09 | 1.19E+09 | -1.705 | 1.22E-01 | -4.72E+09 | 6.63E+08 | -4.72E+09 | 6.63E+08 |

Source: own elaboration

These data have been obtained from World Bank Data, with 10 Latin American countries, which are: Argentina, Chile, Colombia, Ecuador, El Salvador, Paraguay, Peru, Uruguay, Bolivia, and Brazil, during the years 2010-2020.

According to the results, it is observed that the p-value is 0.122 for the variable 'Starting a business: Time', which provides enough information to not allow us to reject the null hypothesis and deny that this regression has statistical significance. On the other hand, the coefficients reveal that the intercept $\beta 0$) is equal to 6.60, which shows the PPP GDP when the number of days of the 'Starting a business' variable is equal to zero. While, the increase in the independent coefficient ($\beta 1$) is equal to -2.03, which demonstrates the marginal effect of a unit of days a company is open on GDP PPP.

The following Regression 2 shows the ordinary least squares regression of the dependent variable PPP GDP and the independent variable of the number of necessary procedures required to open a business.

These data have been obtained from the World Bank Data, with 10 Latin American countries, which are: Argentina, Chile, Colombia, Ecuador, El Salvador, Paraguay, Peru, Uruguay, Bolivia, and Brazil, during the years 2010-2020.

**Regression 2.** *Business opening regression, procedures*

| | |
|---|---|
| Multiple correlation coefficient | 0.689 |
| Coefficiente of determination $R^2$ | 0.475 |
| Adjusted $R^2$ | 0.417 |
| Standard error | 17652573432.835 |
| Observations | 11.000 |

Analysis of variance

| | Degrees of freedom | Sum of squares | Average of squares | F | Critical value of F |
|---|---|---|---|---|---|
| Regression | 1 | 2.54E+21 | 2.54E+21 | 8.154 | 0.019 |
| Residuals | 9 | 2.80E+21 | 3.12E+20 | | |
| Total | 10 | 5.35E+21 | | | |

| | Coefficients | Standard error | T-statistics | Probability | Lower 95 % | Upper 95 % | Lower 95 % | Upper 95 % |
|---|---|---|---|---|---|---|---|---|
| Intercept | 8.59E+11 | 91890830436 | 9.350 | 6.24E-06 | 6.51E+12 | 1.07E+12 | 6.51E+11 | 1.07E+12 |
| Starting a business: Cost % of income per cápita | -2.71E+10 | 9496488534 | -2.855 | 1.89E-02 | -4.86E+10 | -5.63E+09 | -4.86E+10 | -5.63E+09 |

Source: own elaboration

According to the results obtained, it is shown that the p-value is 0.0189 for the variable 'Starting a business: Procedures', which shows sufficient information to allow us to reject the null hypothesis and accept that this regression has statistical significance. On the other hand, the coefficients reveal that the intercept (β0) is equal to 8.59, which indicates the GDP PPP when the number of procedures of the variable 'Starting a business' is equal to zero. While, the increase in the independent coefficient (β1) is equal to -2.71, which exposes the marginal effect of a unit of business opening procedures on GDP PPP. In Regression 3 are presented the ordinary least squares regression of the dependent variable GDP PPP and the independent variable of the cost in percentage of per capita income of opening a business.

**Regression 3.** *Business opening regression, cost*

| | |
|---|---|
| Multiple correlation coefficient | 0.754 |
| Coefficiente of determination $R^2$ | 0.568 |
| Adjusted $R^2$ | 0.520 |
| Standard error | 16018105037.263 |
| Observations | 11.000 |

