# GLOBALISATION PARADOX AND ECONOMIC COMPETITIVENESS OF EMERGING ECONOMIES

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*Abstract*: The opening-up of BRICS economies (Brazil, Russia, India, China and South Africa) has been regarded as one of the benefits of globalisation. This paper explored the globalisation conundrum and the relationships between internationalisation, economic competitiveness and growth of emerging economies. It examines if there are economic gains and if they are widely shared by revisiting Rodrik's globalisation paradox and Adam Smith's propositions on the wealth of the nations and highlighting the difference between economic competitiveness and comparative advantage. This review covered the period between 2006 and 2021 to gain a better understanding of the globalisation paradox. The review suggests that the efficiency gains from trade liberalisation are not equally shared by every country leading to "unbalanced prosperity". Although the rise of China and India as global superpowers was due to globalisation, many Least Developed Countries (LDCs) are poorer or further behind economically (referred to in this article as "globalised but economically-forsaken").

*Keywords*: globalisation paradox, international trade, competitiveness, economic integration, emerging economies.

## INTRODUCTION

Research on globalisation has been gaining momentum as scholars and policymakers analyse the relationship between globalisation, trade and economic competitiveness from different dimensions. In contrast, the globalisation process has been slowing down and it has been under pressure for the last few years (Delios et al. 2021). This debate about globalisation has received further attention because of its connection to the

ISSN 2283-7949
GLOCALISM: JOURNAL OF CULTURE, POLITICS AND INNOVATION
2022, 1, DOI: 10.12893/gjcpi.2022.1.6
*Published online by "Globus et Locus" at https://glocalismjournal.org*

Covid-19 pandemic and the rhetorical role played by the national leaders and front-runners of multinational companies (The Economist 2019). The globalisation process has been further affected by the war in Ukraine (Ruta 2022). In these contexts, studies focusing on developing economies and emerging markets aim at evaluating the challenges of globalisation and international trade (Amadi 2020; Dabić et al. 2020; Morselli 2018; Rodrigues 2020; Sakaguchi 2020; Ramamurti 2012).

The argument is that the world has become more competitive and increasingly globalised, making it necessary for small and medium enterprises (SMEs) to look outside of their national borders to survive (Dabić et al. 2020). However, the global business environment is dynamic and rapidly changing (see, e.g., Dabić et al. 2020; Brakman, Garretsen 2009; Frankel, Romer 1999; Ortiz-Ospina 2018; Saji 2021), hence, there is a need for studies to assess different economies and markets. The challenges of emerging economies have been highlighted in many studies (Olabisi, Sawyer 2020; Seck, Fall, Aidara 2020).

This article re-examines the globalisation paradox, and the relationships between globalisation, international trade and economic growth in emerging markets between 2006 and 2021 to offer new theoretical, practical, and methodological contributions. The removal of trade barriers and recent technological advances in manufacturing, transportation, Information and Communication Technology (ICT) became the major drivers of globalisation and international trade (Dabić et al. 2020). Therefore, studies analysing the internationalisation capacity of emerging markets are necessary to understand the current state of the knowledge on the growth and challenges of international trade performance.

Adam Smith's propositions on specialisation, the extent of the market, and the determination of standards of living have been linked to trade. Adam Smith's (1776) propositions on *the Wealth of Nations* centred on two critical notions: division of labour and market systems that serves as a driver for growth. The extent to which the division of labour and wealth must be achieved will always be limited by the extent of the market. Arguably, the neoclassical theory of the firm appears to be insufficient to interpret and process the set of changes that affect the

ISSN 2283-7949
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*Published online by "Globus et Locus" at https://glocalismjournal.org*

overall social-economic-institutional complex (Morselli 2018). Several studies focus on foreign market entry strategies (Maalouf, Abi Aad, El Masri 2021) and the effect of international trade (Nguyen Viet 2015; Cheong 2011; Lastra 2013). Arguably, international trade has both positive and negative effects on SMEs' growth, competitiveness, and economic growth of developing economies.

This article provides theoretical and conceptual contributions. First, this article contributes to both the international trade, economic growth and globalisation literature by bridging the three together. Second, the article contributes to knowledge of the positive and negative consequences of globalisation through multi-level analysis. The assumption is that international trade enables countries to produce more of the goods in which the country enjoys a greater comparative advantage. This process, in turn, increases production, income and demand leading to economic growth and poverty reduction. A counter-argument is that international trade has led to "unbalanced prosperity" and contributes little towards the reduction of high poverty rates, income inequality and unemployment challenges in developing economies such as African and Asian regions.

To develop the arguments and critique the assumptions of international trade and economic development, we first review the globalisation paradox. This is followed by the context of BRICS and Emerging Markets. BRICS represents five major emerging economies of Brazil, Russia, India, China and South Africa (WTO 2019). Similarly, an emerging market is an economy that is moving from developing to developed (or industrial) (Igwe, Rugara, Rahman 2022). The next section explores the literature on the internationalisation motivations and challenges of emerging markets. This is followed by a review of the history and stages of globalisation and development. Next, the article examines theories of International Trade and Economic Growth. This is followed by redefining the economic ecosystem, globalisation frontiers and enablers. Finally, the article makes its conclusions and implications.

