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Globalization's Startup Paradox: When Do Global Markets Really Create Jobs?

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This paper synthesizes findings from a 2024 publication in the Journal of Small Business and Enterprise Development and a 2025 article in Thunderbird International Business Review.

It is intended as an accessible policy-oriented synthesis for practitioners and policymakers rather than a report of original empirical research.

Abstract

Why does globalization reduce unemployment in some countries but not others? This policy synthesis addresses a puzzle: global market integration helps the UK maintain 4.5% unemployment while South Africa faces 33% joblessness despite similar openness to trade. Drawing on recent comparative research, this paper argues that the key difference lies not in the degree of openness, but in whether entrepreneurial ecosystems enable early-stage ventures to scale into stable, job-creating firms. In the United Kingdom, accessible finance, efficient regulation, and reliable infrastructure allow startups to expand and hire. In South Africa, funding shortages, regulatory hurdles, and infrastructure breakdowns trap most startups in early stages, limiting employment gains from globalization to large incumbents. Based on this analysis, the paper proposes a simple but practical, sequenced policy framework organized around four pillars: finance (co-investment funds, credit guarantees), regulation (digital one-stop shops, startup legal designation), infrastructure (reliable power, broadband), and skills/ networks (targeted training, accelerator support). Reforms in Rwanda, Morocco, Tunisia, and India demonstrate that rapid progress is feasible when policymakers focus on removing binding constraints. The core message for emerging economy policymakers: globalization creates opportunities, but jobs grow only when ecosystem conditions enable local startups to capture them.

Keywords: ***Entrepreneurial Ecosystems, Globalization, Job Creation, Entrepreneurship Policy, Policy Recommendations***

Globalization's Uneven Impact on Jobs and Entrepreneurship

For years, globalization was pitched as a tide that would lift all boats, grow economies, and spread jobs from London to Lagos. The record is mixed. As borders opened and trade deepened, some countries experienced an expansion of entrepreneurship and a decline in unemployment, while others faced weak

job growth or losses in exposed sectors (Goldberg & Pavcnik, 2007; Autor et al., 2013; World Bank, 2020c). This raises a practical question: why do some countries gain more from globalization than others?

Literature reports inconsistent links between globalization and employment. Integration can raise productivity, incomes, and social indicators by improving access to markets, knowledge, and capital (Bhagwati, 2004; World Bank, 2020c). It can also expose local firms to powerful foreign competitors, which may contract employment when domestic industries are not ready to adjust (Rodrik, 2012; Autor et al., 2013). Some economists, therefore, conclude that there is no single, monotonic relationship between globalization and job creation across settings (Goldberg & Pavcnik, 2007; Pavcnik, 2011). This ambiguity has raised the question of whether entering the global economy benefits or harms local job prospects.

Recent work suggests a practical mediator: entrepreneurial development, particularly whether early-stage ventures scale into established firms. Global integration reallocates activity toward more productive firms; those that meet global standards expand and hire, while those that do not tend to shrink or exit. Evidence from South Africa and the United Kingdom suggests that when ventures progress to the established stage, globalization is associated with lower unemployment. This is seen in Figure 1. However, when scaling stalls, gains accrue mainly to incumbents (Amoa-Gyarteng & Dhliwayo, 2024a; Amoa-Gyarteng & Dhliwayo, 2025). Countries where early-stage ventures convert opportunity into growth tend to see stronger employment gains because young, expanding firms account for a large share of net job creation (Decker et al., 2014; Haltiwanger et al., 2013).

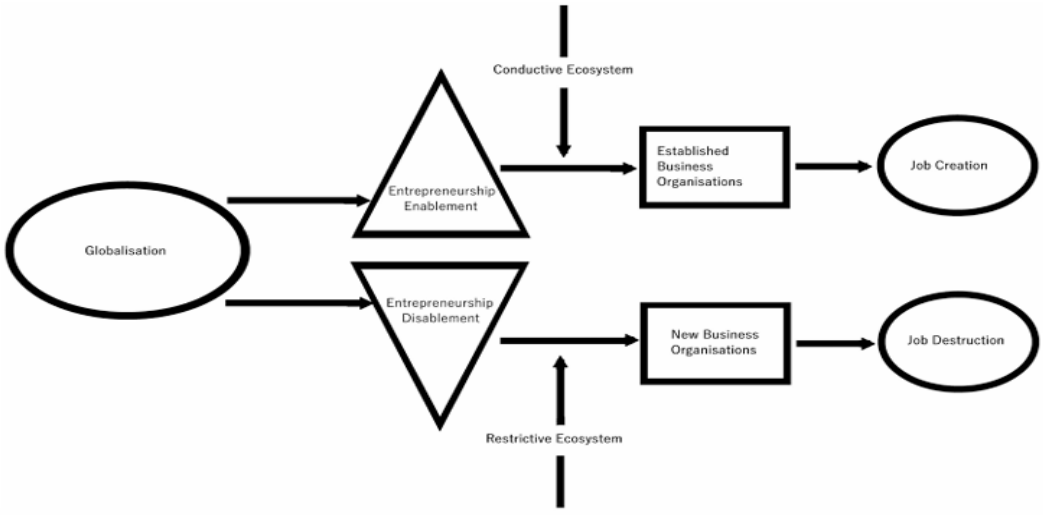

FIGURE 1 | Concept map illustrating the dual facets of globalization's impact on entrepreneurial activity and employment. Source: Amoa-Gyarteng and Dhliwayo (2024a).

A Tale of Two Countries

The United Kingdom and South Africa are both open to global trade and investment, yet their job markets and startup outcomes diverge sharply. Recent UK data indicate unemployment rates of around 4.5 to 4.7 percent, while South Africa's official rate sits near one-third of the workforce and rose again in early 2025 (Brooks & Powell, 2025; Statistics South Africa, 2025). A growing body of research suggests that the gap reflects how well young firms scale in each economy rather than openness alone.

In their 2001-2020 comparative study, Amoa-Gyarteng & Dhliwayo (2025) show that in the UK, globalization is positively associated with both early-stage and established entrepreneurship, and this link coincides with lower unemployment rates. UK scaleups also contribute a disproportionate share of SME output, consistent with the idea that firms able to meet global standards expand and hire (ScaleUp Institute, 2024).

The South African pattern is different. The same comparative analysis finds that global integration mainly benefits established firms, with limited gains for nascent ventures, which helps explain why aggregate unemployment remains high. Country evidence, specifically focused on South Africa, further indicates that only established SMEs exhibit a clear inverse association with unemployment, while higher early-stage activity on its own does not reduce joblessness. Gains from globalization become visible as SMEs advance to the established stage (Amoa-Gyarteng & Dhliwayo, 2024a). This aligns with recent GEM indicators that highlight weaknesses in South Africa's entrepreneurial environment and the small share of startups that reach meaningful job creation at scale (Bowmaker-Falconer et al., 2023).

Why do UK startups progress while many South African startups stall? Institutions and ecosystem support differ. The UK benefits from dense finance and support infrastructure for scaling firms, even as policymakers note ongoing gaps and regional frictions in access to finance (ScaleUp Institute, 2024). South African founders face higher hurdles in finance, regulatory burden, and infrastructure reliability, which dulls the employment impact of openness.

Why startups in emerging economies struggle to scale

Transforming global openness into broad-based job growth necessitates many startups transition into stable, expanding firms. In many emerging economies, this graduation is rare. Common obstacles include scarce finance, heavy regulatory burdens, and unreliable infrastructure, which together shape the entrepreneurial ecosystem. Where these conditions are weak, even capable founders struggle to scale (Global Entrepreneurship Monitor, 2025; World Bank, 2020a).

***Funding gaps*:** Growth needs capital, yet early-stage finance is thin across much of the developing world. Banks often require collateral that small firms lack, and domestic venture markets remain shallow (International Finance Corporation, 2025; AVCA, 2024). Studies of Africa's venture flows reveal that the continent captures a relatively small share of global startup funding, while mature ecosystems, such as those in Europe, attract significantly larger volumes through deep private markets and policy support (AVCA, 2024). In the developing world, limited access to finance is a structural barrier that weakens the employment impact of openness, as many young firms fail to reach the established stage.

Regulatory and administrative hurdles: Complex, slow, or unpredictable rules raise costs and delay market entry. Evidence from low- and middle-income countries suggests that burdensome licensing and weak contract enforcement are associated with lower firm growth and increased informality (World Bank, 2020c). International tax disparities and regulatory loopholes further complicate the operating environment, allowing firms to shift resources away from productive investment toward compliance arbitrage (Amoa-Gyarteng, 2014). Recent policy responses show what helps. Tunisia's Startup Act establishes an official "startup label," offers tax exemptions, and provides an online portal that centralizes applications and streamlines procedures for young firms (Startup Tunisia, 2025). India's "*Startup India*" framework recognizes eligible firms as a distinct "DPIIT-recognized startup," offers a three-year income-tax holiday under Section 80-IAC, and provides a single online portal that centralizes recognition and applications for benefits, which speeds procedures for young firms (Startup India, 2025).

Infrastructure and operating costs: Firms cannot scale without dependable power, transport, and broadband. South Africa's electricity crisis illustrates the drag. Rolling blackouts in the country reduced output and increased operating costs for small businesses, with macroeconomic estimates showing significant impacts on growth. Unreliable infrastructure forced startups to allocate scarce resources to

generators and workarounds rather than investing in hiring and expansion (International Monetary Fund, 2023).

***Skills and networks*:** Strong ecosystems supply talent, mentors, and dense founder-investor networks. Where entrepreneurial capabilities, support programs, and scale-up networks are robust, more young firms grow (Gonzalez-Uribe & Leatherbee, 2018). Many emerging economies face capability gaps and misalignment between training and firm needs, which limit the managerial and technical depth required for scaling (Melguizo & Perea, 2016).

The result is that globalization's gains often bypass the local startup base. Large incumbents and multinationals capture opportunities, imports expand consumer choice, but the multiplier from new local scaleups remains weak. By contrast, in ecosystems like the UK, financing tools, predictable regulation, and reliable infrastructure enable promising ventures to raise funds, launch quickly, and utilize global markets to grow, thereby supporting domestic employment (British Business Bank, 2024; Department for Business and Trade, 2024).

How strong ecosystems turn global opportunity into local growth

The UK's environment combines deep private capital with targeted public instruments. The Seed Enterprise Investment Scheme offers generous income tax relief to angel investors and was recently expanded, increasing both investor and company limits (HM Revenue & Customs, 2023). Together with the Enterprise Investment Scheme and R&D tax credits, this expands the pool of risk capital available to early-stage firms (British Business Bank, 2024). Speed and predictability also matter. Efficient company registration and well-developed business services shorten the time from idea to market, while repeated success stories reinforce founder and investor confidence (Kaplan et al., 2011; Trabskaja & Mets, 2019).

Ecosystem maturity is not only about national wealth. Reforming states have shown rapid gains on specific bottlenecks. Rwanda's one-stop, fully online business registration and licensing model streamlines procedures and reduces costs and is cited as a driver of new firm formation (Ndagijimana et al., 2017; World Bank, 2020b). Morocco has introduced national online portals that streamline the entry and investment process for firms. The *CRI-INVEST* platform provides investors with a centralized digital interface to initiate projects, track approvals, and access administrative support. It works like a one-stop shop for permits, business registration, and incentives, which saves time and reduces effort during setup (Ait Bella & Sabri, 2025)

Building ecosystems that help startups scale

The lesson from the United Kingdom and South Africa is clear: openness creates opportunities, but jobs grow when young firms can scale into established companies. For policymakers in emerging economies, this means creating the right conditions at home to enable local startups to succeed in open markets.

Here is a practical plan built around four pillars adapted from Amoa-Gyarteng and Dhliwayo (2024b):

Finance: Set up public-private co-investment funds to draw in private capital. Implement credit-guarantee schemes to enable growing firms to access debt without prohibitive collateral requirements.

Regulation: Move to a single online portal for business registration and licensing, as Rwanda and Morocco have done. Create a clear "startup" legal designation with time-bound tax relief and fast-track approvals. Establish specialized commercial courts to deliver predictable contract enforcement.

Infrastructure: Fix the basics that firms rely on every day. Prioritize reliable power in commercial zones, accelerate broadband rollout, and streamline customs and transport so goods and data move quickly.

Skills and networks**:** Reform technical training to match market demand, co-fund proven accelerators, and facilitate diaspora engagement and corporate-startup partnerships.

Reforms should be sequenced:

Phase 1 (years 0-2): Reduce friction through digital registration, startup designation, and credit guarantees.

Phase 2 (years 2-4): Deepen capital markets and regulatory predictability.

Phase 3 (years 4-7): Drive scale through institutional capital, secondary markets, and export promotion.

Progress should be tracked through measurable indicators, including startup-to-scaleup conversion rates, venture capital deployment, business registration timelines, and net job creation by firm age cohort. The policy message is straightforward. Countries cannot expect globalization to deliver employment gains without first building the ecosystem infrastructure that allows startups to scale. This is not an optional add-on to economic policy; it is the mechanism through which openness generates broad-based job growth. The examples of Rwanda and Morocco demonstrate that rapid progress is possible when

policymakers focus on removing binding constraints through digital platforms, tailored legal frameworks, and targeted financial instruments. The startup paradox of globalization can be resolved, but only through deliberate and comprehensive ecosystem building that enables promising ventures to reach their full potential and convert global opportunities into local prosperity.

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