Analysis of variance

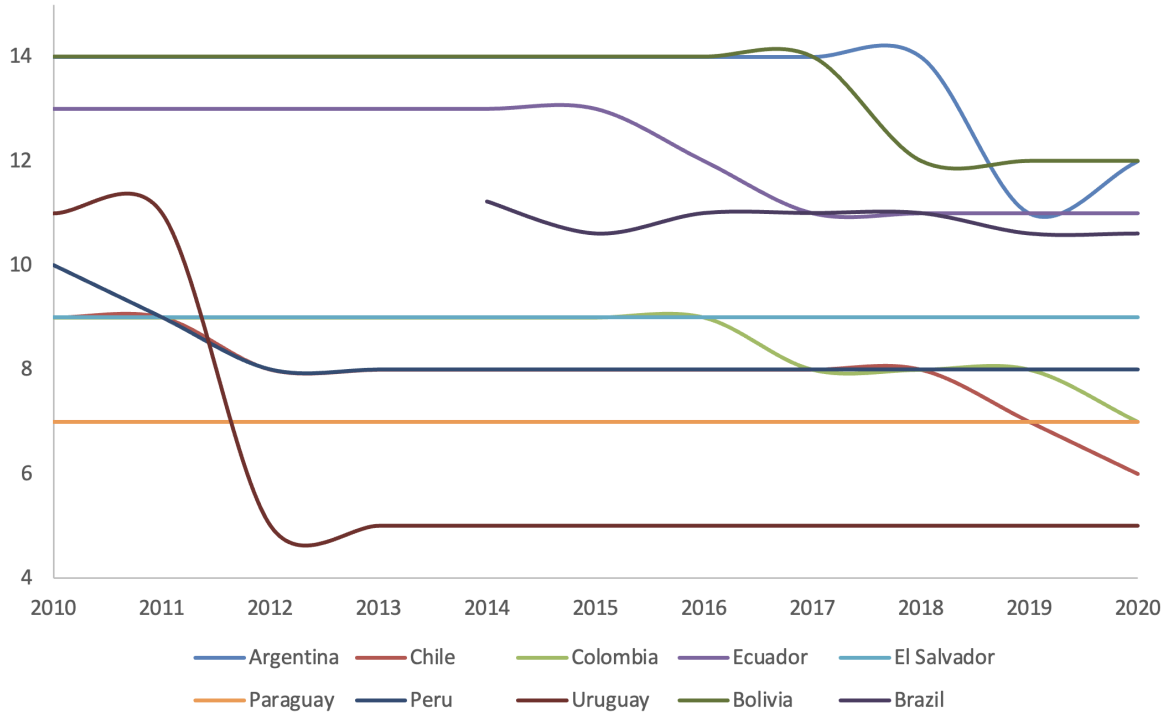
| | Degrees of freedom | Sum of squares | Average of squares | F | Critical value of F |
|---|---|---|---|---|---|
| Regression | 1 | 3.04 E+21 | 3.04E+21 | 11.833 | 0.007 |
| Residuals | 9 | 2.31E+21 | 2.57E+20 | | |
| Total | 10 | 5.35E+21 | | | |

| | Coefficients | Standard error | T-statistics | Probability | Lower 95 % | Upper 95 % | Lower 95 % | Upper 95 % |
|---|---|---|---|---|---|---|---|---|
| Intercept | 6.89E+11 | 2.70E+10 | 25.495 | 1.06E-09 | 6.28E+11 | 7.50E+11 | 6.28E+11 | 7.50E+11 |
| Starting a business: Cost % of income per cápita | -3.23E+09 | 9.39E+08 | -3.440 | 7.39E-03 | -5.35E+09 | -1.11E+09 | -5.35E+09 | -1-11E+09 |

Source: own elaboration

The results indicate that the p-value for the variable 'Starting a business: Cost (% of income per capita)' is 0.00739. This provides sufficient evidence to reject the null hypothesis and conclude that the regression is statistically significant. In this sense, the coefficients reveal that the intercept β0) is equal to 6.89, which shows the GDP PPP when the number of procedures of the variable 'Starting a business' is equal to zero. While the increase in the independent coefficient (β1) is equal to -3.23, which exposes the marginal effect of one unit of costs of opening a company on GDP PPP. Therefore, the analyses of the independent variables by country are presented below.

