

Geopolitical Dynamics and their Impact on Emerging Markets

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Abstract

Emerging markets are those developing countries that are not fully developed but moving away from the traditional economies to be more industrialized by adopting a free and open market or mixed economy. Fast economic growth, growing middle-class, huge population growth and working age population, as well as consumption growth are attracted the multinationals to invest in emerging markets. Despite of its opportunities, these emerging markets also bring out the risks that must be faced and overcome by multinationals through its strategies and approaches. Qualitative research has been used for this study. This paper will try to evaluate the emerging markets from its governance, rule of law, politics, market and corporate sectors, as well as its institutions and regulations, while taking BRICS countries as example to represent the emerging markets. The findings shows that emerging markets are attractive yet still has issues that mostly on its governance, political stability, rule of law, corruption, and institutional voids. Thus, multinational firms could undertake this challenges by implementing right strategies and approaches based on each markets domestic features, using the five context to recognize the institutional voids, and refer to the Analyze-Benchmark-Calibrate of developing a globalization strategy.

Keywords: Emerging Markets, BRICS, Multinational Firms, Emerging Market Index.

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1. Introduction

A country with an economy that is advancing towards developed status is called emerging markets. Emerging markets are progressively turning into the development drivers of the global economy. Emerging market economies frequently have lower income per capita than developed nations, and regularly have liquidity in value markets, are initiating administrative bodies and trades, and see rapid development. There is expanded investigation and premium in emerging markets since the 1990s. The interest can be seen from a demand and supply viewpoint. With an enormous populace and expanding income, emerging economies give a major market to products and ventures. Additionally, with skilled labor and low costs, emerging economies are providing an ever increasing number of merchandise and enterprises to the world (Pillania,2009).

Emerging markets have assumed a huge part in animating global economic development, particularly after the 1997 financial crisis which required an upgrade of many emerging market economies to turn out to be more advanced. Around 80% of the world's economy is involved emerging markets remembering probably the biggest nations for the world like China, India and Russia. Multinational Corporations (MNCs) assume a significant function in international business and economy. Emerging markets become the most encouraging markets for working together in future, for the world's most competitive companies. As industrialized nations keep on developing assessed development at normal of 2% every year, emerging markets, which express high pace of development which is 12% every year, and have colossal space for extraordinary development, have gotten progressively more appealing and promising for Western multinational corporations. They are a magnet for the world's most competitive organizations from the U.S. as well as abroad (Garten,1996; Alshammari and Islam,2014).

Doing business in emerging markets provide for MNCs a ton of points of benefits, for example, added deals volume, economies of scale, expanded benefits, improved competitive capacity, diminished market reliance, improved resistance to recurrent changes, adjustment of creation plans, decreased impact of market immersion, drawn out item life cycles, upgraded venture profiles, more noteworthy development openings, decreased degree of rivalry, plausibility of enormous expected business sectors, and diminished expenses of market passage. Working together in emerging markets is another

experience for most MNC, which have been centered on the grown piece of the world. Business move to emerging markets for the vast majority of them is just move to new foreign business sectors (Sunje & Civi,2012; Abidin et al.,2016). This paper will evaluating the emerging markets in the perspective of geopolitics of multinational firms.

The classification does help the investor in knowing what type of market that is available out there, yet the process does not stop there. Investors and corporations need to evaluate factors and risks of the emerging markets before they put their investment or create the corporate strategy prior to entering the market. There are ways to help evaluate the emerging markets. First, identify factors that make the emerging markets an opportunity or threat by looking at factors such as the economic growth, joint ventures opportunities, infrastructure, property rights protections, law and regulations. Second, by assessing the pull factors or what makes the emerging markets attractive such as large and growing populations especially middle classes, operations costs, and less competitive pressure (Tutor2u,2020).

2.Literature Review

There are theoretical models for foreign firms to succeed in emerging markets (Santos and Williamson,2015). Aulakh et al. (1996) developed a conceptual model by identifying the antecedents of trust and performance in cross-border marketing partnerships. Their behavioral model is based on the assumption that trust building in such partnerships is a long-term process. Trust is necessarily guided by the past behavior of business partners. Continuity expectations, Flexibility and information exchange are the relational norms leading to the “trust” and “performance” in their model, with asset specificity and host market unpredictability as moderators. They tested the model on a sample of US firms having distributor and licensing relationships with firms from Asia, Europe and Central/South America.

Traditional market selection analysis relies primarily on macroeconomic and political factors, which often fail to account for emerging markets dynamism and future potential. There is a need to improve and supplement the assessment criteria of traditional analysis for entry into emerging markets (Paul,2015; Islam et al.,2024). Sakarya et al. (2007) developed a foreign market selection model explaining how to select appropriate emerging markets for expansion based on the firms from the USA in Turkey. Traditional market selection analysis relies on purely macroeconomic and

political factors and fails to account for an emerging market's dynamism and future potential. According to their model, the success probability of foreign firms increases if a firm selects emerging markets for their international expansion, based on these four aspects: strong future market potential, manageable level of cultural distance, supportive and developing local industry, (Competitive strength of the Industry) and positive customer receptiveness for foreign products and business (customer receptiveness). They illustrate that firms need to do an assessment through different aspects related to culture and internal industry structure. Even though this model is strong, they did not address the factors that contribute to build the political and internal relationships.

Emerging markets argued by Salacuse (1999) as the Third World that has been focusing and shifting themselves towards "development", in which the focus of it are no longer simply on economic growth measured by GDP but also social, political, legal institutions or institutional dimensions in general, and objectives. According to Salacuse, the developing countries were experiencing two development model that helped to shape them now. The first development model are more to government controls and closed market, treating the foreign investors as an enemy and considered as failed to bring development to the developing countries. Only after the second development model in the mid-1980s, these countries started to adopt an open market and deregulation, liberalization of the law of contract and enforce a property rights protection.

