

# [Comparison between emerging and developed markets essay sample](https://assignbuster.com/comparison-between-emerging-developed-markets-essay-sample/)

The emerging market is any market which is rapidly taking place in a developing or undeveloped country. The market taking place outside United States, Western Europe, Australia, Canada is emerging market. The countries that are dominating the world through their policies and goods are considered developed market economies.

It is easier to determine which countries are not emerging market economies than it is to determine those that are. Accordingly, the industrial economies do not qualify for the emerging market status, because for them the emergence stage of growth has been crossed and now they are economies with matured market institutions. “ That excludes all the members of the Organization for Economic Cooperation and Development (OECD) – except for Korea and Turkey” (Miller 43: 1998). These are highly developed market economies with matured institutions.

The second country-group that is a candidate for exclusion comprises those economies that have not as yet developed as market economies. Should the residual economies be called the emerging market economies? Decidedly not. Of this residual group, the countries that can be classified as emerging market economies are those whose economies are gradually developing and approaching an advanced stage in structural reforms. These countries have been liberalizing their economies for so long that a qualitative transformation in their economies is either about to take place or has already taken place.

This qualitative transformation in turn enables them to integrate with the global economy and to take advantage of global factors (particularly capital) and trade flows. Determining the emerging market status of an economy is a matter of establishing the openness and maturity of its institutions, as well as whether the economy in question adheres to the rules, laws and culture of an open-market economy.

Clearly, there is no such thing as a “ typical” emerging market. Some areas are large, and others are quite small. Some new markets are rich in undeveloped resources, and an even greater number of countries are resource limited. Some markets emerge because of political action, and others begin their development cycle for strictly economic reasons. Some new economies are in advanced stages of growth; others are in the preemergent phase. Still other potential new trading areas require major structural changes before they can become substantial commercial economies. Other large markets such as the newly industrialized states of the former Soviet Union also provide considerable opportunities for future market development because of their large, well-educated populations and high levels of agricultural and industrial diversity.

Some of the countries of Eastern Europe, particularly the Czech Republic and Hungary, with their market-driven economies, also exhibit very promising growth potential. Even the smaller republics of Central Asia offer excellent potential for companies with products suited to their resource-rich developing economies. These and other emerging markets offer a diverse collection of new trading areas that also provide a dramatic variance in size, location, level of development, and product requirements. In spite of individual differences, all emerging markets are similar in their potential for future growth. It is this opportunity for future market expansion that most distinguishes an emerging economy from one normally associated with less developed countries (LDCs).

While many of the basic characteristics are the same for both categories, many of the LDCs will retain their undeveloped status because of their inability to attract new technology, foreign investment, or external participation in their commercial affairs. These forms of economic stimulus occur only in countries with policies conducive to increased growth. All emerging markets potentially provide exceptional growth opportunities accompanied by the elements of accessibility, stability, continuity, and diversity.

Major differences can exist, however, in economic performance between individual developing markets, even when these elements are present. Such variation results from a nation’s ability to contend with and to capitalize on the internal characteristics that can shape its development cycle. These elements also provide the difficulties and the opportunities that affect a company’s market entry decision and shape its subsequent development efforts. Before a targeting decision is made and the appropriate entry strategy can be selected, it is necessary to identify the predominant characteristics of an individual emerging market.

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“ Net capital flows to emerging market economies 1990-2004” (Das 24: 2004).

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“ Regional distribution of capital flows to emerging market economies 1990-2004” (Das 25: 2004).

Space does not permit a detailed analysis of the growth of the venture-capital industry in industrialized countries. However, it is possible to come to a number of conclusions that are relevant to the establishment of venture capital in developing countries. But just to provide a glimpse. The Venture-Capital Pool’s figure is,