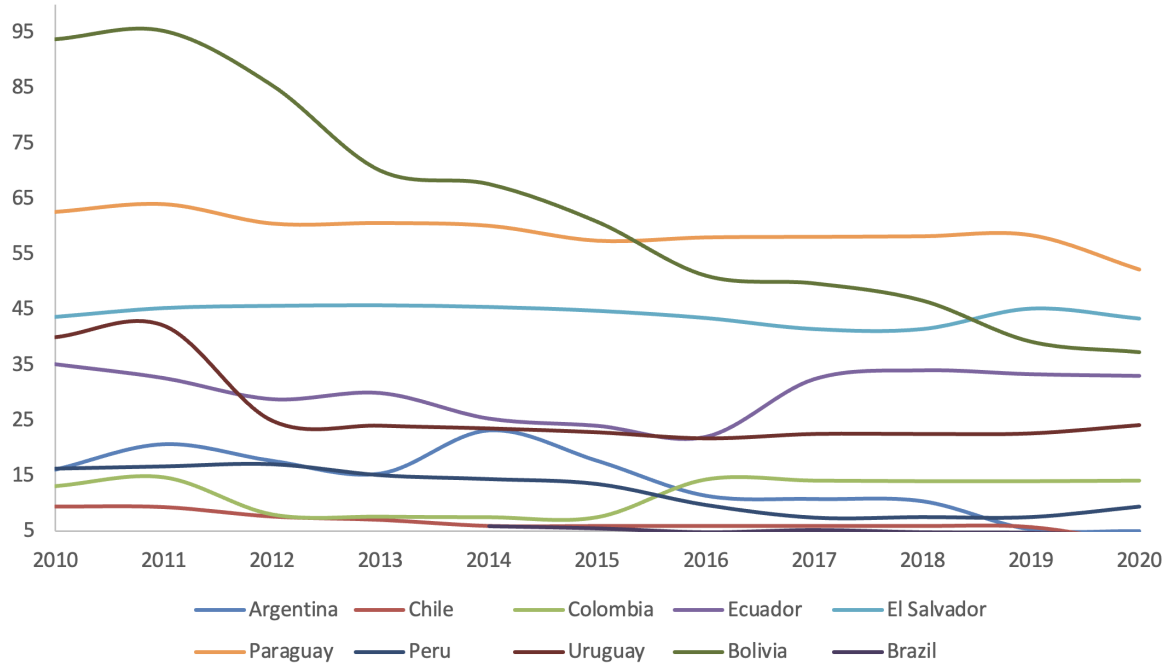
**Figure 1**. *Analysis of the variable start a business: Required procedures (number)*




Source: World Bank, 2022

According to the data presented in this graph, it can be seen that in terms of the number of procedures required, countries such as Paraguay and El Salvador have remained at the same number. While countries like Uruguay and Ecuador are the ones that have decreased the most in the number of procedures required for setting up new businesses, This could demonstrate that these countries have been reducing their bureaucracy and have facilitated the growth of new markets.

**Figure 2.** *Analysis of the variable Starting a business: Cost (% of per capita income)*




Source: World Bank, 2022

This graph show that most countries have considerably reduced their costs for opening a business according to the percentage of per capita income. However, countries like Paraguay and Argentina have maintained relatively stable costs. Meanwhile, countries such as Bolivia and Uruguay have reduced the costs and fees associated with the procedures for starting a business. And on the other hand, Ecuador and Colombia are the countries that have increased the costs associated with carrying out procedures to start a business.

## Analysis and Results

In this study, the hypothesis was proposed that the ease of starting a business is highly correlated with economic growth in South American countries. For this, economic growth in the countries of South America was established as a dependent variable, which is represented through PPP GDP (constant 2017 international dollars). While the independent variable is the ease of opening a business, which is distributed through:

- Number of procedures required to open a company.
- Time in days to open a company.
- Cost in percentage per capita income from opening a business.

In this context, Ordinary Least Squares (OLS) regressions were performed for each variable. The results for the variable 'number of procedures required to open a company' show a p-value of 0.0189 and an $R^2$ of 0.475. This indicates a significant correlation with economic growth, supporting the acceptance of the initial hypothesis. This can be seen in Table 6:

**Table 6.** *Variable regression number of procedures and PPP GDP*

| | |
|---|---|
| Multiple correlation coefficient | 0.689 |
| Coefficiente of determination $R^2$ | 0.475 |
| Adjusted $R^2$ | 0.417 |
| Standard error | 17652573432.835 |
| Observations | 11.000 |

According to what is shown in Table 6, it is observed that the multiple correlation coefficient is 0.689, which means that the variable number of procedures required to open a company depends on 68.9 % of the economic growth represented in PPP GDP. A p-value of 0.122 and an $R^2$ of 0.24 are presented for the variable time in days of opening a company. These results do not support the significance of the correlation with economic growth, leading to the rejection of the initial hypothesis. This is shown in Table 7:

**Table 7.** *Variable regression number of days and PPP GDP*

| | |
|---|---|
| Multiple correlation coefficient | 0.49 |
| Coefficiente of determination $R^2$ | 0.24 |
| Adjusted $R^2$ | 0.16 |
| Standard error | 21188262395 |
| Observations | 11 |

According to the information presented in Table 8, it is observed that the multiple correlation coefficient is 0.49, which in other words explains that the variable number of days required to open a company depends on 49 % of the economic growth represented by PPP GDP. For the following variable, a p-value of 0.00739 and an $R^2$ of 0.568 are presented for the cost variable as a percentage of the per capita income of opening a company, which corroborates an acceptance of the relevance of the correlation effect with respect to economic growth, reaffirming the initial hypothesis.