As the developing countries has become more open to foreign direct investment and foreign assistance to help their development, the next issues is on how the governance is needed in a more interconnected world. Keohane (2000) addressed the issues of governance in a partially globalized world. In his work "Governance in a Partially Globalized World", Keohane argues that effective governance within this partially globalized framework is not inevitable. Institutions are the main keywords and it considers essential yet also dangerous. Through Liberalists perspective, institutions is the form that resulted from the cooperation in a globalized world in which it could bring potential gain and help pursue a good life. However, it could also create dispute and exploitation. The situation where institutions tend to influenced and served the elites more reflect Plato's question on "who guards the

guardians?”. Thus, it will require wide-ranging international institutions combined with the right kind of governance that includes normative analysis. Despite of the elements needed to support the development and the governance, the emerging market has later known for the growth that seen through its GDP per-capita. Study conducted by Agrawal (2015) showed a correlation between GDP growth and the FDI. FDI help the country’s economic growth and development which in return, the economic growth then could attract more FDI inflows to come. Following this trend, it is believed that the emerging markets outperformed and gives more stock returns than the developed one. This arguments was not approved by Hili et al. (2014), in which their study claimed the association between GDP growth and stock returns in both developed and emerging market is irrelevant. According to the study, the emerging markets does not consistently surpass the developed markets in term of economic growth or GDP and stock returns. However, emerging markets does provide multifariousness of benefits and in under certain circumstances improves returns for investors. These circumstances are based on the holding periods of investments, in which a short-holding period will be most likely to bring more returns than the long-holding period.

Agrawal (2015) emphasized in order to increase more FDI inflows to support the GDP growth, the emerging markets’ policymakers need to address issues that could be the obstacles. As mentioned by Salacuse (1999) and Keohance (2004), in globalized world and emerging countries, law and institutions are both important. Today, law has shifted a little from bringing the coercive pressure to become an incentives to affect behavior. The right institutions is also needed and need to be evaluated in order to increase its credibility and accountability. This paper aims to evaluate the emerging markets, among them are through institutions, politics, and governance.

The term emerging markets (EMs) was first presented by the International Financial Corporations (IFC) in 1981 to portray new developing financial markets (Aybar & Thirunavukkarasu,2005; Islam and Patwary,2013). This term has since been broadly utilized by various specialists and worldwide associations. As in a literature review, it arises that three factors are generally used to distinguish emerging markets. These factors are populace, way of life which regularly estimated as the normal GDP (Gross domestic product) per capita, the movement of economic development every now and again

estimated as the Gross domestic product development rate and lastly financial policies received by the public authority to keep up financial development and improve the day to day environments of its residents (Jordaan,2006).

According to the World Bank (WB) arrangement, emerging nations regularly have a place with the lower or upper-center income classifications, experience a higher development rate than that accomplished by industrial economies, and are more situated towards applying a wide range of financial approaches preferring unrestricted economy systems. Moreover, as indicated by Constanza (2012), developing business sectors are described by institutional flimsiness and lower levels of economic improvement contrasted with industrialized economies. Sandberg (2012) recommends that the class of emerging markets ought to incorporate developing economies confronting primary change from a midway controlled economy, or from what she portrays as the "premarket stage", to the phase of developed industrialized economies, through receiving coordinated and intelligible changes of organizations, markets, and society (Jones,2017).

According to Cavusgil (1987), emerging markets are high-development agricultural nations that speak to alluring business open doors for Western firms and developing business sectors share exceptional highlights as far as monetary possibilities. Miller (1998) expressed that, despite singular contrasts, all emerging markets are comparative in their potential for future development. It is this open doors for future market extension that most recognizes an arising economy from one ordinarily connected with less created nations and these types of financial upgrade pulling in new advances, unfamiliar venture, or outer interest in their business undertakings happen just in nations with approaches conducive to expanded development.

Emerging Markets Registry comprehensively characterized, an emerging market is a nation putting forth an attempt to change and improve its economy with the objective of raising its exhibition to that of the world's further developed countries. As indicated by Arnold and Quelch (1998), there are three parts of a nation economy that regularly underlie different meanings of emerging markets. First is without a doubt the degree of financial turn of events. This covers with less developed nations (LDs). Second is the overall movement of monetary turn of events and third is the structure of market administration, the degree and dependability of an unregulated economy

framework, if the nation is currently economic advancement, it is now and again characterized as a 'transitional economy.

As indicated by Miller (1998), despite the fact that each emerging market is a one of a kind one, most normal attributes of emerging markets could be summed up in the accompanying manner. Firstly, actual attributes, regarding a deficient business foundation just as insufficiency of any remaining parts of actual framework incorporate correspondence, transport and force age. Second, sociopolitical attributes which incorporate, political insecurity, lacking legitimate structure, powerless social control, and decreased innovative levels, other than exceptional social qualities. Thirdly, financial characteristics as far as restricted individual income, midway controlled currency with a powerful function of government in financial life, communicated, adjacent to other, in dealing with the cycle of progress to showcase economy.

Kvint (2008) demonstrates that a few measurements of reports on emerging markets, and this conflicting circumstance even can be seen from IMF's reports. For example, some emerging nations like China and India are named emerging markets and are remembered for the class of agricultural nations. Then again, huge numbers of the sub-Saharan nations as emerging markets are unquestionably still lacking. The primary and most significant attribute of all emerging market nations is that they are at some stage during the cycles of financial development and improvement of unrestricted economies. An alluring climate for foreign investors and has been made dependent on this trademark. He proposes the primary attributes in his investigation: an emerging market nation can be characterized as a general public progressing from a tyranny to an unrestricted economy arranged economy, with expanding monetary opportunity, steady joining inside the worldwide commercial center, an extending working class, improving ways of life and social soundness and resilience, just as an expansion in collaboration with multilateral establishments.

3. Emerging Markets

There are three key ideas of global economies in the world which are advanced economies, developing economies and emerging economies. First is advanced economies which is post-industrial nations with high per capita income, competitive enterprises, and developed business framework; normally the most extravagant nations, including Australia, Canada, Japan,

the US, and countries of Western Europe. Secondly developing economies which is low-income nations portrayed by restricted industrialization and stale economies. For instance, Bangladesh, Bolivia, and Zaire and third which to be discussed in this paper is emerging market economies which is previous developing economies that accomplished generous industrialization, modernization and wonderful financial development, for example, Indonesia, Mexico, Poland and Turkey (Mody,2004).

