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Globalization, Governance, Democratization and Fair Trade

Rasto Ovin and Pedja Ašanin Gole

Abstract

The chapter presents the discussion on fair trade initiatives and their possible role in achieving more equilibrated trade relations inside globalization and governance. The authors want to challenge the overrated goodwill of peoples’ initiative mostly positioning itself as a counterpart of existing trade policy developments. Fair trade is scanned through principles of economics, which enable a conclusion that the present concept is too narrow to produce enough inside energy for its establishment in real policy of developed economies. Special attention the authors are paying to governance as a field that may profoundly explain the gaps subject to action in the fair trade initiatives. Due to the global meaning of the principle for sustainable global trade and security, it must continuously be more and more incorporated in the mainstream politics of world leading economies.

Keywords: trade policy, fair trade, NGOs, economics of trade, economic policy, governance, globalization

1. Introduction

Although being an element of sustainable economics—related to regional policy—fair trade has been discussed and explained primarily from the position of civilization development goals and is subject to mainly soft approach of governance. It is, of course, the role of progressive individuals and NGOs to point to the areas, which should enter mainstream government policies’ perspectives. On the other hand, however, the ability to act for the solution of the problem is not on the side of such pluralist approach. These are governments of leading economies, who should adopt principles of fair trade, as they are in the line of the contemporary level of civilization as well as a must for creation of sustainable global trade environment.
Unlike partial knowledge and perspective of individual fair trade promoters, the governments dispose of overbroad and direct access to information, resources and tools to act in support of fair trade.

With the help of comparative approach in this chapter, we are pointing to the fact that fair trade is a necessary route to make international trade sustainable, and we are trying to explain why it will remain the competence and responsibility of governments in industrial economies. The main argument of this chapter is that present fair trade initiatives lack fundamentals of economics as well as of the theory of economic policy. While the first one requires much broader definition and impact of the fair trade, the second poses inevitable requirements for the level that can make this concept work.

2. Economics of fair trade

The basic principle of regional policy is that underdeveloped regions will get the opportunity to catch up with the developed regions when (if) there will be trade among them. Deepening of trade relations will help to engage underdeveloped regions in economic areas together with industrial economies. Including this principle means to automatically exclude the trade based on exploration of undeveloped regions’ resources and to include the sustainability principle. The sustainability risk of such ‘unfair trade’ for developed economies appears in three forms. The first one is that oppression of trade partners and prices of exporters to industrial economies leads to cost and price competition that at the end cannot be sustained by developed economies themselves. The second one refers to the need of transfer campaigns to help underdeveloped regions (states). They usually serve only for the pacification of certain states or groups that threaten to bring destruction to established trade and security context. The third form has been demonstrated with recent immigration developments in the EU. According to European Commission Vice President Frans Timmermans [1], it is assessed that 60% of immigrants are moving for economic reasons—thus it is not difficult to recognize the pattern, which may prevail if the population’s perspective in low-income countries will not develop.

It has not been proved anything else that humans react to economic stimulations in a pattern that partially resembles laws of physics. Here it is enough to mention the laws on prices and quantities of supply and demand. It is, however, a requirement of civilization stance and sustainability as discussed above to promote institutional arrangements for assuring opportunities for states and groups, who were deprived of their political and economic development.

3. Fair trade terminology and present developments

The term ‘fair trade’ is a generic concept. The World Fair Trade Organization as a global network of fair trade organizations defines fair trade as ‘a trading partnership, based on dialogue, transparency and respect, which seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalised producers and workers, especially in the South. Fair Trade Organizations
(backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade’ [2, 3].

Fair trade is also an international movement to socially regulate global markets (particularly in the food sector) who seeks to empower producers in the global South (through the provision of better prices, stable market links and development resources) and to promote responsible consumption and provide shoppers with socially and environmentally friendly products in the global North. This movement is therefore a favour of social and environmental justice and develops alternative economic spaces of production, trade, retailing and consumption. According to Encyclopedia of Political Theory [4], ‘the goals of the fair trade movement include improving the livelihoods and well-being of small producers; promoting development opportunities for disadvantaged groups of producers, in particular women and indigenous people; raising awareness among consumers of the negative effects of patterns of international trade on producers in the Global South; campaigning for changes in the regulatory regimes governing international trade; and the protection and promotion of human rights. The international fair trade movement consists of certification agencies, producer organizations and cooperatives, trading networks, and retailers’.