**Table 8.** *Variable regression cost of procedures and PPP GDP*

| | |
|---|---|
| Multiple correlation coefficient | 0.754 |
| Coefficiente of determination $R^2$ | 0.568 |
| Adjusted $R^2$ | 0.520 |
| Standard error | 16018105037.263 |
| Observations | 11.000 |

In relation to what is presented in Table 2, it is observed that the multiple correlation coefficient is 0.754, which shows that the variable 'cost of procedures required for opening a company' depends on 75.4 % of the economic growth represented by the PPP GDP. It is established that, based on the proposed hypothesis, the following independent variables are approved: number of procedures required for opening a company, and cost of procedures for opening a company and the number of days required to

open a company is rejected for the independent variable, with respect to the economic growth of the countries of South America represented in the PPP GDP.

## Political Context

The term '21st Century Socialism' was originally presented in 1996 by the German sociologist Heinz Dieterich as a response to the crisis of capitalism during the 20th century, the failure of the socialist model in the Soviet Union, and the application of neoliberalism and the consequent poverty of the quality of life of the popular classes. However, his first political influences were in July 1990 at the Sao Paulo Forum, which was an international organization that brought together left-wing and extreme-left parties with a presence in 28 countries in Latin America and the Caribbean. It was an organization that encouraged the hegemonic cultural struggle, the situation of indigenous peoples, and the anti-colonial struggle. This forum gave seminars on progressive governments, feminist struggle, anti-racism, anti-imperialism, and anti-neoliberalism. There were more than 120 left-wing political parties that took part in this Forum.

The Heinz Dietrich School joined forces with the São Paulo Forum, founded by Lula Da Silva, which brings together the main socialist political leaders of South America. The primary goal of this collaboration is to establish systems of international cooperation that will guide the new leaders of 21st Century Socialism in following common principles, such as: the construction of a new constitutional political charter, the centralism of democratic decisions in the executive branch, control of the media, and the persecution on a greater or lesser scale of businessmen. The 21st Century Socialism promoted by antagonistic journalists lacked a solid theoretical foundation. Instead, it relied heavily on propaganda and populism, focusing on notions of seizing power through politics and the state's control over the economy.

This socialism is established as a fourth phase of development where it presents the radical reinforcement of state power through its basic postulates, which are: regional democratic development, an economy of equivalences, a participatory and leading democracy, popular organizations of base, and cooperativism and self-management. However, it had several limitations such as: state capitalism, centralization, unproductivity, and authoritarianism.

Luis Espinoza Goded in his book *Chronicles of 21st Century Socialism* (2019) points out the historical transition of socialism that had been thought to have ended in 1989 with the fall of the Berlin Wall. He also notes that in South America, particularly in Mexico, there was an effort to reframe 19th-century socialism as 20th-century socialism. This initiative was influenced by Heinz Dieterich's book *Socialism of the 21st Century* (2014), which sought to provide stronger theoretical foundations and promote political action..

On the other hand, political historians such as Francis Fukuyama expressed in his book *The End of History and the Last Man* (1992), that socialism provided an obsolete ideology due to its catastrophic results, but it was constantly transformed and produced socialist amalgams such as social democracy. Thus, socialism resurfaces in a surprising way in countries like Venezuela with Hugo Chávez, Ecuador with Rafael Correa, Argentina with Cristina Fernández de Kirchner, Nicaragua with Daniel Ortega or Bolivia with Evo Morales.

21st Century Socialism has been populist, with false dichotomies of 'good-bad', where easy solutions to difficult problems were presented, salvific leaders were presented as those who proposed changes to the existing problems. Additionally, they expressed solutions and measures through re-

presentations such as: exploited individuals, exploiters, state control of the economy in contrast to a market economy, and themes of revenge and historical victimhood.

A clear example of this was former president Rafael Correa in Ecuador, who had a certain legitimacy within 21st Century Socialism above other leaders such as Chávez or Morales in Venezuela and Bolivia, where the results were disastrous. Ecuador experienced an oil boom with exorbitant income, however, that money was wasted, and it became even more indebted, so public spending doubled in real terms, with a final result of a drop in the democracy index, a drop in foreign direct investment, decrease in the economic freedom index, and increase in poverty since 2014.