ISSN 2283-7949
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*Published online by "Globus et Locus" at https://glocalismjournal.org*

## REVISITING GLOBALISATION PARADOX

The advancement in trade liberalisation, bilateralism, multilateralism, transportation system, education, ICT, science and innovation have been remarkable features of the evolution of globalisation (de Aguilar Filho 2020). Globalisation describes international integration in commodity, capital and labour markets (Buckley 2019; Conca Messina 2020; Goryakin et al. 2015; Hataley , Leuprecht 2018; Decoville , Durand 2019; Martin, Javalgi , Cavusgil 2017; World Bank 2019). Historically, governments have operated within boundaries. Globalisation trends have seen borders and trade barriers removed and the emergence of authorities such as WTO, IMF, World Bank, European Union, etc. Hence, borders were no longer a barrier as they used to be in the past due to changes in the liberal international and liberal order (Amadi 2020). Until the 1980s, economic policy and its instruments had maintained a national dimension linked to the modern conception of the nation-state (Morselli 2018). Therefore, globalisation represents a shift away from self-contained national economies to an increase in the worldwide integration of markets. Firms in several countries of the world engage in international trade for different reasons. Some firms engage in international trade in order to survive, others to access strategic resources or increase demand. Despite the assessment of globalisation, it remains a complex and multifaceted phenomenon (Guttal 2007; Howse 2013) and a paradox (Rodrik 2011). Rodrik (2011) argued that:

> The paradox is essentially that for globalisation to bring proper economic benefits that are broadly distributed throughout society, national democracies need to be strengthened and international rules need to be in place, that protect all players, whilst still allowing for manoeuvrability and enterprise (Saffin 2012: 2).

Rodrik (2011) argued that from the mercantile monopolies of seventeenth-century empires to the modern-day authority of the WTO, IMF, and World Bank, many countries have struggled to effectively harness globalisation's promise. Furthermore, Rodrik (2011) argued that addressing externalities through international rules depends on the capacity of international rule-makers to get it right and sometimes they don't. Also, Rodrik stresses that, unless these rules have the lowest common denominator character, they will come at a cost - some optimal domestic policy outcomes will be prevented. Rodrik proposes customisable globalisation supported by a light frame of international rules that shows the way to a balanced prosperity as the world confronts global challenges in trade, finance, and labour markets. Other scholars argue that globalisation has enabled the floating of capital, travelling of information and the new international division of labour (Wang 2015). Hence, there are different perspectives on globalisation as a paradox exploring the relationship between international trade, international regulation, national sovereignty and democracy. These perspectives are presented in table 1.

Various paradoxical perspectives examine the impact of international trade, based on institutional outcomes, actors and international rules. These dimensions serve to examine the relationships between international regulations, national sovereignty and markets. Morselli (2018) argued that the characteristics of a model that applies institutionalist constraints can better interpret the micro-and macro-aspects of an economic system. Adam Smith (1776) propositions set the foundations for trade liberalisation policies based on Smith's *Laissez-faire* economics. There is a strong positive correlation between trade and income, and a negative relationship between trade and inequality (Cerdeiro, Komaromi 2020). It has been acknowledged that international trade provides countries with access to strategic resources, access to capital and markets for products that may have low demand in the domestic market (Olabisi, Sawyer 2020). Also, international trade generates employment, raise productivity, knowledge and skills transfer and technology, and thereby stimulates economic growth (Rodrigues 2020; Sakaguchi 2020). Adam Smith's (1776) propositions on "the Wealth of Nations" promote market mechanisms and rejects government interference in market activities, and instead propose that governments should serve three main functions: protecting national borders; enforcing civil law; and engaging in public works (such as investment in education). Smith's proposition suggests that nations should sell their goods to other countries while buying nothing in return, hence, maintaining anti-international trade.

ISSN 2283-7949
GLOCALISM: JOURNAL OF CULTURE, POLITICS AND INNOVATION
2022, 1, DOI: 10.12893/gjcpi.2022.1.6
*Published online by "Globus et Locus" at https://glocalismjournal.org*

Tab. 1. *Paradoxical Perspectives of Globalisation*

| Authors | Paradoxical Relationship | Key Issues |
|---|---|---|
| Muja et al. (2018) | The removal of trade barriers and capital controls would tilt the balance of power towards capital holders and richer economies. This undermines state sovereignty, democracy and internal stability. | Undermines state sovereignty, democracy |
| Muja et al. (2018) | Increased liberalisation has only served to strengthen the role of governments. However, the net gains from the increased economic exchange have not been equally shared domestically or across trading regions. | Net gains unequally distributed |
| Prashantham, Eranova , Couper (2018) | Globalisation can be a force for good by enabling forms of entrepreneurship that, in turn, facilitate important institutional change beyond the mere generation of more entrepreneurial opportunities. Such institutional outcomes can of course occur without globalisation, but its impact is greater in a globally interconnected world. | Institutional outcomes |
| Lastra (2013) | Global markets are doubly problematic: they lack the institutional underpinnings of national markets, and they fall between existing institutional boundaries. | Institutional outcomes |
| Herrington (2013) | While some actors might benefit from a mutually reinforcing relationship with globalisation, others are marginalised in some way or another, so it is necessary to expose the links and wedges that allow for such a paradox. | Institutional actors |
| Rodrik (2011) | Rodrik's case for a customizable globalisation supported by a light frame of international rules shows the way to a balanced prosperity as we confront today's global challenges in trade, finance, and labor markets. | International rules |
| Yusuf (2012) | Enormous institutional diversity persists, with countries such as China, India, Brazil, and South Africa following their paths to development employing a variety of industrial policies (e.g., the large subsidy that South Africa makes available to its mature, multinational corporation–dominated auto industry) and using the leverage provided by state-sector entities and state-owned development banks. | Institutional outcomes |

*Source*: authors compilations.