The explanation of the term ‘fair trade’ by the Fairtrade Foundation reads: ‘With fair trade you have the power to change the world every day. With simple shopping choices, you can get farmers a better deal. And that means they can make their own decisions, control their futures and lead the dignified life everyone deserves’ [5]. Such explanation is not only normative but is also vague and is subject to historical anthropomorphism to such extent that it cannot be used for economic analysis.

Somewhat clearer is the description of fair trade as ‘organized social movement and market—based approach that aims to help producers in developing countries to make better trading conditions and promote sustainability. The movement advocates the payment of higher prices to exporters as well as higher social and environmental standards. It focuses in particular on exports from developing countries to develop countries, most notably handicrafts, coffee, cocoa, sugar, tea, bananas, honey, cotton, wine, fresh fruit, chocolate, flowers and gold’ [6, 7].

Basing on the role of trade in reducing regional differences, we believe that the established concept of fair trade as presented above is simply to narrow. If we recognize the ricochet effects of unfair trade for developed economies, we simply should understand fair trade as an element of sustainable trade and of economics in a broader sense.

Therefore, we are underlining our disagreement with the interpretation that the fair trade concept refers only to developing economies and regions. It is a minimum requirement to see a broad picture, where disequilibria in global trade are taking us in the era of almost unlimited mobility of information and resources. Therefore, the concept of fair trade has to do with the sustainability of trade and development in industrial economies as well as on the global level.

Despite our rejection of criticism over globalization, here we have to point to the unfairness of trade that is felt on the side of industrial countries. It is the fact that inhuman exploration of resources in low-income countries may lead to price competition that cannot be followed by any economy following basic human rights and environmental principles. Here again, we come to a bend, where promoting fair trade is in the interest of industrial economies themselves.
In this respect, one should understand the rejection of globalism by numerous political leaders in the West. Not only are developed economies ‘threatening’ jobs in developed country, even the critics of Trade and Investment Partnership between the EU and USA partially point to the risk of losing jobs on both sides of Atlantic. Initiatives worrying about job preservation as, for instance, Campaign for America’s future are quite specific about the risk of the TPP. In their communication from August 12, 2016, they line up behind the warning by former US presidency Democratic candidate Sanders, stating that “Obama administration continue pushing forward on the disastrous Trans-Pacific Partnership trade agreement that will cost American jobs, harm the environment, increase the cost of prescription drugs and threaten our ability to protect public health” [8]. The fact that this initiative considers itself as a fair trade movement only supports our above-presented perspective of a developed economy.

4. Globalization: from ‘free trade’ to ‘fair trade’

Globalization stems from a basic human need to seek a better and more fulfilling life. Starting from such definition of globalization, we can say that it is the faithful companion of human’s spiritual, economic and political development but also the expression of transportation and communication opportunities. Today globalization processes of the liberalization of the trade grew out of Bretton Woods Conference in 1944. After Bretton Woods Conference arose to establishing three important international institutions, in which the function is the foundation of the existence of relatively autonomous, state-regulated national economies, which to a limited extent set of meta-regulations: (1) the International Bank of Reconstruction and Development (IBRD, more commonly known as the World Bank); (2) the International Monetary Fund (IMF), the dollar-based gold exchange currency system; and (3) the General Agreement on Trade and Tariffs (GATT). These institutions proclaim and spread the ‘free trade’, ‘free markets’ and increasingly unrestricted access to a wide range of markets to transnational corporations.

As one of the child of this conference, the GATT came into existence in 1947 as part of a plan for general economic recovery after the Second World War. Then globalization discussions were carried out to remove the barriers to free trade under the GATT umbrella. The GATT’s main purpose was to reduce barriers to international trade and it operated until 1994. Following the dissolution of the Cold War, the idea of globalization came to prominence, and in 1995 the GATT was replaced by the World Trade Organization (WTO). The WTO has promoted and developed the institutional foundations for ‘free trade’ as the important implications on the modes of production: free movement of goods and services together with the free movement of capital but not the free movement of labour.

Many authors locate globalization within economic phenomena and more specifically within the chain of production, trade and finance. As noted by Rosamond, ‘[f]or some, globalization simply refers to dramatically increased volumes in international trade. For others, globalization is better thought of as global economic integration, […] cross-border flows of capital, goods, labour, and firms who creating genuinely global markets, which in turn accentuate the permeability of national economic borders’ [9]. It is about the economistic definitions of
globalization and possibilities for economic governance. In a globalized world and transnational economic space, sovereign governments are losing the capacity to exercise effective economic governance over their own national jurisdictions, and their raison d’être becomes the adjustment of the domestic political economy to imperatives of powerful non-state forces that dominate the contemporary global economy.

The origin of the globalization movement was assumed to provide a framework for global equality and integration [10]. But very soon the globalization movement acquired a bad reputation: opposite globalization calls for a ‘free trade’ of goods and services has raised anti-globalism movement with the requirements of ‘fair trade’. Stiglitz [11] argues that globalization could help to reduce poverty and serve both the developed and developing countries if approached with an appropriate attitude. He also believes that the main requirement for the success of globalization is the ‘establishment of an equitable playing field’.

In the initial stages of globalization, multinational companies purchased their raw materials from any place in the world, wherever is the cheapest; conducted the production of goods and services in any country wherever it is cheapest (where the labour costs were the least), adding their brand and image to the product; and sold their goods and services in any country, in the markets where they can get the best price. Functioning of the mechanism of free trade has effectively increased global trade and global income.

But at the same time, globalization generated the painful consequences of exploitation of natural resources and abuses of labour in countries with lower production costs. The corporations of developed countries moved their production to the countries with abundant cheap labour; labourers of the developed countries started losing their jobs due to relocation in less-developed countries, increasing unemployment. All this leads to environmental degradation and growing inequalities in income distribution. These negative consequences, which were not consistent with the aspirations of people and society, have generated a strong desire for ‘fair trade’ in a global society. Direct results of globalization are such as to encourage the involvement in accordance with the same slogan: ‘fair trade, not free trade’ [12].

5. Governance: from abstraction to the lending criteria

Global finance markets and patterns of international trade in turn influence the shape of national economies. The contemporary rise of economic globalization has shifted attention from the role of government to the role of governance [13], and the globalization has fundamentally changed the context for governance.

Good governance is a fundamental ingredient of sustained economic development. But like ‘fair trade’, the term ‘good governance’ also is an abstraction that commands near-universal respect but diverse interpretation in myriad directions. The concept of good governance was defined by the requirements of a functioning market economy and institutional barriers to corruption, as a legitimate state with a democratic mandate, an efficient and open administration and the use of competition and markets in the public and private sectors. Good governance concerns an optimal division and interactions between government, market and civil society.
According to Bevir, ‘governance refers to all processes of governing, whether undertaken by a government, market, or network; whether over a family, tribe, corporation, or territory; and whether by laws, norms, power, or language. Governance is a broader term than government because it focuses not only on the state and its institutions but also on the creation of rule and order in social practices’ [14]. The governance describes changes in the nature and role of the state; it also denotes a programme for global reform—addressing poverty, gender equality, fair trade and sustainable environments. Governance expresses a widespread belief that the state increasingly depends on other organizations to secure its intentions, deliver its policies and establish a pattern of rule.

Various international agencies sought to specify the characteristics of good governance. It refers to the endeavour of international organizations (such as the United Nations, the World Bank, the IMF) to assess and measure the quality and stability of the governing institutions and practices, their transparency, responsiveness, procedural fairness, effectiveness, adherence to the rule of law, interaction, etc. The World Bank has defined good governance as ‘the manner in which power is exercised in the management of a country’s economic and social resources for development’ [15]. Good governance is based on democratic values that stimulate administrative reforms that affect a range of organizations. A series of public-sector management reforms have been instituted on a global basis to improve the capacity of governments to respond to external demands for better and more responsive services, managing budget deficits and surpluses and addressing competitive pressures resulting from globalization. These ideas about the virtues of good governance became widespread and part of the everyday discourse of development practice. The United Nations’ Commission on Human Rights [16] identifies transparency, responsibility, accountability, participation (inclusiveness) and responsiveness (to the needs of the people) as key attributes of good governance.

The growth of a set of global economic institutions (the IMF, the World Bank and the WTO) are held to be responsible for creating the formal rules and informal norms within which globalization is made possible. The World Bank [17] has compiled a list of six dimensions of public-sector governance that are used in an aggregate fashion to measure the quality of governance: voice and accountability, the rule of law, democratization, political stability and the absence of violence, government effectiveness and transparency, regulatory quality and control of corruption. Good governance is among the lending criteria used by the World Bank; it conceived of good governance primarily in terms of liberal democratic norms and practices (representative and responsible government, the rule of law, the absence of corruption) while also privileging a neoliberal faith in the superiority of market economies and the importance of introducing market mechanisms to the public sector.