The results of 21st Century Socialism, also having Cuba as an example in South America, the Soviet Union and China, have always failed, with negative results from the state management of the economy, It has been shown that economic freedom is necessary for stable prosperity; typically, the more power the state wields, the worse the results are.

Table 9 presented below shows the change in political trends in South America in the last decade.

**Table 9.** *Political trends in South America, 2010-2022*

| | | | | |
|---|---|---|---|---|
| Argentina | XXI Century Socialism | Liberal | XXI Century Socialism | |
| | Cristina Fernández de Kirchner (2007-2015) | Mauricio Macri (2015-2019) | Alberto Ángler Fernández (2019-actualidad) | |
| Bolivia | XXI Century Socialism | XXI Century Socialism | | |
| | Evo Morales (2006-2019) | Jeanine Áñez (2019-2020) | | |
| Brasil | XXI Century Socialism | XXI Century Socialism | Liberal | Conservative |
| | Luis Inácio Lula da Silva (2003-2010) | Dilma Rousseff (2011-2016) | Michel Temer (2016-2018) | Jair Bolsonaro (2019-actualidad) |
| Chile | Liberal | XXI Century Socialism | Liberal | |
| | Sebastián Piñera (2010-2014) | Michelle Bachelet (2014-2018) | Sebastián Piñera (2018-2022) | |
| Colombia | Liberal | Liberal | | |
| | Juan Manuel Santos (2010-2018) | Iván Duque (2018-2022) | | |
| Ecuador | XXI Century Socialism | XXI Century Socialism | | |
| | Rafael Correa (2007-2017) | Lenin Moreno (2017-2021) | | |
| Paraguay | XXI Century Socialism | Liberal | Democratic Socialism | Liberal |
| | Fernando Lugo (2008-2012) | Federico Franco (2012-2013) | Horacio Cartes (2013-2018) | Mario Abdo (2018-actualidad) |
| Perú | Liberal | Democratic Socialism | Liberal | Democratic Centre |
| | Alan García (2006-2011) | Ollanta Humala (2011-2016) | Pedro Pablo Kuczynski (2016-2018) | Martín Vizcarra (2018-2020) |
| Uruguay | XXI Century Socialism | Democratic Cocialism | | |
| | José Mujica (2010-2015) | Tabaré Vázquez (2015-2020) | | |

Source: own elaboration

Table 9 presents the transitions between the governments belonging to 21st Century Socialism, liberal governments, and other trends. In the same Table, the governments of 21st Century Socialism is those that spent the longest time in power, the most outstanding cases being those of Venezuela, Ecuador, Bolivia, Brazil, and Argentina. All these governments implemented have very similar recipes such as the creation of a new constitution, extraordinary powers for the executive, complete submission of the armed forces to the executive, persecution of journalists, businessmen and adverse politicians, and negligence in the oversight of corruption cases.

The results of these governments have been widely studied by José Herrera, director of the International Area of the FAES Foundation; Jaime Trobo, president of the International Affairs Commission of the Uruguayan Parliament (2012); Bertha Pantoja, director of Caminos de Libertad in Mexico (2018); and Roberto Casanova, professor at the Andrés Bello University in Venezuela (2021).

## Discussion and Conclusions

The results shown in this study are compatible with the results of studies from other regions, that is: there is a direct correlation between the opening of new businesses and economic growth. This is clearly demonstrated in the analyses by Labrunéne (2018) and Bustamente (2004), who studied economic growth as a periodic change that influences economic activities. They noted that a shock in business can occur due to either the establishment or dissolution of a company. Furthermore, this study perfectly complements the conclusions made by Clarisa Zamora in her analysis "The Importance of Entrepreneurship in the Economy: The Case of Ecuador" (2017), where she reaffirms the positive influence of the growth of new ventures and services in the economic growth of Ecuador.

This thesis shows how the opening of new businesses influences economic growth, but also how economic growth influences the opening of new businesses in the same way.

This relates to the earlier work of Ausdretch and Keilbach (2004), who conducted an analysis in Germany. They demonstrated a bidirectional relationship between the opportunity to create new ventures and economic growth, attributing this to the increase in market power and economic resurgence driven by new companies.

