Effects of Globalization and Un-equalization on World Trade: Lesson on Value Chain in the Developed and Developing Nations

Unongo, E. A, Tena, M.B., Soomiyol, M.V.
Department of Agricultural Extension and Communication, Federal University of Agriculture, Makurdi, Benue State, Nigeria
Corresponding Author: Unongo, E.A.

Abstract: **The paper highlights on what globalization and un-equalization entail in word trade. It create a link between globalization and un-equalization-value chain leading to the understanding of how value chain analysis can assist in a practical terms the efforts of those seeking to augment the incomes of Developed and Developing nations that participate in the global trade. It assessed value chain in terms of process upgrading, horizontal upgrading vertical upgrading, functional upgrading, and product upgrading, inter-chain upgrading, upgrading of the enabling environment. The paper concludes that globalization and un-equalization has greatly promoted the value chain of commodities globally and has open up ways for developing countries to some extent and created great advantages for the developed nations who are the determinants of the rules and regulations governing trade policies globally. It was recommended that: for value chain to be adequately enhanced; all countries involved should willingly open up their markets and integrate with outside economies; there should be set strict rules and regulations about controlling pollution and deforestation to protect environment; trade rules should be set to favour developing nations as well national sovereignties; and national government should not be undermined by trade participations especially the developed nations to the developing nations.**

Key words: **Globalization; un-equalization; value chain; trade; standardization**

I. INTRODUCTION

Globalization has been in existence for a long time in one way or another. Trade routes have been operating between different parts of the world since ancient times. In the 15th century the most famous trade routes were the land route which ran between Eastern Europe and china and the spice trade routes which was based on mainly on sea routes and stretched between South Europe, East Africa and South Asia. The latest phase of globalization began in the afferment of World War II, when economists from major countries met to design a frame work for international trade and finance. The process of globalization was accelerated with the fall of communism at the end of the cold war and then received a big boost again with the revolution in computer technology and the dramatic growth of the internet, which meant that somebody sat at a regular PC with a connection to the internet could carry out work from almost anyone in the world, often in real time. The policies of globalization often revolve around the most economically developed countries, led by the USA, pushing for countries with less developed economics to lower trade restriction and open up their home markets and resources, in return for access to potentially lucrative Western markets and foreign investment (Adelman and Westphal, 2009).

Globalization is a process by which countries come to do trade with one another. The nature of economic activities present in the kind of globalization that is today goes much beyond the simple import and export trading activities. Globalization today involves manufacturing as well as out-sourcing activities carried out in multiple countries to manufacture products that may be distributed in many countries not involved in sourcing or manufacturing countries. The world has become highly advanced economically, scientifically and socially. The countries of the world are inter-connected in various ways for different purposes such as business, communication and technology. The procedure of interconnection of the different countries of the world is known as globalization (Barry, 2012).A value chain on the other hand is a chain of activities that a firm operating in a specific industry performs in order to deliver a valuable product or services for the market. It is the entire series of organizational work activities that add value at each step beginning with the processing of raw materials and ending with finished products in the hands of end users (Adelman and Westphal, 2009). A good value chain is one which different of participants work together as a team, each adding some components of value or better customer response and service to the overall process. The better the collaboration among the various chain participants the better the customer solutions when value for customers and their needs and desires are satisfied every one along the chain benefits (Bell and Albu, 2010).

1.1 Objectives of the paper

The objective of the paper is to highlight on what globalization and un-equalization is all about in the world trade. This thus, creates a link with value chain leading to the understanding of how value chain analysis can assist in practical terms the efforts those seeking to augment the incomes of nations (Developed and Developing) that participate in the global trade.

1.2 Meaning of globalization

Globalization is the system of interaction among the countries of the world in order to develop the economy. Globalization refers to the integration of economics and societies all over the world. Globalization involves technological, economic, political and cultural exchange made possible largely by advances in communication, transportation, and infrastructure (Bell *et al.,* 2013).

1.3 Types of Globalization

Carlssom (2010) classified globalization as follows:

1.3.1 Negative integration

It is breaking down of trade barriers or protective barriers such as tariffs and quotas. The removal of barriers can be beneficial for a country if it allows for products that are important or essential to their economy. For example, by eliminating barriers, the cost of imported raw materials will go down and the supply will increase, making it cheaper to produce the final products for export (like electronics, car parts and clothes).

1.3.2 Positive integration

This on other hand aims at standardizing international economic laws and policies. For example, a country which has its own policies on taxation trades with a country with its own set of policies on tariffs. With positive integration (and the continuing growth of the influence of globalization), these countries will work on having similar or identical policies on tariffs.

1.4 Effects of Globalization- unequalization

According to economies there are a lot of global events connected with globalization and integration. It is easy to identify the changes brought by globalization as noted by Barro and Lee (2011):

i. Improvement of International Trade (IIT)-Because of globalization, the number of countries where products can be sold or purchased has increased dramatically.
ii. Technology progress-Because of the need to compete and be competitive globally, countries have upgraded their level of technologies.
iii. Increasing influence of Multinational Companies (MC)- A company that has subsidiaries in various countries is called a multi-national company. Often, the head office is found in the country where the company was established. An example is a car company whose head office is based in Japan. This company has branches in different countries while the head office controls the subsidiaries, the subsidiaries decide on production. The subsidiaries are tackled to increase the production and profits. They are able to do it because they have already penetrated the local markets. The rise of multinational Corporation (MC) began after World War II. Large companies refer to the countries where their subsidiaries reside as host countries. Globalization has a lot to do with the rise of Multinational Corporation.
iv. Power of the World Trade Organization (WTO), International Monetary Fund (IMF) and World Bank (WB)- According to experts, another affect of globalization is the strong power and influence of international instructions such as the WTO, IMF and WB.
v. Great Mobility of Human Resources across countries (GMHR) – Globalization allows countries to source their manpower in countries with cheap labour. For instance, the manpower shortage in Taiwan, South Korea and Malaysia provide opportunities for labour exporting countries such as the Philippines to bring their human resources to the countries for employment.
vi. Greater outsourcing of business process to other countries- This applies to countries like China, India and Philippines which are mostly involved in the global trade business outsourcing. Global companies in the US and Europe take advantage of the cheap labour and high-skilled workers that countries like India and the Philippines can offer.
vii. Civil society – An important trend in globalization is the increasing influence and broadening of the global civil society which is more modernize in all ramifications.

1.5 Pros of Globalization

Productivity grows in countries that open up their markets and integrate with outside economics, as they gain access to wealthy economies where they can sell their goods and services. Lesser Developed Nations (LDN) benefit from the increase investment from foreign countries both financially and through jobs. Global competition and cheap imports help to spur inflation down. Open economics help to keep spur innovation and new ideas on global level, creating an effective globalization of ideals. Through globalization, countries can specialize more in what they produce and what they do best (Amsdem, 2011).

1.6 Cons of Globalization

Wages and working conditions everywhere are pushed down as companies gravitate towards countries where the wages are the lowest and the workers' rights are the worst. The environment suffers, as production moves to places where they have less strict rules and regulations about controlling pollution and deforestation in etc. Many jobs are outsourced from more developed nations, like the USA to lower wages economies, such as those in India and China, resulting in high unemployment in the Eastern Countries. Globalization means that economic problems in one part of the world can spread easily and create a worldwide recession. Many of the deals made by more economically developed nations with lesser developed countries are unfairly weighed in favour of the more developed nations. For instance, subsidies to agricultural production by the more developed nations are often kept, making the competition unfair. Globalization undermines national sovereignties and national government because countries become increasing at the many of the international markets and multinational corporations grow more powerful and influential (Appelbaum and Gereffi, 2010).

1.7 Meaning of Value Chain

A value chain is chain of activities that a firm or industry performs to deliver a valuable product or service for the market.

The concept comes from the business management and was first described and popularized by Michael porter in his 1985 best-seller competitive advantage: Creating and Sustaining Superior Performance Products pass through activities of a chain in order and at each activity of the chain a product gains some value. Chain of activities give the product more value than the independent activities values (Carlssom, 2010). The value chain categorizes the generic value- adding activities of an organization. The activities considered under this product and services enhancement process can be broadly categorized under two major activitity sets as below:

1.7.1 Physical traditional value chain

These can be seen as the physical world activates which we perform in order to enhance our product and services. These activities have evolved over time by the experience people gained from their business conduct. As the will to earn higher profit by any business increase, professionals practice these to achieve their goals (Amsden, 2011).

1.7.2 Virtual value chain

The advent of computer based business aided system in modern world has led to completely new horizon of Market Space (MS) in modern business jargon set- the Cyber Market Space (CMS). All activities of persistent physical worlds' value chain enhancement process, which is implemented here in this CMS, are in general terms referred to as virtual value chain (Benavente *et al*., 2012).

1.8 Importance of Value Chain

According to Chandler (2009) and Dalman and Aubert (2013) a value chain describes the full range of activities required to bring a product or services from conception through the different phases of production (involving a combination of physical transformation and the input of various producer services) and delivery to final disposal after use. They do not exist in the sense of their having a tangible reality: they are simply a frame work for trying to understanding how the world works. The approach is rooted in a real world of production and exchange. It focuses much less on overarching theory and unrealistic and more on practical approach towards supporting specific target groups to access particular value chains. Value chain analysis is well suited to understanding how poor people in rural areas of developing countries can engage, or improve their terms of engagement with domestic, regional or international trade. The benefits of the value chain analysis methodology as emphasized by Bell, *et al. (*2013) include:

i. It recognized the lack of economic power of target beneficiaries compared with the more powerful firms setting the rule of the game in the value chain and how this constrains their choice.
ii. Has economic viability and commercial sustainability at its core because of its market focus.
iii. It is a powerful diagnostic tool that can identify critical issues and blockages for specific target groups and provides a framework for interventions to change the circumstance of the resource poor.
iv. Identify the core rents and barriers to entry that determines who in the value chain benefits from production for diverse final markets.
v. It inherently scalable, even if the initial focus of a value chain development exercise is a single producer group or firm, the same logic can be applied to a cluster of firms, a region and whole country.
vi. Can provide a policy and restructuring tool to counter both market and state failures.

These reasons highlighted above have made value chain analysis has a profound impact on development studies in recent years (Benavente *et al*, 2012).

Amsdem (2011) and Bell *et al.* (2013) stressed that in Latin America, considering trade and poverty in terms of a range of traditional and more non-traditional agricultural commodities transactions it was evident that countries specialized as follows: Brazil-nuts in Bolivia, bananas in pens, Trout in Peru, wood furniture in Nicaragua and Honduras and rural community- based tourism in Guatemala and Nicaragua. The studies adopted elements of a value chain analysis. They confirm much of what is known already about how the poor engage with trade and how efforts to link poor producers with international markets through large producers and export may succeed or fail.

1.9 How the Rural People can cope in Value Chains

Upgrading means acquiring the technological, institutional and market capabilities that allows our target group (resource-poor rural communities) to improve their competitiveness and move into higher-values activities. In short, upgrading is the process of trading up which allows poor people to access values chain or improve their position in existing value chain (Borrus and Barry, 2012).

Over the past few years, development studies have been developing language approach and experience to support poor people in rural areas to upgrade their positions in viable value chains. This is necessitated an adaptation of the traditional upgrading sequence: that of process upgrading before moving into product upgrading and into functional and inter-chain upgrading. This categorization, based on the historical experience of the newly industrialized countries of East Asia, many are still relevant for manufacturing firms seeking global markets, but is needs adjustment if it is pressing task of upgrading poorest and most disadvantaged, including agricultural and exporters into viable value chains (Cantwell and Janne, 2010).

II. HORIZONTAL COORDINATION (HC)

This is the process of greater intra-nodal organization, often in the production and processing of nodes, in some forms of collective structure (typically a producer group). This form of upgrading is very important for poor people in rural areas because coordination with others allows producers to achieve economies of scales in supplies and to reduce transaction cost. Often, horizontal coordination is the first step in sequence of intervention that ultimately results in access to the market and it is a prerequisite for other forms of upgrading (Carlssom, 2010).

2.1Vertical Coordination (VC)

This is a move away from one-off sport transaction and forwards longer-term inter-nodal relations, for instance contract farming, whereby a processor or exporter will contract horticultural out-grower farmers This form of upgrading is important because it can result in greater certainly about future revenue flows for poor participants (Chemmery *et, al.,* 2011). In practice vertical coordination is often a slow and difficult process, because it involves the building of trust relations between the buyer and seller (to avoid the common scenario whereby producers break their contractual commitments and sell their produce on the spot market when prices are higher than specified in the contract (Dicken,2014).

2.2 Functional Upgrading (FU)

According to cheng*et al.* (2009), FU refers to changing the mix of functions performed by actors in the value chain-increasing (upgrading) or reducing (downgrading) the number of activities preformed by individuals and firms. For instance, an agricultural producer starting to process some of their output to add value to it represents functional upgrading. Often horizontally coordinated institutions are best able to prove these value-adding activities (such as grading and packaging of produce) (Dalman and Aubert, 2013). The shortening of the value chain can be achieved by means of the exclusion intermediaries and the redistribution of their functions among the partners of newly formed vertical relationship.

2.3 Process Upgrading (PU)

Process upgrading involves improving value chain efficiency by increasing output volumes or reducing cost for a unit of output volumes or reducing costs for a unit of output. Example of this includes improving agronomic practices to enhance yields that result in higher sales or own consumption or both. This may be the results of improved planting techniques, planting materials or investment, such as irrigation infrastructure (Barro and Lee, 2011).

2.4 Product Upgrading (PU)

Improving the quality of the value has become increasingly as the developed economies have become more quality conscious and standard have risen (Jonathan *et al.*, 2009). Some standards are driven by lead buyers (i.e supermarkets requiring traceability of food products), others by statutory hygiene standards in importing countries and others increasingly in response to fair trade and organic demands by final consumers (Cantwell and Janne, 2010). According to Barry (2012), the challenge of standards lies in achieving them (to allow market access) without excluding the poor from value chain. Product and process upgrading are closely related because improving products quality often involves improvements to the production process.

2.5 Inter Chain Upgrading (ICU)

This is the use of skills and experience developed in one value chain to productively engage with another-usually more profitable- value chain. Examples of this include the shift from growing traditional commodities to high-quality export varieties. Inter-chain upgrading often has significant barriers to entry for the poor and vulnerable to access the more in creative value chain (Carlssom, 2012).

2.6 Upgrading of the Enabling Environment (UEE)

As emphasized by Chemmery (2011) although not an upgrading strategy in a strict sense, the competitiveness of the enabling environment for value is a major contribution factor in the success of the operation of the value chain. Improvement to the support, services, institutional, legal and policy framework in which value chains operate are often a productive area in which development agencies can intervene to improve the functioning of the chain.

2.7 Conclusion

Based on the highlight, it was concluded that, globalization and Unequalization has really promoted the value chain of commodities globally and has opened a way for both developed and developing nations to a large extent and created favourable grounds for global trade interactions with myriads of incentives for economic improvement especially for developing nations as a result of improved global trade policies.

2.8 Recommendations

The following recommendations were proffered based on the highlight of the paper:

1. For globalization and value chain to be enhanced, all countries should willingly open their markets and integrate with outside economics.
2. Despite the advantage of globalization and value chain, there should be strict rules and regulations on the controlled pollution and deforestation for the environments not to suffer in the process of production and distribution of goods and services.
3. The developed nations should be mindful of the less developed nations by setting trade rules and regulations not only to their advantage but in favour of developing nations to ensure growth of economies of developing nations.
4. Globalization and value chain should be practiced in such way that it does not undermine national sovereignties and national governments, this will prevent individuals countries to become increasingly at the mercy of international markets and multi-national corporations which are more powerful and influential

REFERENCES

[1]. Adelman, I. and l. E. Westphal (2009).*Industrial Priorities in the Republic of Korea "Industrial Priorities in Developing Countries: The Selection Process in Brazil, India, Mexico, Republic of Korea, & Turkey*: United Nation Industrial Development Organization Publication: 72.

[2]. Amsdem, A.H. (2011).*Asia`s Next Giant: South Korea & Late Industrialization.* New York: Oxford University press: 200.

[3]. Appelbaum, R. and G. Gereffi (2010). "Power and profit in the commodity chain". In: E. Bonacich (ed.).*Global Production: the Apparel Industry in the Pacific Rim.* Philadelphia, Pa: Jemple University Press: 245.

[4]. Barro, R.J. and J.W. Lee (2012). International comparison of education attainment. *Journal of Monetary Economies*, 32:363-94.

[5]. Barry, F. (2012).*Understanding Irelands Economics Growth*. BaSings Stoka: Polgrave press: 230.

[6]. Bell, M. and A.B. Albu (2010). Knowledge system and technology dynamism in industrial clusters in developing countries. *World Development*, 27 (9): 133.

[7]. Bell, M. B., Ross-Larson and L.E. Westphal (2013). *"Assessing* the performance of infant industries. *Journal of Development economies:* 101-128.

[8]. Benavente, J. M. Grispi, J.M Kats and G. Stump (2012). New Problems and Opportunities for industrial development in Latin America *"Oxford Development Studies*, 25: 261-178.

[9]. Borrus, M. and F. Barry (2012). "Wintelism and the Changing Terms of Global Completion: Prototype of the Future? BRIE Working Paper 96B. Berkerley Roundable on the International Economy, Berkeley, Calif. [http:///brie.berkeley.edu.

[10]. Cantwell, J. and O. Janne (2010). "Globalization of Innovatory Capacity: The Structure of Competence Accumulation in European Home and Host Countries "Discussion Paperin International Investment and Management of Economies: 241-246.

[11]. Carlssom, B. (2010). Technology System and Economics Performance: The Case of Factory Automation. Dordrecht: Kluwer: 230-236.

[12]. Chandler, A. D. (2009).*Scale and Scope: The Dynamic of Industrial Capitalism.* Cambridge, Mass Belknap Publishers: 207.

[13]. Chemmery, H.B., S. Robinson and M. Syrquin (2011).*Industrialization and Growth: A Comparative Study*. Oxford University Press for the World Bank: 485.

[14]. Cheng, T.J., S. Haggard and D. Kang (2009). "Institution and growth in Korea and Taiwan: The Bureaucracy" in: Y. Akyuz (ed.) *East Asian Development New Perspectives*. London: Cass: 46-49.

[15]. Cantwell, C.J. and G.D. Janne (2010). "Capitalism, profit and innovation in the new technology economic paradigm. *Journal of Evolutionary economics* 10:131-157.

[16]. Dalman, C.J. and L.E. Aubert (2013). China and the knowledge economy. Washington, D.C: World Bank:202-209.

[17]. Dicken, (2010).*Global Shift: Transforming the World \Economy 3rd ed*. London: Paul Chapman Publishers: 342.

[18]. Jonathan, M. Jodie, K. and Christopher, C. (2009). "Trading Up: How a Value Chain Approach Can Benefit the Rural Poor" <https://www.odi.org/sites/odi.org.uk/files/odi-assets/publications-opinion-files/5656.pdf>