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Emerging Markets in Times of Regulatory Uncertainty

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Abstract: Ever since emerging markets have been a source of revenue, market diversification potential, and – above all – hope to develop nations around the world from within with international trade and knowledge transfer. Starting from post-World War extensions of economic productivity into every corner of the world, emerging markets bloomed during the Washington Consensus market liberation era of the 1990s. The early 2000s saw fruitful extensions of emerging markets and a trend to globalize international national value chains. Though with the 2008/09 World Financial Crisis, globalization trends seem to stagnate. Ever since 2010, the world has drifted into what is called 'slowbalisation' – this slowing of globalization is characterized by reduced trade in goods and services across borders resulting in less imports and exports. Multinational profits, capital flows, and Foreign Direct Investment (FDI) transfers are declining, with stocks of cross border bank loans plummeting. Emerging markets saw a declining trend in the share of countries catching up since 2007. This trend is coupled with a decline in interest in emerging market profits due to overall market uncertainty given geopolitical tensions and regulatory uncertainty. This paper discusses these novel developments and gives an outlook of positive and negative implications of slowbalisation and regulatory uncertainty. As for upsides, existing literature suggests that emerging markets and international trade may have hindered emerging nations to develop their own country-specific comparative advantages and got stuck as sole minor value chain compartment providers. Now lifting international trade pressure in the wake of nationalism and reshoring may help these nations to develop their own production and industries that are aligned with their cultures and social needs of the population. This may eventually and hopefully lead to a broader range of goods and services offered around the world and more diverse innovations given they are more likely to come out of different parts of the world and are generically grown. As for downsides, international trade benefits rolled back may decline international development and business capital and fiscal space for developing nations. The hope of knowledge transfers and peace through international value chains and strategic economic alliances wanes in a world of production silos and disconnected economies. Regulatory uncertainty – as the uncertainty surrounding regulatory shifts and changes on a constant basis – may also instigate positive and negative effects on emerging markets. For instance, regulatory uncertainty leading to a reshoring of international activities may steer opportunities to grow infant industries of emerging markets that are more meaningful to their people than just serving one minor part of a global value chain and international conglomerates operating carelessly and detached from national cultures. This kind of regulatory arbitrage may help create innovative and diversified economic growth that is experienced to be more natural and sustainable than value chain dependency and regulatory pressures from abroad. At the same time, regulatory uncertainty may draw people to classic stable market options, such as gold and classical art, which naturally leads to a drying up of financial flows into emerging markets, limiting fiscal space for country development. The discussion highlights future perspectives and actions for emerging markets to flourish due to regulatory uncertainty abroad.

Keywords: emerging markets, international trade, internationalization, regulatory uncertainty, slowbalisation, value chains

Introduction

Emerging markets have historically thrived during periods of globalisation, when trade liberalisation, cross-border capital flows and technological diffusion provided opportunities for global interconnectivity that prospered economic growth and international development through knowledge transfers. Countries catching up and learning from each other inspired the hope that international trade would transform nations softly and lift the overall world safety, security and societal welfare (Aghion & Howitt, 1998; Romer, 1990; Stiglitz, 2002, 2006).

With the rise of slowbalisation – the rollback on globalization through protectionism, reshoring and nationalism –in the past decades, however, a fragmentation of global economies has started when it comes to finance and goods trade (The Economist, 2019). The reversal of global integration may bring opportunities but also challenges for emerging markets. Most recently the term 'regulatory uncertainty' has gained attention and its impact on the overall market climate. Regulatory uncertainty occurs if governments make regulatory decisions quickly and turnaround policy makers who challenge the process. While the impact of various market correlates on emerging markets has been studied, not much information is given on the economic influence of slowbalisation on emerging markets and hardly any source covers regulatory uncertainty in relation to emerging markets. This paper therefore strives to address the impact of slowbalisation and regulatory uncertainty on emerging markets.

The paper is structured as follows: First, emerging markets and the advent of global trade connections to emerging markets are outlined. Second, the concept of international trade is analyzed from a historical perspective with attention to globalization. Thereby the role of global trade for emerging markets but also the importance of emerging markets for global economic growth is underlined. Third, the growing literature on regulatory uncertainty is scanned for its impact on emerging markets. Fourth, a future prospect discussion for emerging markets performance in light of slowbalisation and regulatory uncertainty is given in order to prepare for recommendations on how to benefit from the opportunities of slowbalisation and regulatory uncertainty for emerging markets but also help to overcome obstacles for emerging markets in the eye of the slowing of globalization and regulatory turmoil.

Emerging markets

The concept of economic disparities around the world leading to different stages of national economic development has been recognized for a long time (Smith, 1776; Ricardo, 1815). Originating from finding a positive connotation for 'third world countries' and 'developing nations,' the 'emerging countries' classification dates back to a World Bank term incepted by Antoine van Agtmael in 1981 (Aslam & Koeva-Brooks, 2024).

Emerging markets refer to countries or regions that are transitioning from a developing economy toward becoming more advanced, industrialized. These markets exhibit rapid economic growth, increasing integration with global markets and improving financial and institutional infrastructure. Countries that are often classified as emerging markets include Asia (e.g., China, India, Indonesia, Vietnam), Brazil, South Africa, Mexico and Turkey.

In economic terms, emerging economies often undergo structural transformation in shifts from agriculture-based economies toward industrialization and services. Within the emerging markets, there is often rising consumer demand and purchasing power. Emerging markets oftentimes offer high returns on investment as for exposure to elevated risk. While emerging markets are often dominated by more authoritarian regimes politically, economic and capital market development can occur through international collaboration. International economic cooperation in international trade and business ventures but also Foreign Direct Investments (FDIs) are strategies to help emerging markets to develop industry and human labor skills. At the same time emerging markets offer enormous diversification and economic growth potential.

Economic growth and infrastructure development are perpetuated in emerging markets through increasing access to global capital through stock exchanges, FDI and international trade. Oftentimes, the hope to participate in international projects to attract foreign direct and indirect help to develop industries and economies instigate institutional reforms through ongoing improvements in governance, legal systems and financial regulation.

At the same time, emerging markets are more likely to face challenges such as political instability, weaker governance and economic volatility through greater exposure to politically-induced currency fluctuations and market deficiencies compared to more mature markets. Key characteristics of emerging markets therefore include high economic growth potential, which is typically faster GDP growth compared to developed economies.

In summary, emerging markets are estimated to represent over 40% of global GDP and more than half of global population. Historically, emerging markets are gaining more and more influence in international institutions such as BRICS, G20, World Bank and International Monetary Fund. Traditional challenges of emerging markets comprise of debt and fiscal space sustainability, fractionated global value chains that do not transfer knowledge and heightened global volatility due to geopolitical tensions (Chang, 2002). Most recently, regulatory uncertainty adds another layer of complexity to the question if emerging markets benefit from international trade whole-roundedly and sustainably.

Emerging markets and global trade

The idea of emerging markets to be economically transformed through international cooperation dates back to post-World War philosophies. During the economic growth-booming decades of the 1950s to 1970s, many countries in Asia, Latin America, Africa, and the Middle East began industrialization and modernization programs that were sparked by the hope to connect with more advanced countries economically in order to have a productivity performance boost. Many countries adopted state-led industrialization campaigns in order to gain economic independence and prosperity.

As global trade expanded under the Washington Consensus throughout the last 20th century with a worldwide shift towards market liberalization, emerging markets began privatization, deregulation and opening to foreign investments. The 1990s saw a rise in emerging markets through a worldwide integration of nations into global markets. Capital flows surged as investors sought high returns and countries were ready to adopt industrial changes in order to participate in global connectiveness bringing in goods, funds and skills-honing activities. Success stories from South Korea, Taiwan, Hong Kong and Singapore demonstrated rapid export-led growth.

Crises leaping into global markets, however, were also part of the liberalization era, with Asia, Latin America and Russia causing global economic turmoil in the wake of unexpected market crunches. Emerging markets become renowned for success and failure causing volatility on a global scale during the height of the economic transfers and international trade. International organizations – such as the World Bank, International Monetary Fund but also the United Nations – came in to stabilize and impose policy reform needs via conditionalities. Emerging market governance was thereby strongly advised to build foreign exchange reserves, peg their currency onto other currencies and constantly monitor the market via foreign exchange reserves, adopted inflation targeting and reduced reliance on external debt. The 2000s saw a rise in commodity trade and the economic progression of BRICS – standing for Brazil, Russia, India, China and South Africa uniting as major emerging market powerhouses that connected via trade and capital all around the world. These nations fed the world with global resources, which became on high demand not only for the U.S. and Europe but also for China continuously rising economically and stretching a web of trade also with Africa.

Many economic benefits sprung out of countries connecting to the global economy. Access to capital and knowledge transfer, consumer goods expansion, direct investments, soft policy reform, education and learning-by-doing labor skill advancement, cooperation and innovation are only a few of the clear advantages of emerging markets catching up with the rest of the world via international trade. At the same time, emerging markets were prone to debt defaults exposing vulnerabilities to markets they were integrated that (e.g., the 1980s

Latin America debt crisis, 1990s Asia debt crisis), infant industries were often wiped out, working condition standards of the developed world were in emerging territories and value chains became to fractionated and chopped up that the single nation state had only such marginal influence in a product that no knowledge transfer could occur. Further, environmental pledges started constraining production with environmental goals and countries that produced goods that were not even consumed on their soil tended to face critique for high CO_2 emissions – e.g., consider a trade-adjusted CO_2 emissions map of the world for a view of what countries are only producing and which ones are mainly consuming CO_2 emissions in form of imported goods (Ritchie & Roser, 2024).

During the 2008/09 World Financial Recession, many emerging markets became a perfect countercyclical market option due to strong monitored banking crowding out risk and overall focus on off market solutions at remote areas of the world. In the aftermath of the 2008/09 World Financial Recession, the interest rate was kept low for a long time, which caused capital to move towards more profitable and risky options, which emerging markets offer. After 2009 the lower regulatory oversight but also long-term low interest rates pushed U.S. customers to benefit from emerging markets in a search for high yield.

The 2010s decade saw a rise in social online media, and with this, the opportunity to shed light on value chain production methods and *modi operandi*. What followed was a brand-shaming culture and the cancel culture, also calling out corporate social irresponsibility. Engaged customers would instantaneously share labor conditions or environmental impact of corporations that were not aligned with social values and responsible conduct. This put stress on corporations to zoom into their value chain partners' activities around the world and address issues of social market deficiencies. It became the norm to call out sweat shop practices and corporate failure to strive for the highest social standards As with environmental reporting and social justice, corporations have a proactive mandate to improve markets and labor conditions, thereby fighting discrimination and gaining traction. In relation to Corporate Social Responsibility, Corporate Social Justice was the pledge to not only do social good as a corporations but actively engage in alleviating social injustices (Puaschunder, 2010; Zheng, 2020). The Green New Deals in U.S. and Europe also addressed the need for a deeper engagement with climate preservation on the corporate level. All these trends in combination caused a decline in foreign operations in the corporate world throughout almost all sectors and around the globe. Slowbalisation progressed but was even further exacerbated in the 2020s.

The 2020s have so far been a decade of extraordinary economic turmoil. A global pandemic caused a recession all over the world, and with this also a drying up of liquidity for emerging markets when it comes to Foreign Direct Investments. Weakening of economies due to bottlenecks and extraordinary healthcare system expenses rising unexpectedly led to a market stabilization via quantitative easing and inflation. Monetary tightening around the world in the post pandemic world entailed raised interest rates, which caused a 'reshoring' of funds abroad by investors, causing further liquidity crises in emerging markets. What started during slowbalisation in reshoring production closer to where the consumers are was perpetuated during COVID given supply chain bottlenecks but also a drive towards digitalization, which froze many traditional product sales. Travel restrictions and fear of traveling to remote places with inaccessible healthcare further caused emerging markets to struggle during the pandemic.

The aftermath of the COVID pandemic saw a rise in luxury segments and minimalism anti-consumerism sentiments, which further does not align with the main focus of emerging markets' attraction for investors and production contribution to markets (D'Arpizio et al., 2020). Geopolitical tensions all around the world and the regulatory shifts and changes in the U.S. that create ripple effects throughout the world and in all sectors of the economy are additional stressors in the market that cause investors and the entire banking sector to focus on core long-term wealth preservation rather than venturous high-risk market explorations in emerging world territories. Financial fragmentation in sanctions, capital controls and "friendshoring" in placing production closer to strategic allies are leading to a worldwide regionalisation of trade and investment (Kessler, 2022). At the same time, it is to note that globalization still deepened in data transfers and the worldwide adoption and spread of the internet.

Regulatory uncertainty

Regulatory uncertainty refers to the perceived inability of decision-makers to anticipate future regulatory conditions, including laws, guidelines and/or enforcement practices (Hoffmann, 2009; Milliken, 1987). It constitutes a subset of environmental uncertainty and may influence strategic firm behavior and shape economic outlooks significantly (Hoffmann, 2009). With regulatory uncertainty comes the postponement of decision-making and reduction of investment, especially in risky options. Regulatory uncertainty thereby tends to delay firms' irreversible decisions, especially if policy outcomes can have a dramatic impact on corporate revenues. Regulatory uncertainty also comes with loss of trust in corporate settings and international relations with partners who are operating in an uncertain environment. Stability, peace and security are vital ingredients of markets and if they erode, this causes problems to the overall confidence in deals made with all business partners along the supply chain and on an international basis (Roe, 1998).

Policy reversals and constant updating of regulations, as well as party conflicts, make any long-term planning or future anticipation difficult, elevating compliance and strategic planning costs. Firms heavily exposed to regulatory complexity may experience eroded profitability – for instance, firms in the highest quartile of regulatory exposure are estimated to have about 1.35% lower profitability than less-exposed peers (Kenan Institute, 2025).

Regulatory uncertainty may also cause issues for businesses trying to gain information about certain decisions early on, before they become binding, and potentially trying to change the course of action in their favor with lobbying and bribery, which causes problems of waste of time with trying to figure out where the government stands on different agendas and corruption (Rose-Ackerman & Palifka, 2016).

Empirical analysis shows that uncertainty surrounding regulation can lead to a 'wait-and-see' approach also on an international level, reducing investment activity even when the eventual outcomes might not be as adverse as feared (Hoffmann, 2009). This effect is particularly pronounced in sectors requiring long lead times or significant capital deployment with long-term implications – such as infrastructure, clean energy, pharmaceuticals and manufacturing (Hoffmann 2009).

For larger multinationals, regulatory uncertainty creates arbitrage considerations to refrain from uncertain markets and shift production into territories with stability and consistency. Regulatory arbitrage thereby captures that firms move strategically to where regulation is favorable. Mitigating regulatory uncertainty involves institutional tools such as regulatory impact analysis (RIA), which assess potential effects before implementation, and also anticipatory governance models – such as sandboxes, pilot regulation, and iterative policy design – that embed flexibility and learning into regulatory frameworks (Ahern, 2025).

For smaller or financially constrained firms that try to break into the market, regulatory delay raises the costs and risks of market entries making innovation more expensive and potentially diverting market power to larger conglomerates. Larger firms, with deeper capital reserves, can better absorb delays and associated risks (Stern, 2017). Pioneering breakthroughs may thus be shifted in time and place when countries are experiencing regulatory uncertainty. Especially firms with less capital may postpone risky market entries or may stop operating at all during times of higher regulatory uncertainty.

Interest rate dynamics are shaped by balancing inflation control, currency stabilization, and the overall vulnerability to global capital flows. When it comes to interest rates, emerging markets experience a higher volatility in interest rate shocks and fluctuations due to commodity price swings, investor sentiments, and capital flow reversals. Drivers of interest rate-dependent emerging market movements are domestic factors such as inflation expectations, fiscal policy (deficit, debt sustainability), domestic credit growth, and financial stability. External factors comprise global risk appetite that declines when interest rates rise, subsequently causing international investors to pull out of emerging markets to invest in higher-interest-rate territories. Especially, U.S. Federal Reserve hikes lead to emerging markets tightening. Commodity price cycles are particularly prevalent in resource-exporting emerging markets. In sum, regulatory uncertainty poses a tangible barrier to investment, innovation and efficient strategic planning. Its management requires both firm-level adaptability and policy-level foresight to create stable yet responsive regulatory regimes.

Discussion

The age of slowbalisation presents a turning point for emerging markets. After decades of growth, global trade as a share of GDP plateaued after the 2008 financial crisis. In general, emerging markets offer higher premiums in light of tendentially higher levels of risk exposure such as political, currency, credit default risk, for instance. Like with slowbalisation, the contemporary regulatory uncertainty could also crowd out funds from emerging markets towards 'reshoring' to low-regulatory uncertainty territories.

Emerging markets are often pegged to the U.S. dollar. Although there is a trend towards de-dollarization and shift to cryptocurrencies in the emerging world, when the U.S. interest rates rise, emerging markets tend to face capital outflows, weaker currencies and pressure to hike rates. Interest rates often rise sharply during crises in order to defend the currency and curb capital flight, then fall during recovery phases. Exchange rate fluctuations feed into inflation, prompting central banks to use interest rate interventions aggressively. Emerging markets and respective emerging market sovereign bond yields are often reflected as a spread over the U.S. Treasuries and other U.S. benchmarks, reflecting added risk.

Today's challenges for emerging markets lie in export dependent economies that struggle since slowbalisation. Reduced access to information and knowledge transfers will have long-term effects on internationalization and opportunities for mind-opening experiences. Rising interest rates in the U.S. and Europe will continue to make emerging markets vulnerable to further capital drains and currency instability. In emerging nations, the population tends to be more dependent on food in terms of a higher percentage of their salary being consumed for nutrition – in some countries even more than 100% of the salary is used for food, resulting in enormous constraints for populations that face a shortage of funds and economic opportunities. On the geopolitical side, countries caught between competing blocs may become entangled in external politics they cannot control and lose economic potential for trade and investment. Technological bifurcation in all parts of the world results in diverging standards in AI, 5G and digital finance. In light of technological silos, emerging markets may be forced to align with one side or another and therefore experience technological frictions and limited flexibility. Regulatory uncertainty may swop over from other economies and create ripple effects in emerging markets that tend to be more on the curb for vulnerability.

As for the upsides of a newly fragmented world, regionalization brings the benefits of restructured supply chains closer to consumer markets and thereby serves customers closer to where they are. For instance, the fashion brand Zara was one of the first ones to reshore its production close to consumers and is thereby enabled to be faster with rolling out trends. Countries can also develop their infant industries and align production closer with their national heritage and cultural spirit (Chang, 2002). While countries can build their own comparative advantages, leap frogging may still be possible in digital innovation catching up. For instance, fintech and mobile banking innovations in Africa, South Asia, and Latin America offer new growth models independent of traditional financial systems. New alliances, like the South-South cooperation between trade and investment among emerging markets are rising as well as the BRICS+ expansion or the African Continental Free Trade Area or Belt-and-Road initiatives. New trade blocs may help in fresh cross-pollination and avert traditional dependencies.

Emerging market strategies in the age of slowbalisation may include the diversification of partners in building trade and investment ties across multiple blocs to avoid over-dependence. Domestic resilience could be strengthened by expanding local capital markets, boosting food and energy security as well as developing social safety nets. Newly formed regional trading blocs should bundle their collective bargaining power and intraregional trade growth. Globalisation should still be pursued when it comes to investing in digitalization by harnessing AI and digital public infrastructure. Transition to renewable energy can help reduce vulnerabilities to external environmental shocks.

While reduced global interconnectedness limits the opportunities that once fueled their rapid rise, it also opens space for regional leadership, innovation and diversification. Emerging markets that adapt by balancing global linkages with domestic resilience will not only withstand slowbalisation but may emerge as the central growth engines of a multipolar, more regionally connected global economy.

Post-2020, many emerging markets tightened economic measures to contain inflation and defend their currencies. Gold reserves are currently shifting from the developed into the emerging world. Countries are closely watching their monetary policy and balance growth with financial stability. A shift toward local currency bond markets has reduced reliance on foreign-denominated debt, but dollar cycles still play a crucial role.

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