Also, Smith's theory suggests that an individual need to satisfy self-interest results in societal benefit regarded as the "invisible hand" idea which suggests that self-interest leads to social cooperation. By combining the division of labour in an economy, a web of mutual interdependencies develops that promotes stability and prosperity through the market mechanism. Smith was concerned with developing a theory of economic growth or defining the necessary conditions for rapid economic development (Weingast 2015). There has been criticism of Smith's theories at that time (MacDonald 1912) and in the light of the modern era (Weingast 2015).

Reducing trade costs is essential to achieving economic integration, especially as trade costs in the Asian and the Pacific region remain high (Duval et al. 2019). Modern economic studies examine conditions for rapid economic development (see, e.g., Mingo et al 2018; Morselli 2018; Ulubasoğlu 2014; Winters 2006). Many emerging economies are affected by the Covid-19 pandemic, political instability, a decline in economic growth, a high level of unemployment and poverty and a low level of technological advancement (Mingo et al. 2018). These affect key strategic decisions and put some economies at less economic advantage in the global market (Morselli 2018). To overcome these challenges, many nations go into regional collaborations (regional trade unions) aimed at reducing barriers to international trade.

The main objectives of the Regional Trade Agreements (RTAs) are to facilitate trade and increase economic integration between states. It is also aimed at enabling members to improve policy cooperation that will lead to an increase in international trade and investment and economic growth. The capacity of institutions to support international trade is associated with the level of economic development. RTAs promote cross-border movement of people, goods and services and reduce the cost of trade (World Bank 2019; Håkansson, Nelke 2015). The World Trade Organisation (WTO) oversees bilateral trade agreements (BTAs), and reviews multilateral trade terms and existing multilateral rules. The trend of increased interconnectivity between nations has resulted in cultural change and integration. The economists' view of globalisation presents a positive impact

ISSN 2283-7949
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*Published online by "Globus et Locus" at https://glocalismjournal.org*

suggesting that globalisation has become a key driver of the world economy. Some of the benefits of globalisation include free movement of people and labour, increase in global economic investment, economies of scale, technological advancement, knowledge sharing, economies of scale and lower prices of goods.

On the negative side, globalisation contributes to stagnant wages, chronic unemployment, and economic recession (Cheong 2011; Collins 2015; Williamson 2005). There is physical capital mobility and labour mobility in the globalisation process (Knight, Cavusgil 2015). A decline in both input and output tariffs led to a decline in the labour share in technology-intensive and labour-intensive sectors (Jason 2021). The service sector has become the most dynamic economy of world trade (Loungani, Mishra, Papageorgiou 2017; UNCTAD 2018; WTO 2019). Proponents of globalisation argue that the benefits outweigh the negatives. In contrast, Collier (2007) argued that the "bottom billion" of low-income and developing countries are economically behind and are in danger of further falling behind because of globalisation.

Some studies suggest that the multifaceted and interlinked dimensions of competitiveness are crucial to ensure the even spread of growth and development (Saji 2021). Many countries and continents remain weak economies with high costs or barriers to doing business (Seck, Fall, Aidara 2020). Porter's (1985) sustained competitive advantage describes the strategies and policies that impact the competitiveness of firms. The world is increasingly dominated by two global powers, the United States (USA) and China (Gledhill, Dolan, Snyder 2019; Vanham 2019), and India is rising as the third force (Conca Messina 2020). Comparative advantage has led advanced countries like the USA, Germany and United Kingdom to a service economy while China and India dominate manufacturing and export activities (Charfeddine, Mrabet, Ajmi 2014).

## THE BRICS AND EMERGING MARKETS

Emerging economies are countries transitioning from a low income or less developed to modern or industrial economies. China's Communist Party system and centralised political model control every government department. China's economic development trajectory for the last 30 years was aimed at developing the economy and increasing capital investment. China's emergence as a global power has come in the context of stable communist rule, suggesting that democracy and growth are not inevitably mutually dependent (Mitter, Johnson 2021). In contrast, India operates a parliamentary form of democracy and federal government structure. The democratic system consists of the president as head of state; a prime minister; a legislature consisting of a parliament with an upper and lower house (the Rajya Sabha and Lok Sabha); and a judiciary with a supreme court as the apex institution.

Russia is a federal presidential republic with a President and a Prime Minister, but the President is dominant. Although Russia is a federal democratic state, many regard it as a dictatorship built around President Vladimir Putin, who has been the leader of the Russian Federation since the year 2000 (Worldatlas 2022). The war between Russia and Ukraine that started on the 24 February 2022 has been accompanied by a sharp rise in inflation (high fuel, energy and major commodity prices) and disruption of global value chains which were recovering from Covid-19 disruptions. If the war persists, this could trigger a new financial and economic crisis globally, given that the world is just recovering from the Covid-19 pandemic. It has been estimated that between 75 – 95 million additional people could be living in extreme poverty in 2022 compared to pre Covid-19 projections, due to the lingering effects of the pandemic, the war in Ukraine, and rising inflation (World Bank 2022).

Some studies reveal the rise of China as a global power is because of globalisation (Mascitelli, Chung 2019; Liu, Yan 2015; Wang 2015). Chinese SMEs use international expansion as a springboard to aggressively acquire strategic resources to compensate for their competitive disadvantages (Wu, Deng 2020). Chinese globalisation policy focuses on making up for a

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*Published online by "Globus et Locus" at https://glocalismjournal.org*

shortage of capital, technology and innovations to become a global manufacturer and supplier (Wei, Liu 2001). China scaled up its global trade by entering new markets with aggressive and competitive sales in some cases with cheap and low-quality products (Mascitelli, Chung 2019). Forty years of reform, emergence and steady growth are entwined with the process of globalisation through cross-border increases in human capital, financial capital, goods and services (Wang 2019).