| Country | Number of  Venture-Capital  Firms | Venture-Capital  Pool a  (Billions of ECUs) | Venture-Capital  Pool/GNP b  (UK = 100) |
| --- | --- | --- | --- |
| United States | 530 | 21. 2 | 49 |
| United Kingdom | 120 | 5. 7 | 100 |
| Japan | 80 | 3. 0 | 14 |
| France | 90 | 1. 3 | 16 |
| Canada | 45 | 1. 0 | 28 |
| Netherlands | 60 | 0. 9 | 46 |
| West Germany | 30 | 0. 6 | 9 |
| Ireland | 8 | 0. 6 | 259 |
| Italy | 15 | 0. 3 | 5 |
| Belgium | 10 | 0. 2 | 16 |
| Spain | 27 | 0. 2 | 10 |
| Sweden | 30 | 0. 2 | 14 |
| Denmark | 19 | 0. 2 | 23 |
| Switzerland | 15 | 0. 1 | 6 |
| Austria | 3 | 0. 02 | 0. 1 |
| Sources : Financial Times supplement “ Venture Capital,” December 4, 1987; and author’s  estimates. | | | |
| a The pool is the total sum in European Currency Unit (ECU) equivalent, raised by venture-capital  funds, accumulated over the years. | | | |
| b Based on end 1986 GNP and exchange rates. | | | |

(Source: Roland Fuss The financial characteristics between emerging and developed markets)

Most of the private investment going to emerging markets is confined to certain countries, with 87 percent in 1994 and early 1995 going to 20 nations led by China and then Mexico (a close second). Sub-Saharan Africa, on the other hand, got less than 1. 5 percent. Even in sub-Saharan Africa, however, the complete picture is not all gloomy. Thus the region’s GDP (gross domestic product) is forecast to rise by an average of 4. 1 percent over the next decade, though rapid population growth means that GDP per person will grow by only 0. 9 percent per year.

In relative terms, however, taking into account the population in each of the emerging market economies, the major recipients per capita in the period of 1990-1994 have been Singapore, with $16. 400; Hong Kong, with $2, 300; Hungary, with $1, 200; Malaysia, with $1, 000; and Argentina, with $800. Singapore and Hong Kong are not really emerging markets but developed markets in their right.

Their inflows reflect the strength of their financial markets, which intermediate and channel those flows to other countries (mainly South Asian countries and China). Thus it is that China has elected to list firms in Hong Kong rather than access international markets directly through issues of American depository receipts (ADRs) or global depository receipts (GDRs).

According to some observers, the reasons for the large increase in private flows abroad can be attributed to both external and internal factors. External factors such as the reduction in short-term interest rates in some of the major world currencies lowered the external debt service to developing countries, thereby improving their solvency and credit rating and encouraging additional borrowing on their part.

At the same time, the economic downswing in the industrial countries and decline in short-term interest rates lowered the relative return on industrial countries’ domestic capital. These developments encouraged the flow of funds into emerging markets, where returns were higher.

Moreover, the increasing globalization and integration of international markets encouraged firms to move some activities into emerging markets where labor costs are lower. Finally, the industrialized countries have liberalized their own domestic markets which have made access to these markets possible to the developing countries, including their private firms. A good case in point is the liberalization of markets in the United States.

The globalization of markets also entails risks of unemployment for skilled workers in many of the developed industrial countries. It is already an issue of concern that some American workers have trained their foreign replacements. One large American insurance firm, for instance, brought programmers from India to the home office and began training them to replace American workers.

In fact, the growing tendency of corporations to farm out tasks to developing countries is widening the gap between the well-to-do economically and others in American society by eliminating some categories of high-skill, high-wage jobs that make up the core of the American middle class. It is difficult to fault the temptation of corporations to use less costly foreign labor given that they are desperate to stay competitive in an increasingly global marketplace. India is a good example of such tendencies. It has inherited a functioning English-language school system from the days of British rule. It has also emphasized mathematical education. One result is that computer scientists trained at Indian universities come relatively cheap. Experienced programmers command salaries of $1, 200 to $1, 500 a month compared to $4, 000 to $10, 000 in the United States. The result has been explosive growth in the number of Indians working in computer programs mainly for the American market, to nearly 70, 000 in 1995 from several thousand in the early 1980s.

The apparent exodus of white-collar jobs to developing countries has raised concern from many people, including some economists. In particular, economists argue that though many firms are anxious to make use of the American infrastructure (e. g., good roads, ready access to markets, and related advantages), the fact is that the growing part of the world’s economy is based on ideas and information and does not always need such physical proximity as the United States and other developed countries provide.

The rapid integration of global markets has impacted negatively on the real wages in the United States for the semiskilled and unskilled worker, particularly in some selected industries. Other observers point out, however, that it is not just lower wages that made foreign sites so attractive to American industry. It is also, for instance, that American engineers can work on a project during the day and then send it electronically for more work in Asia while they sleep.

As a result, many projects can be completed much more quickly than would otherwise be the case. One consequence is that American workers, for instance, also benefit through increased demand for their own output. It is also true that foreign companies cannot continue to count on the availability of cheap skilled labor in emerging market countries. There are three centers of economic power that are of singular importance to emerging market countries: the European Union, North America, and East Asia. These regional trading blocs total around 90 percent of world trade and include the most prosperous and developed areas of the world.

The other important center of growth is East Asia. The countries of that area have well demonstrated their ability to combine Western science and technology with their own domestic traits to produce an important world center of economic growth. I have noted elsewhere their unique characteristics, including an important role that the state or government play in industry. These countries have all pursued an export-oriented strategy as the shortest route to economic development. Moreover, all of these countries had a surplus in their merchandise accounts with the United States in the early 1990s.

In 1991, U. S. direct investment in Pacific Asia amounted to around $37 billion and Pacific Asian investment in the United States amounted to $90 billion. For all practical purposes, Japan is synonymous with Pacific Asia, because Japanese direct investment in the United States in 1991 amounted to about $87 billion compared to U. S. direct investment in Japan of $23 billion. As a matter of fact, Japan ranked second only to the United Kingdom in the value of foreign direct investment in the United States.

If in fact a Pacific Asian trading bloc emerges in the future, it will no doubt become an important player in the world economic scene. The entire Pacific Asian area grew faster in the early 1990s than the United States and Europe. In the same period, the area was running a trade surplus of around $150 billion a year, the world’s largest trade surplus. The problem for these countries is that they are finding it increasingly more difficult to use exports as the leading edge for their economies. To grow faster than the rest of the world, these countries have to capture larger and larger world market shares.

It is not likely that other countries will tolerate continued penetration of their markets. Certainly it is clear that Europe and the United States will not tolerate such activities on the part of Pacific Asian countries. In the future, these countries may have to pursue policies designed to stimulate domestic demand, including imports. If Europe and the United States decide to take measures that are designed to compel Japan and other Pacific Asian countries to reduce their trade deficits by buying more U. S. and European products, a Pacific Asian trading bloc may be viewed as a means to protect their economic interests.

The European Union (EU) is certainly the world’s largest trading area and contains a significant number of the largest importing and exporting countries in the world.

There is a long and well established relationship between the United States and the EU In fact, most of the American capital flow to Europe has gone to EU countries. One reason, of course, has been the desire of American firms to get inside of the tariff barriers and so protect American export markets. Also important has been the growing prosperity of EU member countries. The highly developed markets in these countries have served to accelerate American capital flow to EU countries, as did the anticipation of a completely unified European market by 1992.

We learn from our economic theory and the factor-price equalization theorem that trade does indeed effect different workers’ wages. From our theorem, we learn that trade will reduce the relative income of the type of labor that is relatively scarce in a country. A case in point: the United States where unskilled labor is relatively scarce and skilled labor relatively abundant, trades with Mexico, where unskilled labor is relatively abundant.

In this example, the United States will specialize in skill-intensive industrial products and import the Mexican labor-intensive products. The end result is that the United States will increase its output of skill-intensive industries while Mexico increases its output of those that are labor intensive. The demand for unskilled labor in the United States will decline, and so will U. S. wages relative to those of skilled workers. In Mexico, on the other hand, the wages of unskilled workers will tend to rise.

There is concern that execution of monetary policy, especially in emerging market economies, may over-emphasize the importance of interest rates, financial instruments, and well-functioning financial markets. In early history and less developed markets, where no market for financial assets existed, monetary authorities (including central banks) held regular auctions of the volume of reserves or high-powered money to guide monetary policy.

In fact, if relative prices are free to change and act as signals for resource allocation, monetary policy can be effective. The monetary authorities can maintain price stability and so remove the problem of separating general and relative price changes. This, in turn, will reduce the problem of separating temporary and permanent changes in the price level. The differences in between the developed and emerging markets are therefore visible.

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