Table (1): Differences between Emerging Markets and Developed Markets

Dimensions	Developed Markets	Emerging Markets
1. Level of Economic Development	High	Low/ Medium
2. State of Economy and Society	Developed/ Stable	Transitional/ Unstable (Economic/Political Reforms)
2.1. Macroeconomic Framework	Developed/ Stable	Undeveloped (being Created)
2.2. Market Institutions	Developed	Undeveloped (being Built)
2.3. Market Conditions	Stable	Unstable
2.4. Market Infrastructure	Developed	Undeveloped (being Built)
2.5. Governmental Involvement	Not so high	Relatively High
2.6. Cultural Resistance to Market Economy	Low	Higher
3. Rate of Growth	Low	High
4. Room for Growth	Narrow (Matured Markets)	Huge (Undeveloped Markets)

(Source: Sunje & Civi,2012)

Despite the fact that "emerging markets" is a frequently utilized word in the global business literature, most writers do not give a meaning of emerging markets, likely understanding it is known. Yet, there is no regularly acknowledged meaning of emerging markets. All in all, emerging market is an economy with a high yearly development rate, estimated utilizing total national output or Gross domestic product. Development might be occurring over a wide assortment of monetary areas, including administrations just as production exports. Without a plan to present an away from of emerging markets, just a nation which emerging market is a market limited by political fringes of an autonomous express that acquires the accompanying rules could be perceived as emerging markets (Sunje & Civi,2012; Islam et al.,2016).

A portion of these standards are lower level of economic improvement which is less-developed nation, which could be communicated in Gross domestic product per capita. Besides, transitional economy and society government

does an endeavor to make a system of a market economy and popularity based society through a satisfactory monetary and political changes in which this part of emerging market is a critical one, for example, emerging market is just a nation that attempt to "arise" to showcase economy, and vote based society, "through policies conducive to expanded development". Thirdly, high pace of development, which could be communicated through Gross domestic product development rate where it should be in any event 5% every year, that is brought about by an administrative endeavor to make market economy advertisement to wrap things up, an enormous space for future development, which could be communicated through contrast between acquired degree of financial improvement which likewise buying power equality could be utilized as a measures and a normal Gross domestic product of developed nations. A main impetus of each emerging markets is a nature of political and economic changes which is simultaneously a profoundly hazard zone.

Looking at emerging markets or emerging economies and developing nations is important to comprehend why emerging economies are so significant for world financial development. Around 27 nations with rising financial desires that appreciate quickly developing ways of life and advancing towards affluent country status. Its significance on the global economy is expanding as appealing objections for fares, FDI, and sourcing. It is more than clear these nations are apathetic classifications. Contrasts between emerging economies and developed economies are introduced in Table (1).

It is essential to perceive whether a nation is an emerging economy or a developed economy, particularly from MNCs perspective. Taking a gander at nations in a referenced manner, it is flawed whether nations like Israel, South Africa, Hong Kong or Singapore are emerging markets or developed economies. A great deal of sources treat referenced nations as emerging markets, yet every one of them has a high Gross domestic product and stable financial structure with completely created foundations of market economy. Starting there of view, these nations could be dealt with just as evolved nations with a gigantic market potential, monitoring the circumscribing line, transitional economy as the main piece of that line which recognizes emerging markets from developed markets.

3-1.Characteristics of Emerging Markets

There are a few parts of that describe an emerging market. Firstly is market instability. Market unpredictability originates from political precariousness,

outside value developments, or potentially supply-request stuns because of characteristic disasters. It opens financial specialists to the danger of vacillations in return rates, just as market execution. Quick social change prompts the high unpredictability. That can emerge out of three components which are catastrophic events, outer value stuns, and homegrown arrangement insecurity. Conventional economies customarily dependent on agribusiness are particularly defenseless against catastrophes, for example, tremors in Haiti, torrents in Thailand, or dry seasons in Sudan. However, these debacles can lay the basis for extra business improvement as it did in Thailand.

Second is development and speculation potential. Emerging markets are regularly appealing to foreign speculators because of the exceptional yield on venture they can give. In the progress from being a horticulture-based economy to a developed economy, nations regularly require a huge deluge of capital from foreign sources because of a lack of homegrown capital. This development requires a ton of venture capital. In any case, the capital markets are less adult in these nations than what is seen in developed markets. They do not have a strong history of foreign direct investment. It is frequently hard to get data on organizations recorded on their securities exchanges. It may not be anything but difficult to sell obligation, for example, corporate securities, on the auxiliary market. Every one of these parts raise the danger. That likewise implies there is a more prominent prize for speculators ready to do the ground-level examination.

Thirdly, high paces of monetary development. Legislatures of emerging markets will in general actualize strategies that favor industrialization and quick financial development. Such approaches lead to bring down joblessness, higher discretionary cashflow per capita, higher ventures, and better framework. In 2019, the monetary development of most created nations, for example, the US, Germany, Mexico and Japan, was under 3%. Development in Egypt, Poland, India, and Malaysia, was 4% or more. China and Vietnam saw their economies develop by around 6% to 7%.

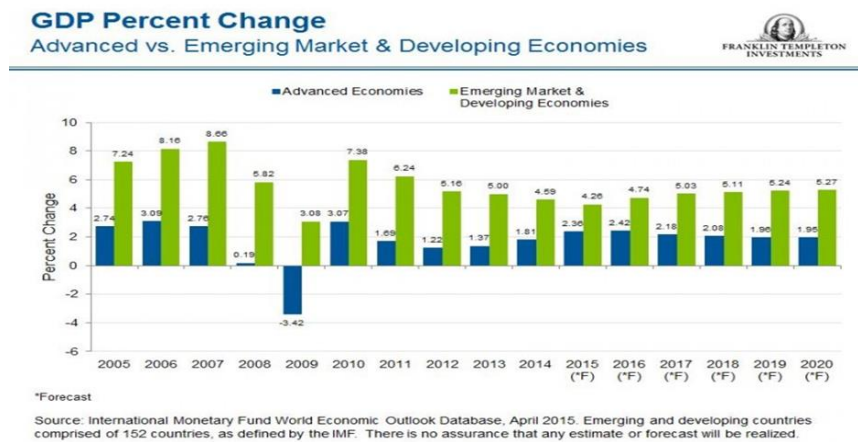


Figure (1): GDP Percentage Change
 (Source: The Case for Emerging Markets, 2019)

Finally, it is the income per capita. As the economy seeks after industrialization and manufacturing practices, income per capita increments with Gross domestic product. Below earnings additionally work as motivating forces for higher monetary development. Emerging markets have below the norm per capita income. Low income is the primary significant model since this gives a motivator to the subsequent trademark, which is fast development. Heads of emerging markets are happy to attempt the quick change to a more industrialized economy to stay in force and to help their kin (Amadeo,2020). Emerging markets goes with lot of definitions. In general, emerging market is a developing countries that are not yet fully developed but moving away from traditional economies, rapidly industrializing, and adopting free-market system. The World Bank define it as countries with low-, lower-middle, and upper-middle income economy (Bruner et al.,2003).

The term of emerging markets itself first brought by the International Finance Corporation (IFC) and used to describe the middle-to-higher income economies in a more narrow way among the developing countries. The list used by foreigners to help buy securities in these developing countries' stock markets (Pilania,2009). The emerging markets ranging from the African continent to Latin America and Asia.

The classification of markets by institutions generally has similar characters and strains. Institutions such as the Morgan Stanley Capital International (MSCI) Emerging Market Index, International Monetary Fund (IMF), the

S&P, Dow Jones and Russell all has slight difference of emerging market lists. Some of the countries that classified emerging and frontier by MSCI could be classified as advanced or those in emerging could be found as frontier (Raiston & Mee,2019). Aside from that, IMF and MSCI has similar list of developing countries categorized as emerging markets. Among them are Brazil, China, Colombia, Hungary, Indonesia, India, Malaysia, Mexico, Pakistan, Philippines, Poland, Russia, South Africa, Thailand, Turkey, and Taiwan.

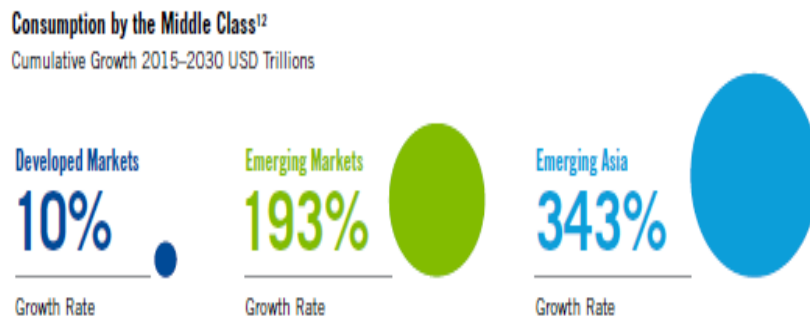


Figure (2): Consumption by the Middle Class
(Source: The Case for Emerging Markets,2019)

The emerging markets has its own characteristics that could be read and used as a reference for the investors. First, it has lower-than-average per capita income, in which this situation would drive their government to pursue a rapid change towards industrialization. It leads to the second characteristics that is fast economic growth, such as in Malaysia and China where its economic growth was surpassing the developed countries with 4% and 6% respectively in 2019 (Amadeo,2020).

Since 2015, the emerging markets economic growth has outperformed the developed markets with the Asian emerging markets' GDP is predicted to grow 6.1% annually by 2023 (Business Insights on Emerging Markets,2019; The Case for Emerging Markets,2019). This macroeconomic characteristics of emerging markets on GDP is considered as higher than the frontier markets (Bruner et al.,2003).

Third, emerging markets has high volatility that can be driven by three factors, external price shocks, natural disasters, and domestic policy

instability as well as currency swings. The later is due to lack of power to influence such movements, especially those that still rely or involve the U.S. dollar. Last, emerging markets are potential for growth (Amadeo,2020). They are seen as an attractive destination for investments because of the strong GDP growth, at times because of its large population, the growing middle-class and consumer in general, and technology revolution(The Case for Emerging Markets,2019). The annual growth for overall emerging markets Gross National Income from 1998 to 2017 is 6% while developed markets only 2.7% (The Case for Emerging Markets,2019). Other than that, factors such as geopolitics that affect the production costs, talents or the human resources, and other factors of production also affect the emerging market’s attractiveness in the eye of investors.

These emerging countries has its own groupings that exist such as the most well-known BRICS, MINT, and Next 11. Most of this groupings could be based on the similar characteristics they share such as geographic or they economic growth rate. According to Cooper and Purdy’s analysis from Harvard Business Review, these acronyms of emerging markets are originally take place due to the expectation that within these markets there is a large and fast-growing demand for products as well as services. However, each countries has different driver of growth and sources of demand, as well as country’s characteristics (“A Framework for Strategists Assessing Emerging Markets,”2015). BRICS consists of five emerging countries namely Brazil, Russia, India, China and South Africa.

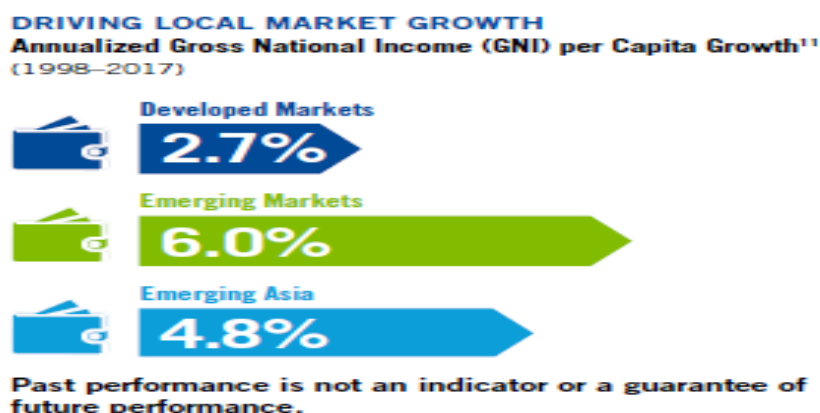


Figure (3): Driving Local Market Growth
 (Source:The Case for Emerging Markets,2019)

China and India both known as the largest population among BRICS countries. China has been the center of attention since it holds the highest GDP not only within BRICS but also Asia, positioned as the second largest GDP in the world after the United States (Mall & Panigrahi,2019; Raiston & Mee,2019). In 2019, the GDP value of China, India, Brazil, Russia and South Africa stood at USD 13,457bn, USD 2,689bn, USD 1,909bn, USD 1,576bn, and USD 376bn respectively. The current annual GDP of China and India counted as US\$ 13 billion and US\$ 2 billion, while the growth rate of both countries in 2019 were 6.6% and 7.1% respectively.

From the Statista data below, the BRIC countries GDP throughout the years are always growing. The total GDP of all four countries in 2019 is approximately 46.22 billion international dollars, still with China leading the pack. Although the South Africa GDP's data is missing, the overall potential growth for the next couple years of this grouping is expected to keep on raising (BRICS,2020).

Every markets has its risk and opportunities. Besides all the opportunities offered by the emerging markets, the risks of investing in these markets are tag along and could become a reminder that not all emerging countries are good for investments. Emerging markets may bring and expose investors to risks such as on policy, politics, foreign exchange rate risk, trade restrictions, limited legal protection, and poor governance (Amadeo,2020). Thus, it is important for multinationals to study and understand each of this risks and conditions in order to adjust it with their strategy and decision making.

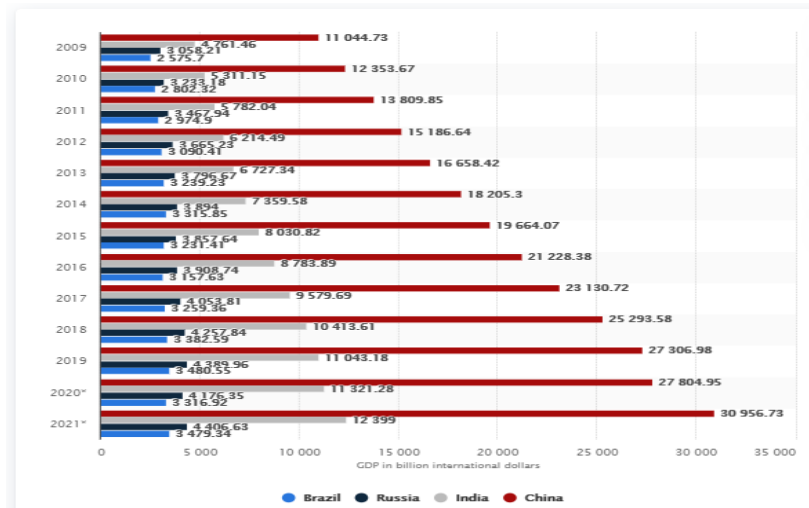


Figure (4): GDP of the BRIC Countries from 2009 – 2021 (in Billion Dollars)

The level of corruption in the emerging markets are higher than the developed markets. The effects of this corruption are vary, from an uneven wealth distribution to low standard of living as the quality of education and healthcare also decline. Small business will face unfair competition with large companies who have illegal connections with authorities that may be in the form of bribery or kickbacks. According to 2019 Corruption Perception Index (CPI) by Transparency International, most of the emerging markets has the score below 60, as the highest score held at 100 for very clean. This is also happened to the BRICS countries in which none of the states obtained the score above 49. South Africa scored as the highest amongs BRICS member countries with 44 and ranked 70 out of 180 countries. The result then followed by India and China who has same the score that is 41 and both ranked 80. Brazil received poor score with 35 – nearly as highly corrupt – and ranked 106, followed by Russia as the lowest score among member countries with 28 and ranked 137 (Corruption Perception Index,2019).

Besides this, each BRICS countries are actually put efforts on fighting the corruption. China, for example, has two watchdog for corruption within its countries that is the Central Commission for Discipline Inspection (CCDI) and the National Supervision Commission. The country also one of the United Nations Convention against Corruption party and provides a variety of guidelines and interpretations on criminal actions on corruption in which

could be accessed by public. Brazil and South Africa also signed the United Nations Convention against Corruption and ratified it to its national law. Meanwhile India has its own anti-corruption legislation in the Indian Penal Code (IPC) 1860 (Kurakin & Sukharenko,2018).

From the data provided by the World Justice Project, most of the lower- and upper-middle income countries has low score and rank in the overall rule of law factors compare to the higher income countries. Amongst them are BRICS that mostly includes in the upper-middle income categories.

Table (2): BRICS in Rule of Law Index

Countries	Rank	Overall Score	Highest Score		Lowest Score	
			Score	Factor	Score	Factor
Brazil	58	0.53	0.65	Order and Security	0.35	Criminal Justice
Russia	88	0.47	0.66	Order and Security	0.34	Criminal Justice
India	68	0.51	0.61	Constraints on Government Powers & Open Government	0.40	Criminal Justice
China	82	0.49	0.79	Order and Security	0.32 & 0.33	Fundamental Rights & Constraints on Government Powers
South Africa	47	0.58	0.64	Fundamental Rights	0.48	Absence of Corruption

(Source: Rule of Law Index,2019)

Most of the BRICS countries received an average to good score for order and security factors in the rule of law, but poor score on criminal justice. Meaning they may still face bad corruption management or improper government influence. South Africa has the highest score for its fundamental rights factors among BRICS countries shows that the countries took the issues of people and property rights protection quite seriously. Moreover, the country succeed in getting into a good rank among BRICS and upper-middle income countries. This could bring South Africa to a favourable position from the multinationals and investors perspective.

Table (3): BRICS Political Index

Country	Short-Term Period	Long-Term Period
Brazil	60.8	68.9
Russia	65.6	61.7
India	67.7	73.4
China	80.2	66.4
South Africa	65.4	61.3

(Source: Political Risk Map,2020)

China, South Africa, and Russia has lowest prediction level of political risk index in a long-term period. China, for example, has already experienced risks throughout the 2020 due to its geopolitical issues with the United States. The country also dealt with the Hong Kong issues, Taiwan election where the states is rumored to seek closer ties with the U.S., and human rights issues in Xinjiang province. South Africa also suffer poor health services and xenophobic violence that led to social unrest. The most recent issues happened Gauteng where 12 people killed in September 2019.

4.Discussion

Emerging markets are progressively turning into the development drivers of the worldwide economy both from demand and supply viewpoint. MNCs assume a significant part in international business. Multinationals and emerging markets have gotten a famous subject of examination in twenty-first century. The achievement record of MNCs from developed nations in emerging market has been blended. The MNCs from emerging markets are presently extending and obtaining organizations in developed nations at a fast movement lately (Zhao et al.,2014). This part will discuss about the globalization and emerging markets, MNCs and emerging markets and institutions and emerging markets.

4-1.Globalized World: Globalization and Emerging Markets

4-1-1. Concept of Globalization

Globalization is the system of association among the nations of the world to build up the worldwide economy. A few researchers have characterized globalization basically as the cycle of integration and interaction among the individuals, organizations, and administrations of various countries, a cycle driven by global trade and venture and supported by data innovation.

Globalization has been alludes to the mix of financial matters and social orders everywhere on the world. Globalization endeavors to portray the means by which the organizations in the world regarding correspondence, transportation and trade cause the connecting or integration of the provincial economies, social orders, societies, just as advancements. Now a large portion of the world is thinking about the part of economic globalization as one of the absolute most critical part of globalization. In view of this economic globalization has been independently characterized as the connecting of economies of various countries to make a worldwide economy through international trade, FDIs, speculation incomes, and the scatter of innovation. Globalization is typically perceived as being driven by the association of the technological, economical, socio-cultural, political as well as ecological (UKessays,2018).

Globalization is inseparable from the delocalization of public oligopolies and their expansion wherever in the world. The cycle of globalization is the primary segment of globalization initiated by the improvement of the worldwide organizations and of their movement ends up being a relentless one; it influences foundations religion, for example and zones of the world that had once appeared to be theoretical (Ritzer,2011). The status of a transnational organization is given by its ability to be available in the Group of three areas which are US, EU, Japan. The birthplace is in worldwide urban areas, metropolitan focuses from where the activities of the large multinational companies start, portrayed by excess of consultancy and technological administrations (Giddens,2010).

The multinational corporations are separated by specific idiosyncrasies, for example, the preferences gave by their birthplace nation, and all the more exactly by their having a place with a specific homegrown region, with its relations between the financial system and industry with regards to a heightened rivalry and of the need to raise the level of intensity, and the delocalization of the action of logical examination, yet not of the innovative one. The technological field speaks to the specific instance of non-globalization in light of the essential character of innovation. A fragment of exploration will likely never be delocalized as long as it speaks to the upper hand of certain organizations and economies, and verifiably a wellspring of intensity available (Haller,2016).

4-1-2. Impact of Globalization on Emerging Markets

Globalization assumes a significant part in the advancement of emerging markets. Many emerging markets these days are encountering globalization which assist them with getting a fast development and progress which makes the impact of emerging markets more solid. A portion of the positive effect is innovative progression. The data frameworks and media transmission frameworks are planned at worldwide level which permits more prominent transborder information stream. This transborder information stream is finished by utilizing the most recent advances of web, submarine fiber optic links, correspondence satellites and remote telephones. So the emerging markets of the world do not have to go through a colossal measure of cash to build up their own data frameworks and media transmission frameworks, they have simple admittance to these worldwide telecom and data framework. Yet, they can utilize their own innovation to make those frameworks more improved. Some emerging markets likewise buys the delicate products from different nations which plans them best. For instance, a few associations of United Kingdom buys programming from India since India is such a huge amount of cutting edge in IT innovation .This shows that globalization encourages the emerging markets to utilize the better innovation and furthermore bring a pattern of innovation sharing among various nations.

Furthermore, increment in venture or investment. Globalization gives the venture occasions to individuals just as to the organizations. Speculators from everywhere the world go to those nations to cause venture where they to feel their venture productive. In emerging markets there are a ton of venture open doors for the foreign investors. They make interest in such emerging markets and appreciate the benefits from their organizations. Such foreign speculation additionally makes the economy of the emerging markets more solid. An ever increasing number of foreign investors draw in towards such economies and work their organizations in the arising nations. The best model is China. In China, investors from everywhere in the world come there and make ventures. Dominant part of the prestigious organizations of the world are additionally working in China on the grounds that there they get modest work, land and crude material, so they discover it such a great amount of productive to work their business in such nations (Haller,2016).

Thirdly, rivalry. Globalization makes an opposition in the organizations of everywhere on the world on the grounds that every association attempts to utilize the best work aptitudes, crude material, advances and work power

since it is not easy for the organizations of everywhere on the world to make due in the worldwide market on the grounds that in worldwide market there is an opposition of an advanced which makes a requirement for the improvement in the efficiency of the products. So the opposition of this much extreme focus power the organizations of emerging markets to make more upgrades in their organizations and produce the products of all the more better quality since they are not contending in the nearby market, their opposition is in the worldwide market. As business sectors are turning out to be around the world, so the organizations persistently redesign their advancements and cause the effective and handy utilization of innovation with the goal that their organizations to get improved and they face no issue to contend in global business sectors (Richmond,2015).

4-2. Corporate Sector: Multinational Corporations (MNCs) and Emerging Markets

4-2-1. MNCs and Emerging Markets

MNCs and emerging markets have gotten a well-known subject of interest in global business as of late (Meyer,2004). There are four perspectives to this. First of all, MNCs from developed nations are focusing on emerging markets. However the achievement record of these MNCs in emerging markets, especially that of American MNCs has been a long way from palatable. This has provoked analysts, especially in driving American colleges to read the explanations behind MNCs disappointment in emerging market. MNCs need to reevaluate technique for emerging markets and look past the transnational model (London and Hart,2004). The idea of establishment void is one such clarification accessible. As per this idea the absence of administrative system, contract implementation instrument, and concentrated go-betweens in emerging markets is the explanation behind disappointment of developed nations MNCs in emerging markets. MNCs need to adjust their systems as indicated by the unique circumstance (Khanan et al.,2005).

The second part of the MNCs and emerging markets is the expanding number of emerging market MNCs (EMCs) going to developed nations. These EMCs are battling with set up MNCs from developed nations for piece of the pie and development. There is a complex expansion in consolidation and procurement activities of EMCs from emerging markets into developed nations. They have been growing and obtaining new organizations at a frantic movement, directing in excess of 1,100 consolidations and acquisitions, inside and out

worth US\$128 billion of every 2006 (UNCTAD,2007). Obtaining of IBM equipment by Lenevo; Choros by Goodbye gathering; and, ongoing securing of Panther and Land Meanderer from Passage bunch by Goodbye are not many models. EMCs are extending at a speed and scale to make even the biggest Western multinationals pay heed.

The third perspective is expanding rivalry and battle by EMCs in other emerging markets to MNCs from developed nations. In light of their encounters of working in emerging markets, EMCs have a bit of leeway in understanding another emerging markets just as of lower costs when contrasted with created markets MNCs. For instance, car and hardware MNCs from South Korea are significantly more fruitful in India when contrasted with MNCs from Europe or USA or even Japan. Indeed, even the entrenched Maruti Suzuki Organization has got intense rivalry from Hyundai. Emerging markets MNCs can possibly change the premise of rivalry in both Western and emerging markets. This is on the grounds that they are dealing with a wide scope of dangers easily, dominating the specialty of extemporization; and, keeping on top of the significance of culture and restriction (Accenture, 2008).

The fourth significant angle is the expanding rivalry among EMCs, especially in underdeveloped nations. EMCs require considerable assets, especially characteristic assets, for their aspiring development. To get access and control such assets, EMCs are occupied with serious rivalry in developing world nations. Chinese and Indian oil goliaths, upheld by their particular governments, are battling each other in African nations for control of oil and other characteristic assets (Pillania,2009). The fifth viewpoint is the expanding force and effect of EMCs. A considerable lot of the organizations from emerging markets have just gotten notable over the world. At the point when the Chinese oil organization Petro China skimmed on the Shanghai securities exchange in November 2007, and turned into the world's biggest public organization dependent on market capitalization twofold that of its closest Western partner. Such occasions signal a colossal test to get shrewdness just as a seismic move in the financial scene (Goldstein,2007).

4-3.Fortune Global 500 and MNCs

The quantity of MNCs from emerging markets is on the ascent in the Fortune Worldwide 500 partnerships positioned based on income. Arising economies currently brag of 70 organizations in Fortune Worldwide 500 rundown of the

world's greatest organizations, up from only 20 every decade prior (Accenture,2008). Customarily the rundown was overwhelmed by USA, Western Europe and Japan. Presently the quantity of MNCs from these nations has been diminished though the quantity of MNCs from emerging markets has expanded in the rundown. Table I shows expanding number of MNCs from Brazil, Russia, India and China. Be that as it may, there is a distinction in proprietorship among the two gatherings. While MNCs in Fortune Worldwide 500 from developed nations have private proprietorship; a large portion of the MNCs from emerging markets, especially BRIC nations have government possession. Likewise the vast majority of the MNCs from emerging markets have a place with asset area like energy industry or monetary area like financial industry (Pillania,2009).

4-4.Institutions and Regulations

4-4-1. Institutional Theory and Institutions

The vital attributes of institutional theory are its efficient thought of the social climate of associations, just as its express conceptualization of this climate and its effect on associations. All the more explicitly, institutional theory recommends that an association's structure and activities are influenced by its social climate. An association's social climate comprises of the encompassing society, for example, bureaucratic and nearby governments, administrative specialists, clients, providers, the media, the monetary network, the overall population and different associations. It includes the proper laws, rules and guidelines set up by an administration and administrative specialists, just as the casual principles and requirements, for example, broadly shared qualities, standards and convictions, that are upheld by the overall society (Selznick, 1957). Thus, organizations are characterized as "the guidelines of the game in a general public which establish humanly formulated limitations that shape human communication" (North,1990).

With regards to multinational corporations (MNCs), institutional theory proposes that MNCs should adjust to the guidelines and prerequisites of the nearby social conditions where they work to be seen as real (Westney,1993). Instead of monetary records, this point of view proposes that hierarchical endurance and achievement does not rely upon the quality and amount of financial yield, yet rather on adjustment to adequate principles, standards, qualities and convictions (Meyer and Scott,1983). Henceforth, except if MNCs comprehend and effectively decipher the formal administrative and

casual regularizing and social standards of foreign institutional climate, they are probably not going to get fruitful in that market (Scott,2014). These formal and casual principles of the game, and related authenticity weights and requests on MNCs are especially significant with regards to emerging markets given their immensely extraordinary and interesting institutional conditions contrasted with developed markets (Rottig,2016).

4-4-2.Unique Institutional Environments of Emerging Markets

One of the vital attributes of many emerging markets incorporates institutional voids, the need or underdevelopment of specific foundations. The presence of institutional voids and resulting market disappointments are a critical qualification among emerging and developed markets. Fundamental wellsprings of market disappointments because of institutional voids incorporate absence of solid and sufficient data for buyers, bosses in labor markets and speculators to survey the nature of merchandise, administrations and ventures; confused guidelines by neighborhood governments that favor political objectives over monetary effectiveness, for example, work assurance laws to reinforce social soundness at the expense of work market adaptability, wasteful legal frameworks that are unequipped for upholding contracts in a dependable and unsurprising manner thus impressively increment vulnerability and subsequently exchange costs for MNCs while working together in these business sectors and the nonattendance of go-between establishments that encourage financial exchanges, for example, working monetary markets, review panels and accreditation offices, just as aggregators and wholesalers which make it significantly more exorbitant to gain vital information sources, for example, monetary assets, the board ability, innovation, thus more hazardous to direct business in emerging markets, and furthermore restricts the degree for supportable monetary development in these business sectors. Because of the presence of institutional voids, MNCs working in emerging markets face more vulnerability, higher dangers and in this way, higher exchange costs. Besides, MNCs working in emerging markets need to perform fundamental capacities that are underestimated in developed markets, for example, admittance to solid and satisfactory data, financially stable guidelines, effective legal frameworks themselves, which is the significant differentiation between working together in these contrasted with developed markets (Khanna and Palepu,1997).

Furthermore, relative significance of casual versus formal foundations. To make up for the shortcoming of organizations, all in all, and the absence of market middle people, specifically, casual establishments have created in emerging markets and become significant for financial action contrasted with formal foundations that drive monetary movement in developed markets (Khanna and Palepu,2010). Such casual foundations include nearby suppliers of explicit mediator benefits that are simply open to particular instead of all market members, and in this way do not comprise a substitute to formal establishments that are underestimated in developed nations. Indeed, emerging markets ordinarily connect formal and data foundations, intensely depend on the casual economy wherein social rather than legitimate agreements specify monetary exchanges and append huge significance to social organizations (De Soto,2000). This predominance of casual social foundations and implicit understandings contrasted with formal monetary guidelines and lawful agreements, thusly, establishes another critical qualification among emerging and developed markets (Rottig,2016).

Thirdly, institutional weights by neighborhood governments. Given the pervasiveness and higher relative significance of casual social contrasted with formal lawful and monetary foundations, governments in emerging markets ordinarily have a lot more grounded social direction (Sen,1999) and practice more noteworthy impact and authority over organizations than governments in developed nations (Boubaker and Nguyen,2014). MNCs working in emerging markets along these lines are faced with authenticity pressures for social execution and a functioning association in their nearby networks. These casual authenticity requests are frequently joined with the conventional prerequisite to concede neighborhood governments a stake in the nearby tasks of foreign MNCs or the necessity to band together with nearby, state-possessed organizations. Nearby governments, in this manner, become a key participant in the corporate administration framework in emerging markets thus have more impact over the activities, structures and methodologies of organizations contrasted with governments in developed nations. Moreover, governments in emerging markets force different institutional weights on MNCs that comprise extensive expenses of working together in these business sectors. This ascent of state free enterprise in emerging markets, which has gotten especially dominating in the BRIC countries, comprises a

significant obligation of unfamiliarity, especially for Western-based MNCs that are working in these business sectors (Rottig,2016).

Last but not least, institutional change and advances. The generally unexpected change in philosophy by emerging market governments to switch the kickoff of their business sectors for worldwide exchange and speculation, which occurred during the fast globalization period of the world's economies in the twenty years encompassing the turn of the century, to a more protectionist attitude that is guarding their economies and indigenous organizations since the ongoing worldwide monetary and financial crisis delineates another vital quality of these business sectors. While developed markets are additionally portrayed by institutional change, the nature and movement of progress is significantly extraordinary in emerging markets. Institutional change in emerging markets, is commonly more abrupt and erratic thus hard for MNCs to oversee. While such shaky foundations may comprise to a great extent deceptive yet legitimate open doors for MNCs to misuse provisos in proper guidelines and guidelines at the expense of nearby social and ecological interests (Arnold and Bowie,2003), partner desires in emerging markets regularly change with monetary development thus require MNCs working in these business sectors to change their activities and practices as needs be (Ramamurti,2004). Such changing partner desires represent a connected trait of emerging market which is institutional advances.

While institutional change alludes to any adjustment in organizations paying little mind to course, for example, regardless of whether establishments become pretty much evolved, the term institutional progress implies a change forward. The literature on the point for the most part alludes to the changing of political and financial foundations from already authoritarian to majority rule political frameworks and from beforehand halfway intended to showcase economies through the cycles of political advancement and monetary progression, separately. A few creators depict institutional advances in emerging markets as the way toward creating market-supporting political, lawful and financial organizations and allude to the BRIC nations, for instance, at this point do not as "customary" arising however as recently "mid-range" arising economies. Subsequently, these huge and generally flighty institutional changes and advances recognize emerging markets from institutionally stable developed nations (Rottig,2016).

5. Conclusion

Emerging markets are described by various special institutional highlights that for the most part do not exist in developed markets. These incorporate institutional voids, relative significance of casual contrasted with formal institutions, institutional weights by neighborhood governments, and institutional change and advances (Rottig,2016).

There are numerous difficulties for business to work together in emerging markets. Most importantly, political strength. Defilement, feeble general sets of laws, and temperamental government specialists increment business dangers and costs and upset anticipating. Furthermore, feeble licensed innovation assurance which debilitate delivering or selling merchandise that involve important resources. Thirdly, organization, administrative noise, and absence of straightforwardness. Difficult guidelines, unnecessary prerequisites for licenses, endorsements, and desk work; legitimate and political frameworks without responsibility. For instance, it might take years, or numerous pay-offs, to acquire consents to work together. China, India, and Russia are especially dangerous. Fourth, poor actual foundation. Essential components of framework, for example, great streets, waste frameworks, sewers, and electrical utilities, are frequently woefully ailing in emerging markets. Fifth, accomplice accessibility and capabilities. Given emerging market challenges, foreign firms may look for neighborhood accomplices to give admittance to business sectors, provider and merchant organizations, and key government contacts. Nonetheless, qualified accomplices are regularly hard to track down or need a lot of help to overhaul their capacities. To wrap things up, predominance of family aggregates. Economies are frequently overwhelmed by exclusive neighborhood organizations that are exceptionally differentiated and control supplies and work. These are normal in South Korea (chaebols), India (business houses), Latin America (grupos), and Turkey (holding organizations) (Manktelow,2014).

Emerging markets have higher growth rate and it drives the global economy today. Multinational firms also play an important role in global business and economy. These two actors together has the complex relationship that could benefits each other when the strategies are suitable (Pilania,2009). Emerging countries are indeed posed a great economic growth, growing middle class and transforming themselves to become more advanced in infrastructure and technology. They have outperformed the developed markets, some of them,

notably Brazil, China, and India are among the top 10 world's largest economies. It is even predicted that China will exceed the United States as the largest economies in 2050, with other emerging markets especially BRICS joining the top 10 largest economies within that specific year (Dadush & Shaw, 2011; The Case for Emerging Markets, 2019).

However, multinational companies cannot evade the risks brought by the attractive emerging markets. Since they are in the phase of moving away from traditional to a more industrialized and modern economy, numerous components still need to be improved especially on its institutional quality and governance that includes political stability, regulation systems, institutions intermediaries, the rule of law and control of corruption. However, this does not limit the firms from investing in emerging markets. The existence of such index and indicators are not only useful for investors but also the countries itself to improve their systems. These indices would also be very helpful for the multinationals to set the basic strategy and approach for the targeted markets. The five context to spot the institutional void, as well as the A-B-C process of developing a globalization strategy could also be used to help evaluating and decision making on emerging markets (See "A Framework for Strategists Assessing Emerging Markets," 2015; "Strategies That Fit Emerging Markets," 2005; Dijk, 2018). Every market even the developed one has its own risks. Therefore, adjusting strategies and approaches based on and referring to the characteristics and domestic as well as region of the destination country is one of the tactics that can be implemented by multinational firms.

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