According to a report by McKinsey Global Institute (2017), Chinese exports increased from just \$257 billion in 2000 to \$2.4 trillion in 2016. Similarly, the most critical segments of Indian economic reform focused on trade and foreign investment. India has managed to grow its economy (which grew at a rate of 7.2per cent in 2017) and reduced the number of poor people considerably (Schafer, Greenfield 2019). China's Foreign Direct Investment (FDI) reform has coincided with the expansion of globalization (Liu, Yan 2015). The BRICS maintain a competitive advantage over advanced economies through diversified sectors that contribute to national economic competitiveness and growth. However, the global fall in oil prices and Covid-19 threaten the competitiveness of developing economies. It is important to state that both China and India have unique economic structures and characteristics worth exploring, however, this is beyond the scope of this article.

## INTERNATIONALISATION MOTIVATIONS AND CHALLENGES

Neoliberalism dominates the modern political economy that favours free-market capitalism, deregulation, and reduction in government spending. The practice of neoliberalism has been blamed for economic challenges facing several nations and regions such as severe environmental degradation, rising unemployment, food insecurity, falling wages, etc. The private sector has emerged as a means to reduce the challenges of modern economies and the advancement of economic growth. Initially, SMEs start operations within the home market and gradually,

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*Published online by "Globus et Locus" at https://glocalismjournal.org*

they begin to export to foreign markets which have close psychic distance via agents and then to greater psychic distance (Hashai, Almor 2004; Johanson , Vahlne 1977). SME internationalisation motives could be resource seeking, market seeking, efficiency-seeking, and strategic asset-seeking, enhancing global competitive advantages (Wu, Deng 2020) and accelerating shift in economic power (Marques, Lupina-Wegener, Schneider 2017).

The motives for internationalisation are inherently associated with emerging economies' government's "go global" policy (see, e.g., Deng 2009). It is important to take a more nuanced approach to analyse and identify factors that become facilitators and obstacles in the process of internationalisation in emerging markets (Zhu, Warner, Sardana 2020). Three sources, namely institutions, business associates and personal relations, work in tandem in the process of internationalisation (Zhu, Warner, Sardana 2020). Institutional escapism has been used to describe the misalignment between firm needs and home country institutions (Wu, Deng 2020). Institutional factors have often been considered to hinder the growth and development of businesses in an emerging market (Jormanainen, Koveshnikov 2012). Also, institutional voids are considered to impede businesses, but several pragmatic owners of SMEs tend to derive significant advantages by exploiting these voids (Zhu, Warner, Sardana 2020).

More than 95 per cent of firms across the world are SMEs, and these contribute up to 60 per cent of employment and up to 40 per cent of GDP (Dabić et al. 2020). The reason for SMEs' internationalisation could be "push" factors or "pull" factors that affect SMEs and international entrepreneurs. Pull factors develop from opportunity-seeking or market-seeking while push factors are connected to necessity variables such as a negative institutional environment. Although entrepreneurs and SMEs in emerging markets are motivated by both forces to internationalise, they face several challenges more than SMEs in developed economies. These challenges are presented in table 2.

As revealed in table 2, motivation to internationalise could depend on an individual's perception, normative, cognitive, and regulative aspects of institutions (García-Cabrera, García-Soto, Durán-Herrera 2016).

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*Published online by "Globus et Locus" at https://glocalismjournal.org*

Tab. 2. *Emerging markets – International trade challenges*

| Authors | Findings | Factors |
|---|---|---|
| Wu, Deng (2020) | SMEs tend to escape to a host country with institutions different from their home country and choose an entry mode of low-resource commitment, revealing a solid institutional arbitrage logic by partially escaping from the domestic market. | Institution and Resources |
| Symeonidou et al. (2017) | Unfamiliarity hazards arise from a lack of foreign market knowledge about (a) the foreign culture, institutions, rules, and regulations; and (b) the resources, capabilities, and behaviours of suppliers, competitors, and customers. | Institution and Resources |
| Marques, Lupina-Wegener, Schneider (2017) | There is the problem associated with the early stages of the internationalisation process in the form of an incremental 'learning by doing' approach. | Knowledge and learning |
| Dabić, Maley, Dana (2019) | Knowledge management and learning processes have become major factor for achieving long-term competitive advantage and for international success. | Knowledge and learning |
| Ruzzier, Hisrich, Antoncic (2006) | For many SMEs, especially those operating in high-technology and manufacturing sectors, it is no longer possible to act in the marketplace without considering the risks and opportunities presented by foreign and/or global competition. | Global competition |
| Ruzzier, Hisrich, Antoncic (2006) | Globalisation is characterized by the worldwide integration of ever more competitive markets and companies facing global competition. Traditional exports are increasingly coming under pressure while the conditions for marketing and production are changing rapidly. | Global competition |
| Tepjun (2016) | Cultural distance could create a high internal uncertainty for firms. This can be explained by the higher uncertainty that managers perceive when they are not familiar with the other countries culture. | Cultural distance |
| Tepjun (2016) | There are external uncertainties, which can be regarded as country risks such as technological, political situation, currency changes and economic fluctuation. | External uncertainties |
| Chen et al. (2016) | Differences between the domestic market and foreign market pose inevitable uncertainties and opportunities for firms engaged in exporting activities. Six domestic factors, including domestic demand, export assistance, local market characteristics, infrastructure quality, legal quality and institutional environment affect internationalisation. | External uncertainties |
| Kaufmann, Hooghiemstra, Feeney (2018) | There are many dimensions of rules, regulations and informal institutions include norms such as corruption, political ideology, and culture, which affects businesses positively or negatively. | External uncertainties |
| Krishnan, Scullion (2017) | SMEs face legitimacy, economic, and resource dependence challenges in attracting and retaining talents that can help foster successful internationalisation. | Legitimacy and resource dependence |

*Source*: author's compilation.

