Bridging Worlds: Unveiling the Distinctive Tapestry of Emerging Markets and Developed Economies

ABU BAKAR IQBAL[1], MARYAM JAWAD[2]

[1] Lecturer, Department of Business and Skills Beaconhouse International College Faisalabad

2 Beaconhouse International College Faisalabad

Abstract: This assignment analyses the dynamic traits and characteristics of emerging economies, focusing on their large economic growth and expanding infrastructure. It emphasises the positive aspects of these countries, which lie between developed and developing economies. With a specific emphasis on the phenomenon of institutional voids. This essay seeks to distinguish these markets from the developed world based on their institutional, national, and business characteristics. It aims to uncover the challenges and opportunities these markets present, as well as explore the intricate relationship between emerging markets and multinational corporations. Additionally, it examines the complexities involved in navigating the diverse nature of emerging economies.

I. Introduction

Emerging markets play a crucial role in today's globalised economy. These countries are characterised by their swift economic expansion, advancement in infrastructure, and increasing living standards. These economies are transitioning from being mostly dependent on agriculture to becoming industrialised and service oriented. They hold a distinct position between developed and developing countries.

The role that BRICS is playing has the potential to significantly alter global dynamics. This project specifically examines the prominent participants of the BRICS alliance, namely Brazil and South Africa. By analysing the distinguishing features of emerging markets, including their national, institutional, and corporate aspects, in comparison to developed countries.

This essay seeks to uncover the underlying risks and opportunities present in these.

marketplaces and examine the interactions between multinational corporations (MNCs) and multinational enterprises (MNEs) within this dynamic economic environment, as well as the influence these factors have on them.

II. Literature Review

Comparison between Emerging Economies and Developed Economies:

Emerging markets are known for their fast economic growth and transition to market-based economies, which occur in the context of distinct socio-economic and political features. According to Nielsen, Hannibal, and Larsen (1), these economies are characterised by both fast growth and significant volatility, which is unlike the developed economies.

Khana and Palepu propose a conceptual framework that is important for understanding the distinction. This framework focuses on the lack or inadequate development of institutions that are essential for facilitating markets. These institutions are less common in developed countries and completely absent in developing ones, as emphasised in the study (2).

The addition of South Africa and Brazil to the BRICS club, including emerging economies, resulted in a shift in its narrative. Both Brazil and South Africa have established themselves as influential regional powers and prioritise the cultivation of positive relationships with their neighbouring countries. In the instance of Brazil, Doré and Teixeira observe that Brazil made significant efforts to establish a sophisticated manufacturing sector, which ultimately led to its emergence as a global player. Political instability hindered Brazil's economic growth from 1870 to 2003, as observed by Campos et al. Despite this, Brazil's economic growth remained strong over this period and continues to persist (5). South Africa's integration into the global economy after apartheid was a result of the liberalisation of its economy. It transitioned from a segregated state to a significant participant in the African market. BRICS joined in 2010 due to its abundant resources and advantageous position as an entry point to Africa. Neethling states that being a member of BRICS provides an opportunity to further its foreign policy objectives and enhance diplomatic contacts. Nevertheless, the existing socio-economic inequality in South Africa acts as a barrier to their economic progress, as emphasised by Bakker, Parsons, and Rauch (7).

Theoretical Foundations:

The OLI and LLL frameworks are used for analysing settings. The OLI framework, developed by John Dunning, examines the key elements of Ownership, Location, and Internalisation in economies, which are essential for comprehending direct investments. It assesses the resources, geographic advantages, and internal integration capabilities of economies. The LLL framework, originally defined by Lecraw and subsequently enhanced by Mathews, centres on the principles of Linkage, Leverage, and Learning. This approach is crucial in understanding how enterprises from emerging markets establish relationships, utilise resources, and acquire expertise. It offers valuable information about their competitive tactics (8).

Institutional Theory posits that the political and economic surroundings have a substantial impact on the establishment and behaviour of institutions. This theory posits that external influences have an influence on the establishment of norms, values, and operations within organisations, as well as on how institutions adapt to and are influenced by their surrounding settings (9).

III. Methodology

National characteristics:

Distinctive traits of a nation Government prioritises macroeconomic stability in rising economies. In Brazil, the ownership aspect is marked by a financially unstable system and their geographical location makes them susceptible to changes in global commodity prices and reliant on foreign trade.

Consequently, the government plays a greater interventionist role. The central bank of Brazil actively endeavours to alter the interest rate to combat inflation, reducing it from 12.1% in April 2022 to 4.6% in August 2023 (10). Implementing capital controls would help stabilise the real currency, while the South African Reserve Bank (SARB) could manage inflation to achieve price stability within a range of 3% to 6%. In contrast, the United States relies on a market-driven exchange rate mechanism due to its ownership advantage in a strong financial system and the benefits of being located within an integrated regional market. Brazil has adopted the 2016 implementation of the Public Expenditure Cap (Pec de Teto) as a measure to address its debt and respond to global economic pressures (Tiago Couto Porto et al., 2023).

This amendment deviates greatly from the adaptable methods typically seen in industrialised countries, where the focus of their internalisation tactics is mostly on maintaining stability.

The insufficient infrastructure in both countries poses a significant obstacle to their economic development. This issue is addressed through interventionist measures, which are implemented due to the ownership advantage. This can be observed in the National Infrastructure Plan (NIP) and the Renewable Energy Management Plan of South Africa. South Africa has made significant investments in special economic zones (SEZs) to promote trade operations, whereas Brazil has focused on spatial planning through its National Infrastructure Plan (NIP). The government assumes the lead investor role to incorporate global economic trends of the global supply chain and to attract foreign direct investment (FDI) (11). The role of the UK government is primarily that of a facilitator, rather than a direct provider, through regulatory bodies such as the Office of Rail and Road and the Competition and Market Authority. This is because the government benefits from the strong private sector and well-developed infrastructure, allowing them to adopt an internalising strategy that does not require direct involvement.

Furthermore, there are special issues related to the place, such as socio-economic inequalities, education gaps, and power dynamics. Governments benefit from the ownership advantage by providing funding to address these issues. For example, Brazil's Bolsa family programme assists low-income households in accessing education and health facilities (12), while South Africa's black economic empowerment policy aims to reduce racial disparities and combat unemployment (13). In contrast, developed economies with established welfare programmes and low levels of poverty do not prioritise expanding access and direct funding. Instead, they focus on improving existing programmes. For instance, Germany is reforming its social security system by making changes such as increasing the retirement age.

The extensive intervention of the government in these countries, such as South Africa and Brazil, poses challenges such as heightened susceptibility to corruption and inefficiencies in the implementation of infrastructure plans. This is particularly evident in South Africa, where the proper execution of infrastructure projects is hindered, and in Brazil, where the infrastructure is deemed insufficient to adequately support development, largely due to the significant involvement of the government. In South Africa, Eskom and in Brazil, Petrobras and Banco do Brazil, state-owned enterprises (SOEs) possess ownership advantages that include market control and access to natural resources. These advantages are primarily a result of the absence of a strong private sector in these countries. These ownership advantages are crucial for promoting socio-economic development. For instance, Petrobras in Brazil has played a significant role in attracting foreign direct investment (FDI) due to its expertise in deep-sea oil exploration. Germany benefits from a strong private sector, exemplified by Deutsche Bahn, which competes with private firms. This competition promotes transparency and allows for the adoption of best practices. On the other hand, Brazil and South Africa face challenges in their internalisation efforts due to corruption and inefficiency. For instance, the Lava Jato scandal exposed a widespread bribery scheme at Brazil's largest oil company, Petrobras, while South African Eskom's misconduct resulted in frequent power outages.

A public-private partnership (PPP) is formed via the collaboration between business and governmental sectors. Both emerging and developed economies employ Public-Private Partnerships (PPP) to undertake infrastructure projects. Examples of successful PPP projects include Brazil's Rio-Nitro Bridge and Japan's Chobu-Hokiriku highway. These investments foster innovation and cost-effectiveness by facilitating the transfer of skills from the private sector to the public sector (16).

Nevertheless, South Africa's railway public-private partnership (PPP) continues to encounter challenges in terms of insufficient training programmes and skill development. This is mostly owing to a shortage of trained workers and limitations in available resources. In contrast, industrialised countries like Japan benefit from a proficient workforce, which facilitates effective talent transfer.

Business Attributes:

Both the developed and emerging world have various types of businesses, including state-owned enterprises (SOEs), family-owned enterprises, and small and medium-sized enterprises (SMEs). These types of businesses can also be found in Brazil and South Africa. However, the emerging world tends to have a higher prevalence of the informal sector and business groups with large conglomerates. On the other hand, the United States is characterised by the presence of multinational corporations, a less prominent informal sector, and business groups. This is due to the regulatory framework in the US, which prevents the dominance of a single firm in the industry.

In South Africa and Brazil, the middle-income technology trap is present. To foster the growth of domestic industries and facilitate their integration into the global value chain, these countries employ protectionist and industrial policies that involve the use of tariff and non-tariff measures. Additionally, they have implemented regional integration policies such as Brazil's Mercosur pact, which seeks to establish free trade, and South Africa's AfCFTA, which aims to create a unified market for goods and services across the African continent, thereby promoting trade among African nations.

The state sector-based initiatives in Brazil (PDI, FPE) and South Africa (IDC, APDP) are classified as strategies to develop ownership advantages by providing financing and tax incentives to promote research and development in their respective main industries of aerospace and pharmaceuticals, mining, and automotive. Furthermore, in Brazil, a multitude of entrepreneurial programmes and incubators have arisen because of the government's entrepreneurial policy. Resource scarcity has prompted frugal innovation, with locals in South Africa seeking unconventional approaches to address the needs of the local market. Additionally, South Africa is making progress in e-commerce, mobile services, and technology. Meanwhile, Canada is pursuing its "Net zero Accelerator" policy to enhance its technological and sustainable advantages.

Nevertheless, the presence of location disadvantages and institutional holes, such as corruption, political instability, lack of skilled personnel, poor infrastructure, and bureaucratic procedures, poses significant challenges that hinder business registration and growth. Entrepreneurs in industrialised nations, such as Germany and Switzerland, are not burdened by this issue because to their strong legal and regulatory framework, well-established financial systems, and extensive capital networks.

The tax regimes in Brazil and South Africa are inefficient and unable to effectively implement initiatives to attract foreign direct investment (FDI). Brazil's tax system is complex, with difficult compliance procedures that discourage investment and contribute to the growth of the informal sector. On the other hand, South Africa's heavy reliance on value-added tax (VAT) hampers productivity and growth. In contrast, Canada benefits from a stable political-economic environment and a streamlined tax system, which reduces administrative burdens. Additionally, Canada's HST/GST tax system is applied to the final product, avoiding a tax-on-tax system. This allows for effective participation of the economy in initiatives and attracts FDI.

Characteristics pertaining to institutions:

The political dynamics in Brazil contribute to a burdensome legal system that hinders the formalisation of SMEs due to high transaction costs. In South Africa, the poor property rights policy resulting from unresolved land disputes creates insecurity of ownership and impedes economic activity. On the other hand, Japan's legal system is characterised by a blend of civil and traditional practices, which stems from their historical legacies. This combination creates a transparent and stable environment.

When it comes to educational systems, Brazil and South Africa still have inequalities in their education system. This is because private investment has been discouraged in Brazil, and South Africa has not allocated enough resources to education. These issues hinder the development of skills in individuals and lead to poor social inclusion in the labour market. On the other hand, the UK has a strong educational system because both the public and private sectors work together. This collaboration encourages competition and innovation, which brings benefits. The financial institutions in Brazil are affected by political and governmental influence, which includes both formal and informal institutions. The state's influence contributes to bureaucratic problems and corruption, which undermine public trust, particularly among small and medium-sized enterprises (SMEs) and impede their development. In South Africa, financial institutions face a challenge of financial exclusion caused by the socio-economic disparity that limits access to banking services in rural areas, thereby hindering broader economic participation (20).

On the other hand, Australia places great importance on safeguarding customers and esteems their financial institutions. Both private and public sector financial institutes in Australia is actively striving to promote financial inclusion and literacy.

IV. Results and Discussion

Foreign corporations from various nations play a significant role in emerging economies such as Brazil and South Africa, stimulating economic growth and contributing to the advancement of industries. Nevertheless, when operating in the intricate environment of developing countries, it is imperative for businesses to acknowledge that these markets are not just replicas of developed markets. Instead, they possess a collection of regulations, laws, as well as informal cultural norms and expectations.

Foreign multinational corporations in Brazil have formed relationships with industries that play a crucial role in facilitating the exchange of knowledge and fostering economic integration. Volkswagen, for example, has successfully leveraged Brazil's market potential and advantageous geographical location to create a manufacturing presence. Volkswagen optimises the use of resources and labour to manufacture vehicles that are customised to the specific tastes of regional markets, while also consistently adjusting to meet regulatory standards. This strategy enables Volkswagen to sustain its position in the American automobile sector (21).

Likewise, corporations such as Vodafone have effectively established connections in South Africa by partnering with Vodacom. Exploiting the increasing need for telecommunications. Vodafone strategically leverages South Africa's favourable conditions by matching its ownership advantages with the potential for market expansion in the services sector. Vodafone has successfully navigated the intricacies of the South African market by analysing consumer habits and socio-economic aspects (22).

In addition, multinational enterprises (MNEs) from Brazil and South Africa are progressively utilising their advantages to facilitate their expansion. Embraer has carefully leveraged Brazil's geographical advantages in the Southern Hemisphere to develop a strong presence in the aerospace business. By doing so, Embraer has effectively entered several markets and built a broad client base worldwide. By implementing safety and technological requirements, they have positioned themselves to effectively compete with established players in the aerospace sector (23).

MTN Group has leveraged its expertise in emerging market telecommunication demands to its advantage. They have actively sought out chances for expansion in countries and the Middle East, where they can take advantage of the same location benefits as their own market. MTN guarantees that its operations in different markets adhere to the diverse regional regulations (24).

V. Conclusion

Economic globalisation has led to the decrease in trade and investment obstacles, linking countries throughout the globe, through interconnected global value chains. Consequently, emerging markets seem to be aligning themselves with the nations of the world. There are various ways in which institutional gaps exist. Exert a substantial influence on the growth of capital, product, and labour markets. The key differentiating characteristics between emerging markets and developed ones are the lack or unreliability of market information, an unfavourable climate, and an inefficient legal system.

The interplay between strategies and the unique characteristics of emerging markets becomes increasingly intricate because of the need for economic and social adaptation. Multinational businesses (MNCs) must navigate the demands of governments to manage their organisational expansion and actively engage in localised corporate social responsibility efforts. It is essential to find a balance in this dynamic environment by understanding and adapting to the specific requirements of local institutions while taking advantage of chances for institutional arbitrage.

Reference list:

1- Nielsen, U.B., Hannibal, M. and Larsen, N.N. (2018). Reviewing emerging markets: context, concepts and future research. *International Journal of Emerging Markets*, 13(6), pp.1679–1698. doi:https://doi.org/10.1108/ijoem-10-2017-0416.

2- Pongpichan Danviboon (2018). Why do institutional voids occur in emerging markets? How can multinational enterprises (MNEs) overcome... [online] ResearchGate. Available at: https://www.researchgate.net/publication/329207405_Why_do_institutional_voids_occur_in_emerging_markets_How_can_multinational_enterprises_MNEs_overcome_these_voids_and_why_may_this_enhance_their_performance.

3- Radomir Stojković and Slađan Milosavljević (2023). BRICS TENDENCIES TOWARDS REDEFINING THE GLOBAL ECONOMIC ORDER. SCIENCE International Journal, 2(4), pp.7–11. Doi: https://doi.org/10.35120/sciencej0204007s.

4- Doré, N.I. and Teixeira, A.A.C. (2023). The role of human capital, structural change, and institutional quality on Brazil's economic growth over the last two hundred years (1822–2019). Structural Change and Economic Dynamics, [online] sixty-six, pp.1–12. doi:https://doi.org/10.1016/j.strueco.2023.04.003.

5- Campos, N., Karanasos, M., Koutroumpis, P. and Zhang, Z. (2020). Political instability, institutional change and economic growth in Brazil since 1870. Journal of Institutional Economics, 16(6), pp.1–28. doi:https://doi.org/10.1017/s174413742000020x.

6- Neethling, T. (2017). South Africa's Foreign Policy and the BRICS Formation: Reflections on the Quest for the 'Right' Economic-diplomatic Strategy. Insight on Africa, 9(1), pp.39–61. doi:https://doi.org/10.1177/0975087816674580.

7- Bakker, J.D., Parsons, C. and Rauch, F. (2019). Migration and Urbanization in Post-Apartheid South Africa. The World Bank Economic Review, 34(2). doi:https://doi.org/10.1093/wber/lhy030.

8- Si, Y., Liefner, I. and Wang, T. (2013). Foreign direct investment with Chinese characteristics: A middle path between Ownership-Location-Internalization model and Linkage-Leverage-Learning model. Chinese Geographical Science, 23(5), pp.594–606. doi:https://doi.org/10.1007/s11769-013-0603-z.

9- Koleša, I., Burger, A. and Dickmann, M. (2022). The Effects of Institutions on Emerging Market Firms' International Assignment Location Decisions. Economic and Business Review, 24(1), pp.1–18. doi:https://doi.org/10.15458/2335-4216.1294.

10- The World Bank (2023). The World Bank In Brazil. [online] World Bank. Available at: https://www.worldbank.org/en/country/brazil/overview.

11- Kruger, W.J. (2021). Renewable energy development for South Africa : a regional planning approach. [online] repository.nwu.ac.za. Available at: https://repository.nwu.ac.za/handle/10394/37883 [Accessed 2 Jan. 2024].

12- Layton, M.L. (2020). Welfare Stereotypes and Conditional Cash Transfer Programmes: Evidence from Brazil's Bolsa Família. Journal of Politics in Latin America, 12(1), pp.53–76. doi:https://doi.org/10.1177/1866802x20914429.

13- Govenden, P. and Chiumbu, S. (2020). Critiquing Print Media Transformation and Black Empowerment in South Africa: A Critical Race Theory Approach. Critical Arts, 34(4), pp.1–15. doi:https://doi.org/10.1080/02560046.2020.1722719.

14- Polezhaeva, N. (2022). Corporate governance of the Brazilian state-owned companies. Latinskaia Amerika, (2), p.38. doi:https://doi.org/10.31857/s0044748x0016820-1.

15- Miles, M. (2019). An investigation into the state of governance in a public entity: through the application of world governance indicators: the case of ESKOM, South Africa. scholar.ufs.ac.za. [online] Available at: https://scholar.ufs.ac.za/items/640333e6-1d5f-4659-9303-3ccae72ea8c5 [Accessed 2 Jan. 2024].

16- Akinsola, G.D., Awosusi, A.A., Kirikkaleli, D., Umarbeyli, S., Adeshola, I. and Adebayo, T.S. (2021). Ecological footprint, public-private partnership investment in energy, and financial development in Brazil: a gradual shift causality approach. Environmental Science and Pollution Research, 29(7), pp.10077–10090. doi:https://doi.org/10.1007/s11356-021-15791-5.

17- Borchardt, M., Pereira, G., Ferreira, A.R., Soares, M., Sousa, J. and Battaglia, D. (2020). Leveraging frugal innovation in micro- and small enterprises at the base of the pyramid in Brazil: an analysis through the lens of dynamic capabilities. Journal of Entrepreneurship in Emerging Economies, ahead-of-print(ahead-of-print). doi:https://doi.org/10.1108/jeee-02-2020-0031.

18- Rocha, M. (2022). Policy Forum: How Canada Could Benefit from E-Invoicing for GST/HST Purposes. [online] Ssrn.com. Available at: https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4160076 [Accessed 2 Jan. 2024].

19- Arrington, C.L. and Moon, Y. (2020). Cause Lawyering and Movement Tactics: Disability Rights Movements in South Korea and Japan. Law & Policy, 42(1), pp.5–30. doi:https://doi.org/10.1111/lapo.12141.

20- Geza, W., Ngidi, M.S.C., Slotow, R. and Mabhaudhi, T. (2022). The Dynamics of Youth Employment and Empowerment in Agriculture and Rural Development in South Africa: A Scoping Review. Sustainability, 14(9), p.5041. doi:https://doi.org/10.3390/su14095041.

21- Santos, José Dari Krein, Denis Maracci Gimenez and Dias, H. (2022). Economic and Social Upgrading in Global Value Chains: The Automotive Industry in Brazil. Springer eBooks, pp.259–285. doi:https://doi.org/10.1007/978-3-030-87320-2_10.

22- Jahanbakht, M. and Mostafa, R. (2022). The emergence of GVCs for frontier markets: Insights from the African mobile telecommunications industry. Africa Journal of Management, 8(1), pp.1–24. doi:https://doi.org/10.1080/23322373.2021.2001287.

23- Francelino, J. de A., Urbina, L.M.S., Furtado, A.T. and Chagas, M. de F. (2019). How public policies have shaped the technological progress in the Brazilian aeronautics industry: Embraer case. Science and Public Policy, 46(6). doi:https://doi.org/10.1093/scipol/scz030.

24- Tegofack, B.C. and Fodjo, G.J.K. (2022). STAKEHOLDERS' ENGAGEMENT IN THE CORPORATE SOCIAL RESPONSIBILITY REPORTING OF TELECOMMUNICATION FIRMS IN AFRICA: THE CASE OF MOBILE TELEPHONE NETWORK (MTN). Revue Française d'Economie et de Gestion, [online] 3(1). Available at: https://www.revuefreg.fr/index.php/ho

me/article/view/529 [Accessed 2 Jan. 2024].
.

About Authors:

First Author/Corresponding Author - Muhammad Abu Bakar Iqbal, MS Economics Lecturer Department of Business and Skills, Beaconhouse International College Faisalabad

Second Author – Maryam Jawad, BSc Business Administration, Beaconhouse International College Faisalabad