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Economic globalization, entrepreneurship, and development

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ABSTRACT

If economic integration and mutual reliance between local or global entities result from a borderless and relatively free flow of production factors as well as goods and services, small business practice, innovation and risk ventures will objectively yield profits. In the context of BRICS¹ (Brazil, Russia, India, China, and South Africa) nations, have both phenomena enhanced rapid economic development? Using an unbalanced panel dataset for BRICS member states, we investigate these propositions by estimating the effects of: a comprehensive globalization index variable (KOF) as in Dreher (2006) and Samimi et al. (2014) and an opportunity total entrepreneurship activity (OTEA) variable à la Urbano and Aparicio (2016) through an Arellano-Bond model estimator first, then a dynamic estimation model next. Results show, after utilizing both estimation techniques, the variables were all positive and statistically significant, hence confirming the hypothesis. We posit the implementation of innovation-driven policies that will promote the movement of production factors, enhance South-South financial and regional trade agreements and sustain economic development in developing nations in general and BRICS economies in particular.

1. Introduction and scope

The continuous integration and interconnectedness between regions, countries, and cultures through economic, social, and political systems have invariably evolved human societies' living standards in absolute as well as relative terms. As part of this constant evolution, globalization – economic globalization – has played a significant role especially since the industrial revolution ushered in immense innovations. From an economic, social, cultural, and technical perspective, it has brought about free trade and capital flows, migration possibilities, religion, work ethic, and mechanical or technological advancements which have significantly defined global growth and development patterns since the mid-19th century. Economic globalization has since gone through multiple transformations. Of recent, this process of market liberalization and deregulation now results in more tariff and trade barrier flexibility, the relatively free flow of goods and services, physical and human capital, in-and-outward foreign investment, and technology spillovers well beyond geographical borders of our contemporary economies.

Economic globalization is an important determinant that has and continues to alter the lifestyle and consumer preferences of economic agents as well as their political, social and even environmental realities. In this particular case, we focus on the economic impact of

globalization. (Baldwin and Forslid, 2000; Bhandari and Heshmati, 2005; Dollar and Kraay, 2002) through the use of varying economic growth models, have provided evidence of an existing relationship between economic globalization and economic growth and development. Two major aspects have emerged from their considerations: A pro-globalist argument and an anti-economic globalization movement. A prominent argument advanced by supporters of globalization is that trade and financial liberalization benefits everyone in society through a ‘trickle-down effect’ mechanism; economic gains move from the most prosperous to the least as income levels and prosperity increases (Antwi and Kwakye, 2010). Other proponents like Grossman and Helpman (1991) and Borensztein et al. (1998) state that an improvement in factor productivity, positive externalities via technology transfers, and optimal allocation of scarce resources within the host economy are consequences of globalization. These outcomes are structural transition phases of an economy that increase demand for and supply of modern economic activities. For example capital intensive jobs in sophisticated financial services, foreign direct investment in frontier technology, free trade leading to bilateral and multilateral cooperation, and mergers and acquisitions (M & As) between nations and or multinational corporations (MNCs). Theoretically and empirically, Bhagwati (2004) and Prystay (2003) respectively defend the merits of globalization through the “direct link and income effect”. This phenomenon describes a

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E-mail address: mekong@hnu.edu.cn (T. Metuge Mekongcho).¹ BRICS is an acronym for the world's major emerging economies Brazil, Russia, India, China, and South Africa. It was originally BRIC as coined by Goldman Sachs's Jim O'Neill excluding South Africa. These nations are projected, by 2050 to be wealthier than the current major economic powers.<http://dx.doi.org/10.1016/j.techfore.2017.09.028>Received 5 November 2016; Received in revised form 12 September 2017; Accepted 28 September 2017
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mechanism through which the poor receive the economic gains of globalization in a case study of farmers in rural India. The authors herein show how increased Internet connectivity puts local farmers in direct contact with prospective buyers while eliminating middleman transaction costs in the process. The sidestepped costs help raise their per capita income due to direct market access where they can sell their final product. [Dollar \(2007\)](#) and [Easterly \(2007\)](#) also defend the theory of globalization as being (a) an advantage for economic growth and development through the income inequality and poverty debate, (b) the abundance of certain production factors like land in developing countries. The authors assert posit, on the one hand, extreme poverty has decreased considerably while within-country income inequality has not risen. On the other, land, being a determining factor of production in developing nations attracts other factors of production like capital and labor thus can produce high investment returns.

For arguments against, reasons range from technology biased transfer, weak institutions in less developed economies to rising income inequalities. The different nature of countries has been the usual culprit behind the selective nature and quantity of foreign investments. Some previous researchers argue that in developed (G7 and OECD) and emerging economies (BRICS), there is higher specialized human capital that can quickly absorb technological transfers. They are usually high and middle-income countries in which economic agents participate more in economic activities as compared to other developing economies (typically non-OECD countries). This lopsided advantage has now engendered a rapid rise in income inequality in advanced and emerging economies ([Berg and Krueger, 2003](#); [De Melo et al., 2008](#); [Pogge, 2007](#); [Sutcliffe, 2007](#); [Thompson, 2007](#)). Another argument which runs counter to the pro-globalist argument is the lack of sufficient financial integration in an economy and the insincerity and double standards attached to the globalization rhetoric ([Krugman, 1993](#)). Understandably economic globalization has been a very controversial concept subject to acrimonious debates in studies and among researchers. However, this study postulates the contributions of economic globalization to social and economic prosperity, through growth and economic development in developed as well as developing economies outweigh the demerits. These contributions may also occur through several other conduits, which positively impact economic growth and development, like innovative and entrepreneurial activities.

Entrepreneurship can be identified as the cornerstone for wealth creation and equitable distribution through a dynamic process of new firm formation and growth ([Kirchhoff, 1994](#)). Entrepreneurship has also been subject to a huge debate based on the underlying assumption that larger firms create more jobs than small firms ([Kirchhoff et al., 2013](#)). The basis for this argument is the neo-Marshallian general equilibrium analysis which assumes that markets are perfectly competitive and bigger companies benefit from economies of scale ([Kirchhoff, 1994](#)). General equilibrium analysis favors wealth transfer and long-term stability of economic systems. However, in the 1970s a statistical report challenged this paradigm. The report stated that small firms created more jobs on a regional and national scale in the US than larger corporations ([Birch, 1979](#)). By observing the individual behavior of SMEs, they were more innovative since they adapted faster to new market opportunities. Subsequent research showed that not only did small businesses create more jobs and wealth, but they also had higher survival rates ([Phillips and Kirchhoff, 1989](#); [Storey, 1994](#)). Despite overwhelming data and results, neo Marshallians discounted the Schumpeterian argument. [Kirchhoff \(1994\)](#) introduced a refined approach hypothesizing constant change as the norm that typified the underlying dynamic capitalistic process. Formation and growth of new innovative firms while older ones decline and disappeared. Although this novelty lends additional quantitative and qualitative rigor to Schumpeterian entrepreneurship, the controversy is ongoing. Entrepreneurship is carried out by entrepreneurs acting with a social and ideological role fundamental to its success ([Schumpeter, 1934](#)). These actors start new firms that take advantage of opportunities to effectuate

technological and non-technological change. By introducing disruptive innovations and producing new output to bring about profits and growth ([Schumpeter, 1934](#); [Walsh and Groen, 2013](#); [Walsh and Kirchhoff, 2002](#)), these firms can have a disparate impact on the level of innovation ([Ács and Audretsch, 1988](#)). Creative destruction theory is adopted as this paper's theoretical justification to explain how innovative entrepreneurial action can cause economic growth and development in emerging and developing economies like the BRICS nations. The analysis goes beyond the outcome from engaging in disrupting market activities. It includes the entrepreneur's evolution and success ([Aldrich and Martinez, 2007](#)). [Atilla Oner and Kunday \(2016\)](#) note that the impact of entrepreneurship in emerging countries is gaining importance due to their global prominence and expanding innovative capacity. [Bailey \(2015\)](#) states that over half of the world's workforce comes from emerging countries. China or India creates about a third of every job, foreign direct investment has increased tremendously, and estimates indicate about 20% of their university graduates are internationally employable. Following [Kirzner \(2009\)](#), [Williamson and Kaiser \(2005\)](#) and [Ács and Audretsch \(1988\)](#), this tremendous amount of human capital has created significant R & D returns which have reduced transaction costs and increased opportunities for SMEs.

BRICS nations by being the vanguards of emerging countries and rapid global growth did not face significant economic challenges before and after the US housing and global financial crises of 2008/2009. IMF World Economic Outlook forecasts indicate that average annual growth rates in the BRICS economies were relatively higher than that of the G7 countries combined. Between 2004 and 2007 the average annual growth rate in gross domestic product (GDP) in BRICS nations was 7.7% per year but was three times less in G7 countries. During the post-global financial crisis period, the rate fell from 7.7% to 5.6% and 4.1% between 2010 and 2012. Although this was a slowdown in BRICS economies, it was far greater than was registered in G7 countries, with rates at 1.2%. An IMF report forecast GDP variations in BRICS nations for 2013/2014 between 5% and 5.5% annually while it predicted the U.S. and U.K growth rates at 2.5% and between 0.9% and 1.5% approximately. The G7 group forecast was set at a mere 2% while globally it was between 3% and 3.9%. This data shows that for the last decade and a half, the growth prospects in BRICS countries have been largely above that of the world and G7 (OECD countries') average growth rates. [Table 1](#) shows an estimate of some macroeconomic variables for BRICS nations from the 2013 IMF report.

Despite the slowdown, the BRICS countries continue to grow at a relatively high rate compared to the developed G7 countries. The total investment in BRICS nations according to another [IMF \(2016\)](#) report indicates they allocate more funds for economic activity than the G7 countries do. The target is to advance technological levels in infrastructure, education, and health which is the main structural challenge that has to be overcome to sustain long-term economic development. India's informational technology enabled service (ITES), business process outsourcing (BPO), and the software sectors have proliferated as a result of a surplus of highly skilled and technically qualified population of workers ([Barnes, 2013](#)). According to the [Ministry of Communication and Information Technology of the Government of India's 2009-10](#)

Table 1
Some IMF macroeconomic estimates of BRICS nations from 2002 to 2014.

	Brazil	Russia	India	China	South Africa
GDP/per capita PPP	11,875	17,708	3829	9162	11,375
Inflation %	5.8	6.6	11.2	2.5	5.6
2002–2012 growth forecast %	3.5	4.7	7.2	10.3	3.5
2013 growth forecast %	2.5	2.5	5.6	7.8	2
2014 growth forecast %	3.2	3.3	6.3	7.7	2.9

Note: Table computed by the authors, showing the variation in some key macroeconomic variables in BRICS nations. Data Source: IMF database 2013.

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