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*Published online by "Globus et Locus" at https://glocalismjournal.org*

SMEs in emerging markets face several challenges such as unfavourable institutions, barriers to knowledge and learning, global competition, cultural distance, external uncertainties, etc. SMEs in emerging markets are affected by resource availability and capability. The competitiveness of firms in these markets is in turn determined and shaped by the cultural, administrative, geographic, and economic (CAGE) factors (Ghemawat 2001; Igwe, Kanyembo 2019). These dimensions offer a critical framework to analyse and understand the challenges of emerging markets.

## HISTORY AND STAGES OF GLOBALISATION

The World Economic Forum (WEF 2019) provides a brief history and stages of globalisation as follows. Phase 1: Silk roads (1st century BC-5th century AD, and 13th-14th centuries AD) showed that for the first time in history, luxury products from China appeared on the other edge of the Eurasian continent – in Rome. Phase 2: Spice routes (7th-15th centuries) related to Islamic merchants and religion spread in all directions and the founder of Islam, the prophet Mohammed, was famously a merchant, as was his wife Khadija. Phase 3: Age of Discovery (15th-18th centuries) that European explorers connected East and West – and accidentally discovered the Americas aided by the so-called "Scientific Revolution" in the fields of astronomy, mechanics, physics and shipping. Phase 4: First wave of globalisation (19th century-1914) when Great Britain started to dominate the world both geographically, through the establishment of the British Empire, and technologically, with innovations like the steam engine, the industrial weaving machine and more. The outbreak of World Wars I and II brought an end to just about everything the burgeoning high society of the West had gotten so used to, including globalisation (WEF 2019).

Continuing, the World Economic Forum described Phase 5 as the Second and third wave of globalisation that started at the end of the World War II with the United States of America, aided by the technologies of the Second Industrial Revolution, like the car and the plane, global trade started to rise once again.

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Phase 6: Globalisation 4.0 represents the current era of globalisation increasingly dominated by two global powers, the US and China, the new frontier of globalisation and the rise of digital economy e-commerce, digital services, 3D printing, Internet of Things, Artificial intelligence, cyberattacks, etc. (WEF 2019). Also, Richard Baldwin explained four phases of globalisation in human history as follows. Phase 1: Humanizing the globe (300,000 BCE-10,000 BCE); Phase 2: Localising the global economy (10,000 BCE-1820 CE); Phase 3: Globalising local economies (1820-1990) and Phase 4: Globalising factories (1990-present) (for further details, see, Baldwin 2018).

Therefore, the concept of globalisation is vast and has been analysed under several themes including institutional fragility perspective, institutional escapism, and so on. The institutional fragility perspective (Shi et al. 2017) and institutional escapism have been used to describe the major internationalisation challenges facing firms from emerging markets (Wu, Deng 2020). Indeed, the world economy has undergone significant trade changes since the 1980s as economic nationalism gave way to regional, bilateral, or multilateral markets guided by the idea of free trade and globalisation. Policies such as free trade, and low tariffs on export and imports have been the key features of the modern liberal economy (Krammer, Strange, Lashitew 2018; Goerzen, Asmussen, Nielsen 2013). According to Vanham (2019) as early as the 2000s, global exports reached a milestone, as they rose to about a quarter of global GDP. The main drivers of international trade include technological changes, digitalisation, the internet of things (IoT) and low-cost transportation system (WTO 2019).

Among emerging nations and BRICS countries, trade has grown to about half of GDP (Vanham 2019; Black, Nogare 2016). BRICS countries accounted for 13 per cent of the global ICT market in 2010 (the U.S, 28.7 per cent; EU top 5 Countries, 18.5 per cent; rest of EU, 7.6 per cent), with spending of about EUR328 billion on ICT (Nepelski, De Prato, Simon 2013). Another driver is advancement in technology and education (WTO 2019; World Bank 2019; Khilji 2013). BRICS such as India and Brazil are relatively more domestic demand-driven economies (Charfeddine, Mrabet, Ajmi 2014) and China has

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become a major player, ICT users/importers as well as producers of ICT goods and services (Nepelski, De Prato, Simon 2013). Also, India has the potential to become one of the largest economies in the world by 2050 (Lakshman 2015).

"There is a correlation between economic growth and trade and countries with higher rates of GDP growth also tend to have higher rates of growth in trade as a share of output" (Ortiz-Ospina 2018: 1). Indeed, the world economy has experienced sustained growth in international trade and accelerated economic growth (United Nations 2019a). International trade in the form of exports is a major factor in growth development trajectories with China and India having the largest share (see, Ortiz-Ospina 2018, World in Data). In pursuit of GDP growth, trade policies have been complemented by effective bilateral and regional cooperation. Many nations have benefited from a rise in global trade, but the least developed countries (LDCs) are not well integrated into the global trading trend. However, several trade disputes (such as the US and China) and international policy uncertainties threaten the progress that has been achieved in past decades. Globally, the world continues to witness challenges in the areas of climate change, international trade and finance.

Although poverty across sub-Saharan Africa, Latin America, the Caribbean and Western Asia, may be lower than current estimates suggest, the number of people living in extreme poverty continues to rise in these regions (World Bank 2016). At the same time, the Covid-19 pandemic, Russia and Ukraine war have brought a further escalation of economic uncertainty and the global economic outlook has weakened significantly. Across many developed and developing economies, growth has slowed considerably. Economic performance among the BRICS countries remains subdued (Charfeddine, Mrabet, Ajmi 2014). Of course, emerging economies are complex, diverse and heterogeneous as they differ in their demographic characteristics, economic priorities, governance and political structures (Cerdeiro, Komaromi 2020; Ortiz-Ospina 2018). Hence, an attempt to undertake a comparative study of the emerging markets or BRICS economies poses several challenges.

## REVISITING INTERNATIONAL TRADE AND ECONOMIC DEVELOPMENT THEORIES

International trade is believed to produce positive and negative outcomes (Farndale et al. 2019; Collier 2007; Rodrik 2011; Saffin 2012). This article develops four propositions in light of BRICS economic changes. These arguments are as follows.

### *Trade is the most powerful parameter for economic growth*

Adam Smith's economic development theory is based on the principle of *Laissez-faire* which requires that states should not impose any restriction on the freedom of an individual. It rests on the pillars of saving, division of labour and efficient market. The review estimates that the impact of trade is substantial and that there is a positive association between international trade, economic growth and inequality (e.g., Frankel , Romer 1999; Ortiz-Ospina 2018). China, India and Russia are examples of nations charting a tremendous unprecedented economic growth expedition due to international trade.

Among the developing nations, BRICS countries are increasingly diversifying their economy from manufacturing to services. China's economy, originally based on manufacturing, is increasingly moving towards services and now accounts for over 52per cent of GDP (World Bank 2019). With digital technologies, some Chinese firms are even creating new markets, customers and investors (World Bank 2019). In India and Brazil, services now make up almost 50per cent and 63per cent of GDP, respectively (WTO 2019). However, not every nation is experiencing GDP and economic growth. Although employment is rising, job quality and productivity are low and there are millions of people that have been globalized-forsaken in developing countries.

Many workers remain in the low-productivity informal sector (World Bank 2019). Informality has remained pervasive despite improvements in international trade. The share of informal workers ranges from 52 per cent in Asia to 76 per cent in Africa (Brookings 2018). In Sri Lanka, for example, 90 per cent

ISSN 2283-7949
GLOCALISM: JOURNAL OF CULTURE, POLITICS AND INNOVATION
2022, 1, DOI: 10.12893/gjcpi.2022.1.6
*Published online by "Globus et Locus" at https://glocalismjournal.org*

of informal firms are enterprises with no paid employees (World Bank 2019). In Africa, 80 per cent of the labour are informal workers (African Development Bank Group/WIEGO 2019). There are several negative consequences of informality that dominate many developing countries. Informality adds to city congestion, low productivity, low wages and non-exportable products (World Bank 2018). Connected with the above reality is the question of does international trade leads to improved well-being and inequality?

*International trade results in improved well-being and low inequality*

There are many arguments in favour of international trade contributions to improvement in wages, income, and employment. Hence, it is expected that there is a strong relationship between trade liberalisation and economic development (Lee, Lin 2018; Collins 2015). There is a strong relationship between consumption and export-led growth strategy (Fatima, Shamim 2020). However, international trade can lead to economic imbalances, greater inequality, and job losses (World Bank 2019; UNCTAD 2019). Globally, economic growth is uneven and is often failing to reach many countries in the developing region and the Least Developed Countries (LDCs) which could be referred to as "globalised but economically-forsake". The United Nation categorise 48 countries as LDCs. These countries are regarded as poorest, most vulnerable, and weakest countries given that about 50.8 per cent of the population lives on less than $1.25 per day, and 72.5 per cent lives on less than $2 per day (Maksimov, Wang, Luo 2017).

It is expected that international trade and globalisation will improve poverty reduction. Some scholars analysed the impact of trade openness on productivity, wages, employment and unemployment, and the channels through which trade reforms have impacted poverty (see, e.g., Jason 2021). For almost 25 years, the number of people living in extreme poverty – on less than $1.90 per person per day – was steadily declining until 2020, when poverty rose due to the disruption caused by the

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Covid-19 pandemic (World Bank 2022). There has been marked progress in reducing absolute poverty (UN Sustainable Development Goals 1) in every developing region.

Absolute poverty refers to conditions of severe deprivation of basic human needs, food, safe drinking water, health, shelter, etc. However, extreme poverty reduction remains a huge challenge. In sub-Saharan Africa and South Asia, there are more than 400 million and 500 million extremely poor people, respectively (World Bank 2020a). The majority of the over 900 million poor people continue to be affected by comparative disadvantage, high inflation, global economic shocks, food insecurity, pollution and climate change. These people will continue to be poorly educated and lack access to basic health care, electricity, safe water, and other critical services that will remain elusive.