It can be confirmed that the conducted study has statistical significance and concludes that the establishment of new businesses positively influences and correlates with a country's economic growth. This influence creates a positive feedback loop: as the number of business openings increases, job opportunities also rise, which in turn promotes economic development. This is closely related to the findings of Mueller, Van Stel, and Storey (2008), who state that alongside economic growth, several key factors improve as well, including education, the expansion of bank credit, and enhanced transparency of institutions.

The most original contributions of this research study include identifying the impact of new business openings on economic growth. It has been observed that as economic growth, measured by PPP GDP, increases in South American countries, it generates a positive effect on production factors, human capital, financial flows, and overall economic activities. The creation of new ventures helps economic expansion and vice versa, which makes sense because with economic mobilization and growth it has been shown that it allows for greater market purchasing power, accompanied by a greater tendency to open businesses that contributes to the creation of new jobs, in other words, greater

employment, being a cumulative circle of benefits that contribute even more to the economic growth of a country.

Secondly, this research study has contributed to the presentation of an analysis of the different policies between 21st Century Socialism governments and liberal governments, and how these policies have influenced economic growth. In this way, as mentioned in the first section, the governments of 21st Century Socialism have been characterized by policies of increasing taxes on raw material prices for companies and foreign investment, which has decreased the productive apparatus and has removed the decision-making power of companies and undertakings with oppressive economic price-setting controls by the state, which has caused a decline in the rate of profits and productive investment. Meanwhile, governments with social-democratic tendencies have presented themselves as a middle path, with State intervention policies in the market, but without so many restrictions on the creation of new ventures or foreign investment. And on the other hand, liberal governments have given market freedom for the creation of new businesses, being the one that has benefited the most from the increase in economic growth.

Thirdly, this study has provided a comparative analysis of political trends and economic results in South America, presenting the progress of the countries studied in terms of their political trends during the period 2010-2020. Which has allowed us to better understand how the opening of new businesses has increased or decreased with respect to the economic growth they have presented, having greater foundation to justify the reasons behind, which have primarily been the policies whether guided towards 21st Century Socialism or liberals.

From this research, the implications that are drawn for policy design are: the reduction of time for the creation of new businesses, reduction of bureaucratic costs, and reduction of procedures for opening new businesses. Thus, it has been shown that the decrease in time for creating new businesses has encouraged more entrepreneurs to want to join the market and generate more employment, due to the short wait for a new business. On the other hand, the reduction of bureaucratic costs not only helps more people open new businesses, but also increases foreign investment in the country, which increases the monetary supply and allows greater economic growth. The reduction of procedures for opening new businesses has increased competition among similar companies. This has contributed to a more stable market by preventing monopolies that could distort prices and demand, ultimately leading to an improvement in product quality.

Through this research, several important questions for analysis have been identified, such as: How have social mobilizations that occurred in South America in the 21st century influenced the creation of business promotion policies? How have gender inclusion policies impacted the creation of new businesses, and how has this affected or not economic growth? Finally, what has been the influence of the United States in South America in the 21st century in terms of promoting the creation of new businesses? This study has laid the groundwork for further research into the relationships between economic growth and gender, international relations, and social mobilizations.

From this research ¡, the implications, limitations and perspectives that can be drawn for policy design are: a reduction in the time for the creation of new businesses, a reduction in bureaucratic costs, and a reduction in procedures for opening new businesses. Thus, it has been shown that the reduction in the time for the creation

of new businesses has encouraged more entrepreneurs to join the market and generate more employment, due to the shorter wait for a new business. On the other hand, the reduction in bureaucratic costs not only helps more people to open new businesses, but also increases foreign investment in the country, which increases the money supply and allows for greater economic growth. As for the reduction in procedures for opening new businesses, it has allowed for greater competitiveness between similar companies and businesses, which has made the market more stable without monopolies that alter prices and demand and has improved the quality of products.

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## Conflict of Interest Statement

"The authors declares that they have no potential conflicts of interest with respect to the research, authorship or publication of this article".

## Statement of Ethical Approval or Informed Consent

"All information extracted from the study will be encrypted to protect the name of each subject. No names or other identifying information will be used when discussing or reporting data. All subjects gave their informed consent for inclusion before participating in the study. The investigators will securely keep all collected files and data in a locked cabinet in the principal investigator's office."

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## Autoría y Contribución de los Autores

**Christian P. Naranjo Navas**
Conceptualización, Validación:, Visualización, Redacción – revisión y edición

**Bryan J. Naranjo Navas**
Curación de datos, Análisis formal, Investigación, Metodología, Software: