

Emerging Economies and Small and Medium Industries: Challenges in the process of Globalization

S.Damayanthi Edirisinghe

Department of Commerce & Financial Management, University of Kelaniya.

Abstract

Focus of this paper is to investigate export and import sector contribution as means of the SMIs market internationalization in emerging economies with the process of globalization. And explain how small businesses are important in current business world. The term emerging economies has explored since 1990s in the world economy. Around hundred and fifty six emerging economies in various stages of development is contributing to the international

business in the world today. Some of these economies are rapidly emerging on the global stage. Among them, Argentina, Brazil, Indonesia, Turkey, Thailand, South Korea, Russia, Poland are very important in the internationalization phenomena. Globalization and business opportunities are take place among developing economies as well as emerging economies. The current era of globalization originated in the aftermath of world war second when major nations committed to global trade and investment. Most of the countries in the world today realized that joining the world economy is a must. As the countries started to emerge as new actors in the world economy 20% of its output contribute to the global GDP at present while western economies contribute approximately 80% to world GDP. Over the years emerging economies has involved considerable amount of transactions in the international trade and more prominently service sector has expanded within the globalization situation.

Keywords: Emerging economies, globalization, international business, small and medium industries,

Introduction

National economies in the world were relatively self-contained units. Isolated from each other by barriers to cross broader trade and investment; by distance, time zones, and language, by national differences in government principles, culture and business systems. At present cross-border trade and investments are declining; perceived distance is shrinking due to advances in transportation and telecommunications technology. And also national economies are merging into an interdependent and they are integrated to a global economic system. This process is commonly referred to as globalization. Within the globalize situation the volume of goods, services and investments crossing national borders has also expanded faster than world output.

Globalization and Emerging Economies

Globalization refers to the shift toward a more integrated and interdependent world economy (Charles & Arun (2010)). It has several facets; the globalization markets, the globalization of production etc... Globalization and business opportunities are link with each other. They originate to satisfy human needs. To satisfy the human needs it is needed to consume goods and services they wish. Therefore businesses are developed to satisfy the needs. For success of the business there should be a successful entrepreneur. Entrepreneurship is reflected consumer center marketing approaches against product or service centered ones, creative initiation to business, cash-flow linked financial discipline, product/service quality improvement etc.. Consumer attraction to the products from the emerging global markets becoming to a greater extent. Especially to the products are coming India, China and Japan and some other countries to the world market. And also the trend is

aggravating pushing the local manufacturing segment of Small and Medium Industries (SMI) in to a difficult corner. The impact of this challenge is losing the layers of manufacturing with trading and altering the SMI's structure unpleasantly.

The term emerging economies referring to the fastest growing developing economies. They are increasingly become the global battle ground from 1990s(Mike,2006).Because of this reason many firms are rising to the challenge.

SMIs Markets and Internationalization

Internationalization always refers as the increasing of geographical boundaries of economic activities beyond the national boundaries.SMI's together with internationalization is created up rising effect to advance the global economy. It is a high impact marketing component of the socio economic structure in any country. Further it serves as the breeding field for national and global level entrepreneurs.As an example ,the International Finance Corporation (IFC) revealed that Sri Lanka's SMIs constitute around 90% of total establishments .And it contribute to the 20% of the industrial value addition to theeconomy. Further it generate more than 70% employment opportunities to the business sector in Sri Lanka.But it is evidentthat SMI's regularly encounter series of problems , and challenges under-performing without a planned and stable march.

Problem identification

The trend towards the globalization of production and markets has many implications with an industry. In many developing countries exports remain one of the channels that in the longer run solution contribute to higher income per capita growth rates of a country. Many countries are depending on narrow export basket and global demand because of many reasons. Especially small firms that are going to international market they face severe dilemma at the international expansion (Peng,2004).

Objective of this study

In recent years rapidly growing literature has emerged that as a key component of economic development and growth process depending on countries' exports. Especially in SMIs Market Internationalization in emerging economies are faces many challenges within the globalize situation. So the objective of this paper is to investigate export and import sector contribution as means of the SMIs market internationalization in emerging economies within process of globalization.

Methodology of the study

Mainly the descriptive statistical technique is usedas the main analytical tool in the study. It is involvegraphs and charts, mean percentage values to investigate the export contribution of emerging economies as well as other countries on the world export import process within globalize situation. Secondary data were used in this study to achieve the objectives of the study. Especially,UNTACT and IMF published data and some other revenant data sources were used to analyzed the data.

Literature Review

Small and medium sized enterprises have been of increasing interest among academics and policy makers in recent years in both developed and emerging economies. A considerable

body of literature deals with SMIs. Research on enterprise growth finds that high growth tends to be associated with a enterprise entrepreneurial behavior. And growth tends to be considered a logical consequence of innovative, proactive and risk-taking behavior on the part of the enterprise. Recent study done by Wiklund, Patzel and Shepherd (2009) claims that entrepreneurial ability in a enterprise is essential for flexibility and quick decision making in a small company. Further they believe that the general tendency in business environment is shortenings of product and business model life cycles. Consequently, the future profit streams from existing operations are uncertain. Businesses need to seek out new opportunities. Then they may benefit from the adopting strategic orientation (Moreno and Cargills (2008).

Exporting constitutes the most popular and easiest way for survival many firms to internationalize (Leonidou et al., 2002). In that case of SMEs exporting activities are particularly important for survival and long-term viability. Further behavior of the firms' in the market has for a long time captured by the economists. But relatively the theory of the firm that addresses the existence, the boundaries and the internal organization of the firm developed recently. Researchers have stated that Frank Knight (1921), was the first economist presented explicit argument for business organization (Johanson & Vahlne (1977), Cavusgil and Zou (1994). Later on influences of developments, mid-nineteen-seventies theories began to start. Theory of a firm is a branch of economics which seeks to explain price and output decisions. It uses marginal analysis to explain the profit maximizing output of the firm. It examines the nature of the various market firms, covering perfect competition, monopolistic competition, oligopoly and monopoly. In recent years it has been extended to analysis of relationships between firms through Game theory (Nancy et al, 2007).

Researchers argue that Knight's theory of the firm is not entirely clear. However, "a group of liberal US economists which first acquired its identity in the 1930s under the leadership of Frank Knight, Jacob Viner and Henry C. Simons; prominent since 1950 have been Milton Friedman, George Stigler, Ronald Case, James Buchanan and Gary Becker, who share an all-embracing belief in the power of market forces to solve most economic problems and the desirability of minimizing the role of state (Donald, 1995)".

More over the internationalization phenomenon is credited to Adam Smith (1776), and he used the nation as the unit of analysis in the study of internationalisation and advocated the theory of absolute advantage to examine the wealth of nations. Scholars contend that the research on the internationalisation of SMEs started in the 1970s (Ling-yee and Ogunmokun (2001), Sui and Matthias (2012). Currently recent theoretical trend centres on the internationalisation of the small new venture firm/international entrepreneurship (Zahra et al, 2002). There are two things can identify from the literature. One is lack of uniformity and consistency exists among the above dimension. The other one is such dimension seems a bit unclear because every theory in the field, from absolute cost advantage theory to the most recent theory, upto international entrepreneurship theory, can be referred as an internationalisation theory. Theories that mostly related to SME internationalisation are resembled in the history of internationalisation theories. Further the scholars have used different schemes to understand how firms may develop their strategic orientations. The most prominent among them have been proposed their own way, there does exist some amount complementarities among them. Over the past decades, these strategy typologies have continuously inspire by many researchers to conceptualize various aspects of firm level activities in a variety of contexts and settings.

Some scholars examined the process of internationalization of firms in terms of size and their age. The idea is that more recent and smaller firms tend to go global faster and they may by pass the stage of first becoming a regional firm. To investigate the prevalence and longitudinal development of the early internationalization phenomenon the some authors postulated that born global firms account for a smaller proportion than born regional firms. A firm's strategy is a set of unique actions taken to position the company in the industry to secure a competitive position. Fred David (2011), a well-known author defined strategic management as the art and science of formulating, implementing and evaluating cross-functional decisions to achieve company goals.

Researchers have recognized that one of the best strategy for achieve economic development is encourage the growth of SME. And there is a general agreement, the Export Orientation(EO) has an impact on firm performance(Sausa et al,2008), but the effect of each EO dimension on firm performance still remains unclear. Further, several studies suggested that export orientation has a direct impact on SMEs growth and firm profitability. (Ibeh,2004). Porter in 1991 showed that strategy can significantly influence the nature and magnitude of a firm's competitive advantage on its markets.

In order to gain a sustainable competitive advantage, firms need their resources to be unique in some way (Barney, 1991), and this is especially true in a global environment, that is increasingly competitive and dynamic. In export marketing literature the discussion of competitive advantages mainly considered product or technology, price and/or marketing advantages. Following this line expect that intensively international-market oriented firms have more competitive advantages than less intensively developed companies, because they will be more successful in an international and consequently more competitive environment. Additionally, these firms will try to pursue internationalization more actively in order to reach an adequate position internationally.Strategic Management studies usually identify three main categories of international strategies as generic strategies, based on Porter's study (1980) - cost leadership vs.differentiation ,marketing standardization vs adaptation ,diversification vs. concentration strategy.

And also, recently, transition economies especially, Central and Eastern European (CEE) countries have paid their attention on development of Small and Medium Enterprises (SMEs) in their economic development process.

Classifying the SME sector

All countries do not use same definition for classifying the SME sector. Nor does a universal definition appear to be necessary. The definitions in use depends on the purposes. Three parameters are generally applied by most countries, singly or in combination, they are:

- a. Capital investment on plant and machinery
- b. Number of workers employed
- c. Volume of production or turnover of business

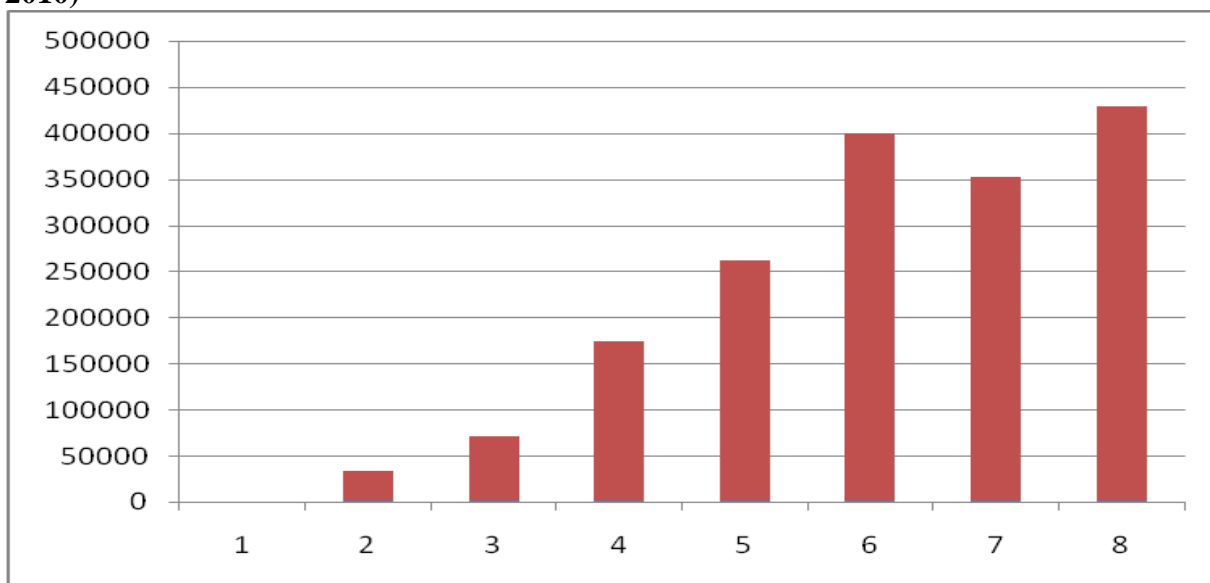
In the world bank evaluation of business sector enterprises a small enterprises was defined to include 1-49 workers, a medium enterprise with 50-99 workers and a large enterprise more than 100 workers. Different countries used more than one definition. For example, in the case of Philippines, the asset value for small-scale enterprises in the range of US\$ 30,000 to

300,000 as against US\$ 300,000 to 1,200,000 for medium scale enterprises. In terms of number employees it is in the range of 10 to 99 workers and 100-199 workers for small and medium enterprises respectively. In Singapore, a small and medium size enterprise is defined as a company with at least 30 percent shareholding and less than \$ 15 million fixed productive assets .For the service sector enterprise it must have less than 200 employees.

Data analysis and discussion

Changes in export structure among the countries over the past twenty years revealed that different performance levels among the low income countries and other countries. Around hundred and fifty six emerging economies in various stages of development is contributing to the international business in the world today. Some of these economies are rapidly emerging on the global stage. Among them, Argentina, Brazil, Indonesia, Turkey, Thailand, South Korea, Russia, and Poland are very important in the process of SMI internationalization and world business .

Figure 1: Exports of Emerging Economies (in dollar million) (Within the period 1980-2010)

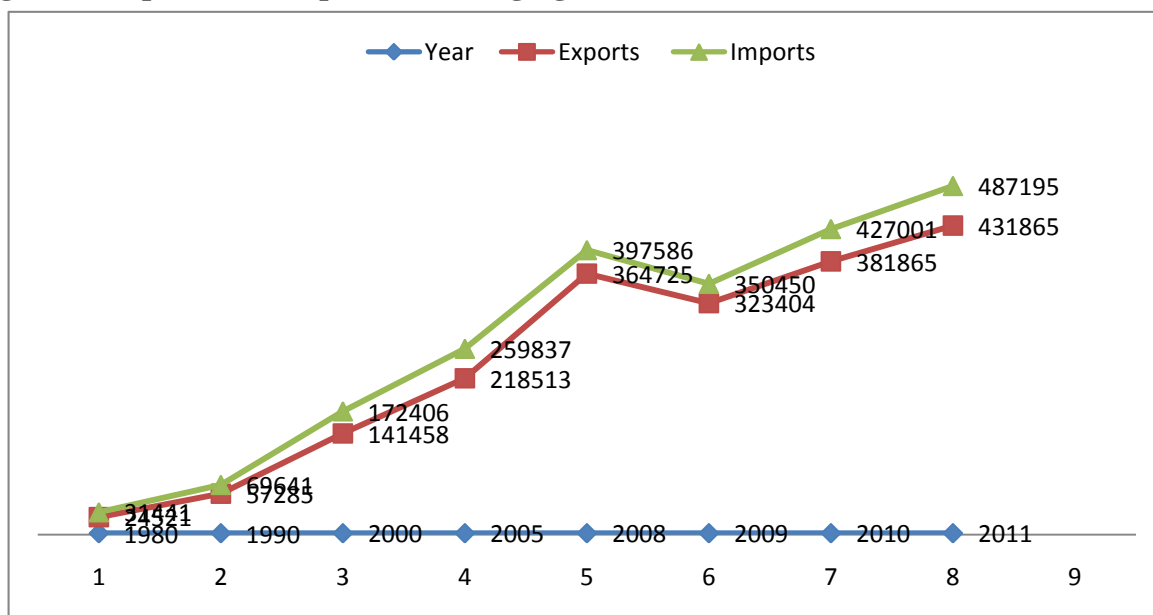


Source : Authors construction

Figure 1 illustrate the exports values selected years of emerging economies in the world within the period 1980-2010 in dollar million. Over the years exports of emerging economies have grown gradually.

Globalization and business opportunities are take place among developed economies as well as emerging economies. The current era of globalization originated in the aftermath of world war second when major nations committed to global trade and investment. As the countries started to emerge as new actors in the world economy 20% of its output contribute to the global GDP at present while western economies contribute approximately 80% to world GDP.

Figure 2: Exports and Imports of Emerging Economies(in dollar million)



Source :-Authors construction

Figure 2 shows the world exports and imports of emerging economies within the period 1980-2011. It is clear that over the time both imports and exports have increased in large values within the considering period in the world.

The other salient feature is service sector expansion among the economic groupings. This situation can be seen in the emerging economies as well as high income developing economies, middle income developing economies, low income developing economies, small island developing economies. When considering the GDP percentage value in industry sector contribution, it has decreased over the time and increased the service sector contribution to the world within the past years. This has become especially in the development of the telecommunication sector of the world. As a whole service sector is account for 70% of total output from the global GDP.

As globalization proceeds, including emerging economies and other countries and their enterprises face major challenges for strengthening their trade and investments. Therefore, supply-side bottlenecks in the trade and investment areas have direct implication on the economic growth potential of those particular countries. And also with the globalization, many Small and Medium Enterprises are looking at opportunities in the export arena. As a matter of fact these firms typically account for more than 90% of all firms outside the agricultural sector and constitute a major source of employment and generate significant domestic export earnings in every country at present.

Conclusion

This investigation is meaningful for several reasons. One is that investigating in emerging economies is not economically beneficial, but also highly ethical because it may potentially lift many people out of poverty. Because of this reason small business can lead the export sector in countries in the internationalization phenomena. In addition globalization and global strategy are at cross roads. Global strategy around the globe among firms should lead economies. Hence, to be successful within the global environment SMIs' need to identify nature of the competition in the market.

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