

Chapter 1

Trade Relations Within and Between the Various Emerging Markets of Asia, Latin America, and Africa: How Globalization Affects Emerging Markets

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ABSTRACT

This chapter presents the main issues around globalization and its effect on trade relations of emerging markets. Based on extensive literature review the basic globalization trends with corresponding factors are revealed. The author's proposition states that globalization trends (including political, economic, and social globalization) affect trade relations between and within emerging markets. The analysis covers BRIC and CIVETS countries for the period from 1971 to 2013 (based on KOF Index of Globalization) and from 1960 to 2015 for the exports/imports flows. Several statements and propositions regarding trade relations between and within emerging markets are defined. The proposed implications for future research are focused on: exploring emerging markets as a system which variations can be modeled by stochastic processes, and applying network theory to explore the influences of trade liberalizations and gravitational effects of various regional trade agreements on the economic performance of major emerging markets.

INTRODUCTION

Globalization is signified as a quintessence of the last decade of the 20th century. Its effect on international trade is outstanding since the globalization contributes a great deal to the international markets interconnectedness. The shifting balance of power on the global markets has been indicated as a transition from Globalization 2.0 (Western-dominated) to Globalization 3.0 (China-dominated) (Walker, 2007).

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However, the optimistic forecasts for continuing high growth of emerging markets (especially for the abbreviated blocks of countries, such as BRICS (Brazil, Russia, India, China, and South Africa), MIST (Mexico, Indonesia, South Korea, and Turkey), and CIVETS (Colombia, Indonesia, Vietnam, Egypt, Turkey, and South Africa)) started to fade away during the last few years. The average growth rate in the emerging world fell back to 4% in 2013 (Sharma, 2014). Some of the reasons include the following: too much focus on one factor – demography, linear extrapolation of the trends, political myopia, and ignorance of global factors.

The business environment nowadays is characterized by increasing complexity, uncertainty, and discontinuity. Changing market conditions, intensified global competition, and increasingly shorter product life cycles mean that countries and companies have to re-examine the traditional methods and strategies for doing business in international markets (Bartlett & Ghoshal, 1987; Ohmae, 1989). Global competition is growing and will continue to increase. According to the competitiveness roadmap 2007-2050 (Garelli, 2007)¹ among the main issues with a high impact on world competitiveness environment during the next three decades are the following ones:

- Protectionism is on the rise;
- Service and integration are becoming key competitiveness factors;
- Labor cost differences shrink;
- Technological divide disappears;
- China, India, and Russia emerge as technological powers;
- Climate change affects economic resources.

It is argued that protectionist reprisal (including environmental protection, corporate governance, social protection, or intellectual property) will increasingly confront acquisitions pursued by some of emerging economies due to perceptions of a potential loss of economic power and national image. Emerging economies, as an opposite reaction, will significantly increase pressure to gain access to decision-making in international institutions by emphasizing their predominant economic weight and their financial capabilities to fund such institutions (Garelli, 2007). Analysis of the situation from these two contrasting points of view provides a background for researchers (Le Pere, 2005, p. 36) to conclude that there are two opposite dimensions of globalization. The first dimension is characterized with bringing the economies and societies closer together because of the flourishing interrelations of trade, investment, technology, cross-border production systems, and information and communication flows. The second dimension corresponds to the new transnational dynamics which marginalize and exclude a great proportion of the world's countries and people.

BACKGROUND

The world is changing at a speed which has never been seen before. Years of research done by the McKinsey Global Institute (MGI) and McKinsey's Strategy Practice (Dobbs, Ramaswamy, Stephenson, & Viguerie, 2014) reveal three major economic forces the global economy has never previously experienced: the collision of technological disruption, rapid emerging-markets growth, and widespread aging. Much bigger shifts in each of these areas are expected which will tremendously affect the economy, social life, and personal behavior worldwide.

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