### *Trade enhances division of labour and comparative advantage*

Competitiveness connotes the ability of nations or firms to compete effectively and successfully in markets for internationally traded goods and services. There are several sides to the argument on the competitiveness of nations. It could be argued that the trend toward globalisation is eroding comparative advantage approaches based upon the exploitation of natural resources (Batten, Szilagyi 2016; Pitelis 2009; Krugman 1980). More so, it could be argued that before the year 2000, a comparative advantage made sense, but it does not make sense now. Ricardo's (2004) trade theory proposes that all resources are fully employed to achieve a comparative advantage. However, this is far from reality, especially in many developing countries and low-income countries where massive unemployment and the informal sector dominate economic activities. Many developing countries lack the vital resources and technology required to engage in comparative advantage (Ezeani 2018).

In developed and developing economies, workers in industries that face higher tariffs in their export markets were paid lower wages (Jason 2021). Technology – notably IoT, ICT and digitalisation have become the major drivers of globalisation, in

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addition to improvement in transportation, logistics, and finance. Although the Fourth Industrial Revolution is transforming industries and creating innovations such as artificial intelligence, robots, cloud computing, Cryptocurrency Bitcoin and Big Data, many developing economies lack the resources, knowledge and technical ability to engage in the innovations. Also, many developing countries lack the institutional quality required to engage in these activities. Moreover, the new technologies are highly disruptive, creating job dislocation, rising inequality and economic instability. The pressure from globalisation has led to lower labour bargaining power and lower-income and uncertainty of jobs (Jason 2021).

### *Globalisation reduces poverty and inequality*

Globalisation has been attributed to an increase in wealth, increase in income and reduction in inequality. Evidence suggests that rising incomes are increasing demand and consumption globally (Ortiz-Ospina 2018; World Bank 2020b). Trade and economic growth have been the main driver of this reduction (OECD 2010). However, economic inequality persists and has become a major concern (Inekwe, Jin, Valenzuela 2018). Nearly five billion of the world's population have moved away from desperate poverty in developing countries due to globalisation (Collier 2007). Therefore, the economist concludes that international trade is the most powerful instrument for reducing poverty and inequality (Adams 2002).

Collier (2007) argued that there is a "bottom billion" of the world's poor whose countries are in danger of falling apart from the rest of the world. However, Roser and Ortiz-Ospina (2019) caution about the measurement of poverty. The authors argue that while the use of "International Poverty Line is useful for understanding the changes in living conditions of the very poorest of the world, we must also take into account higher poverty lines reflecting the fact that living conditions at higher thresholds can still be destitute" (Roser, Ortiz-Ospina 2019: 3). Describing the World economic situation and prospects, the UN (2019b) maintains that the poverty eradication target in Africa by 2030 is impossible to achieve. Indeed, developing countries like China have virtually eliminated extreme poverty, while India has also made great strides, but the African region lags. The same applies to Latin America and the Caribbean, Argentina, Brazil and the Bolivarian Republic of Venezuela (UN 2019b).

## GLOBALISATION FRONTIERS AND ENABLERS

The enablers of globalisation and trade depend on the economic ecosystem. The economic ecosystem is defined as the interacting components which foster economic integration in a specific national or regional context. The model of globalisation frontiers and goals (figure 1) represents different characteristics of the economic ecosystem, globalisation drivers, objectives and strategic targets. One of the marked features of economic systems has been the growth of the national political system, and regional and international regulations. At every level, institutions play a major role in long-run trajectories of commercial and economic development (Abubakar, Kassim 2018). Institutions are the rules of the game in a society that determines behaviour" (North 1990: 3). Some of the enablers include stable democracy or rule of law; the types of regulations, and informal and formal rules which govern and determine behaviours. Technology is making it impossible for developing countries to catch up with developed nations (Ezeani 2018).

International trade is characterized by the co-existence of bilateral and multilateral political-economic systems. WTO, European Union, Economic Community of West African States (ECOWAS) and the African Union (AU) are examples of multilateral organisations whose main objectives focus on trade, regional integration and governance. If the economic ecosystem linkages are robust, international trade could generate positive economic outcomes, including FDI, financial stability and a rise in income. Strong institutions are an essential foundation for economic development. Building better institutions have, however, proven difficult in many developing countries. Many countries have weak policies, lack access to finance and there is

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a low level of human capital and skills development. The lower standard of education leads to a skills gap and a high rate of unemployment.

FDI Outflow and Inflow are important to economic growth (Huang et al 2017). Over the last decade, China has become the largest recipient of FDI whilst simultaneously increasing its outward FDI dramatically. Rai and Sharma (2020) found that there exists a long-run, short-run and joint causal relationship between infrastructure development, market size, the openness of the economy, political stability and corporate tax and FDI inflows. Among these variables, the corporate tax is the most important one because it shows bidirectional causality with FDI inflows in the long run as well as short-run along with joint strong causality (Rai, Sharma 2020). Although FDI is known to be the most stable type of international capital flow, it may be particularly susceptible to heightened uncertainty because of its high fixed costs (Choi, Furceri, Yoon 2020).

International trade policies must focus on developing a dynamic and inclusive global economy in the pursuit of development goals. In many developing countries, economic growth has not led to the desired outcomes. Many national and local economies are less competitive and domestic demand relies heavily on imports. There are still many barriers to trade against the principles of trade liberalisation. An escalation of trade tensions and disputes between the US and China on one hand and the European Union and the UK, on the other hand, threaten global market, economic and financial stability. Prolonged disputes among these major global economic players may exacerbate risks and uncertainty. Many countries have accumulated debt that threatens their economic growth in the future. Rich countries and companies continue to be richer while low-income countries and companies struggle with economic prosperity. Therefore, better infrastructure development and a decrease in corporate tax may enhance FDI inflows in developing countries (Rai, Sharma 2020).

Due to a lack of institutional support and technological advancement, low productive firms and informal sectors dominate in developing countries. The features of the informal sector include inferior goods, low income, low productivity, low

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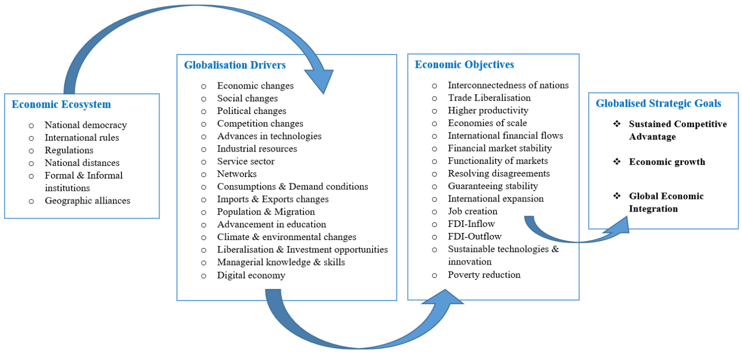


Fig. 1. *Globalization frontiers and strategic goals.*

demand and lack of social protection. Globalisation has led to an increase in wealth and economic growth in many emerging economies, however, an important question is how to make the growth sustainable. This will involve a focus on how to accelerate economic, environmental and social progress related to the United Nations (Sustainable Development Goal, SDG 8). Of course, the CAGE conditions of developing nations are not the same. Many developing nations are struggling with uneven economic growth. Manufacturing firms are often lacking firm-specific expertise and resources to outcompete rivals in overseas markets (Huang et al. 2017).

## CONCLUSION AND IMPLICATIONS

Against the backdrop of a devastating Covid-19 pandemic and the war between Russia and Ukraine, there has been a sharp economic contraction, disrupting supply chains, high inflation and lower output globally. In 2020, global trade fell by 8.9per cent and services fell by more than 20 per cent, the steepest drop since the global financial crisis of 2007/8 (Bank of England 2021). Covid-19 pandemic caused reduction in international travels and accelerated digital platform services and users. This trend poses danger to globalisation. Prior to the emergence of Covid-19 pandemic, it could be argued that the impact of globalisation has not been equally shared by every country and continent due to differences in institutional capacity and strength. The institutional environment in many developing countries not only affects the way resources can be acquired, developed or exploited domestically but also influences the international operations of firms and puts the majority of the firms at a competitive disadvantage.

Before the emergence of Covid-19 pandemic, there were strong evidence of the "systematic" effects of globalisation such as rise in income, increase in GDP and economic growth of emerging economies of BRICS countries. However, not all economies benefit equally, and many developing and low-income countries are struggling to make the same impact. Many developing countries are further behind economically and billions of people from those countries are poorer due to the negative impact of globalisation. The relevance of the comparative advantage is also in doubt. It could be argued before the year 2000 comparative advantage made sense, but it does not make sense now, especially in the era of post-Covid-19. With varying CAGE conditions and weak institutions, many developing and low-income countries are not benefiting from globalisation and there is a rapid rise in poverty and inequality.

It is critical to have a good understanding of the linkages between globalisation, economic growth and inequality. On multiple fronts, many countries continue to face political insecurity and conflicts that are hindering their sustainable development prospects. International trade must have at its core measures to promote sustainable growth and inclusive growth. Without inclusive growth, world peace and security will be unattainable. Policymakers must focus on policies that can make the informal sector transform into the formal sector to protect workers' rights and provide higher wages. Asian countries are increasingly tackling this agenda of 'inclusive growth. Internationalisation theories suggest that a firm's commitment to the international market increases gradually with their increased market knowledge and experience. However, this is a major barrier among firms in developing economies because of weak

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governance, lack of strategic resources and lack of technological infrastructure.

With substantial knowledge gaps related to the content, theory, and a lack of studies on SMEs' internationalisation process, globalisation outcome and trade impact in emerging markets makes this article important contribution to the literature. The critical question is how globalisation research can guide policy design. This challenge relates to the inability and/or reluctance of many SMEs in developing countries to internationalise due to several institutional barriers. Emerging markets SMEs internationalisation from the outset has been highlighted in the literature, however, the traditional theories need to be considered carefully in the context of the evidence base, which can be used to guide policy options and decisions on how to reduce barriers to SME internationalisation and emerging markets development. Issues such as market volatility, slow growth, falling growth rates, increased competition, low technology, rising trade barriers, weak commodity prices, and slow innovation require urgent attention.

Prudent fiscal policy ensuring macroeconomic stability is a key prerequisite for sustainable growth and determines the distributional effect of growth (Beyer, Milivojevic 2020). Fiscal policy should strive to smooth out business cycle fluctuations by strengthening the automatic adjustment of taxes and by adjusting government expenditures (Beyer, Milivojevic 2020). Beyond the headlines of GDP growth, international trade must be accompanied by the quality of economic growth, natural resources and the environment protection, the quality of life and a reduction in inequality. Internationalisation and globalisation will continue to dominate international business research. More studies are welcomed in this direction. Although conceptual analysis has become part of the philosophical mainstream, the lack of empirical data and investigation poses limitations. Future studies could focus on the effect of globalisation or international trade on rural economies of emerging markets where most of the poor population lives. Another opportunity is to measure the impact of Covid-19 and the effect of Russian war with Ukraine on international trade.

ISSN 2283-7949
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2022, 1, DOI: 10.12893/gjcpi.2022.1.6
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