As stated by Chhotray and Stocker [18], the criticism of good governance in development studies is set of power relations between North and South, and it fails to examine the construction of relationships in the context of structural inequality and disadvantage. ‘Good governance principles are not adequate to the task of developmental imbalances, and as such, they are a smoke-screen behind wider issues of fair trade, power redistribution, and social justice are hidden.
from view. It is rather to suggest that governance debates need to take place with due recogni-
tion given to the undermining effects of structural inequalities as a core part of the picture’. 

Therefore, in the global governance, interactions occurring are private sustainability standard 
organizations who are regulating social and environmental standards in global production 
chains, for instance, in the forestry, tea, cocoa, coffee and apparel sectors. The private stan-
dard organizations set social and environmental standards across borders, in particular in 
global production chains that run from developing to developed countries [19]. As an out-
come of global business governance, emerging are non-state certification programmes across 
policy sectors and industries in coffee production, forestry, fisheries, aquaculture, organic 
agriculture, etc. These programmes typically establish environmental performance standards 
and standards for socially responsible production with a fair wage and appropriate working 
condition. The demand for global market rules indeed comes from global corporations trying 
to create and stabilize regional or worldwide markets and thus can have an impact on public 
policies in the developed as well as the developing world. They go beyond voluntary codes 
of conduct and self-regulatory modes of governing, by requiring independent verification 
of compliance with standards and governance mechanisms. There are several standardiza-
tion organizations and several types of fair trade standards, including standards for contract 
situations, for importers and also for the different products [20]. A fair trade certification is a 
product certification within the market-based movement fair trade. The most widely used fair 
trade certification is Fairtrade International (FLO), the International Fairtrade Certification 
Mark, used in Europe, Africa, Asia, Australia and New Zealand (equivalent standard in North 
America is Fair Trade Certification Mark).

6. What will bring us there?

Those are not only attempts to regulate international trade, who are bringing us in the direc-
tion of fair trade. Besides, international and regional trade agreements are positioning one 
specific region in front of the others and can therefore not be seen as a progress in sense of fair 
sustainable trade. 

Individual, academic and NGO endeavours surely have a positive impact on fair trade and 
are acting practically in the same direction. When ability to act is in question, one should 
beware the crucial difference between the actors listed above and governments. As stated 
above, there are not just the commitments of industrial countries’ governments to regulate 
international trade, which lead to fair sustainable trade, but the typical concern and pres-
sure of Western powers in the sense of human rights and democratization. Democratization 
presents, in addition to social and economic development, the other great driving force for 
changes in the world. Although in 1974 less than three in ten nations in the world could be 
classified as democratic, 20 years later in 1994, that number had grown to six in ten, and at 
the beginning of the twenty-first century, most of these newly established democracies have 
survived and joined by a few more recruits [21]. But it is not just the spread of the basic insti-
tutions of liberal democracy, but rather that the idea of democracy has gained a certain uni-
versal appeal. The rise of democracy requires space for governance and lays out conditions
for governance practice.

As stated above, globalization is often treated as a peril of modern times. We accept Stiglitz’s
view that pro-globalization policy should be undertaken properly and consider the historical
and cultural experience of the individual country [11]. On the other side, we believe that this
responsibility cannot simply be assigned to the party assuring the resources in this process. It
is probably not the responsibility of international organizations to study in depth the whole
bunch of historical and cultural developments, which had led to a country’s present economic
perils (especially the IMF). Financial support means money and the money means trust. To
assure the trust, local governments have to be ready to abolish main practices that led to the
problem. Since here are mostly traditional societies, this is almost impossible to achieve with-
out changing governance approach, which quickly can lead to a restructuring of power. Not
ready for accepting these risks, governments in countries subject to economic help prefer to
accept the arrangements and criticize them later.

If we can put aside the above stressed negative impact of globalization, we could again argue
that it rather brings problems to industrial countries. As a principle due to the free movement
of capital, it should technically bring advantage to low-income economies with abundant
labour force—especially if it is educated enough. As stated above, from the trade perspec-
tive, it enables them to fill the gaps in products and services where up to now development
in industrial countries has led to rights and privileges (costs) that are unsustainable from the
theoretical perspective of the law of one price.

Due to the transparency globalization brings, it should rather be treated as a factor of fair sus-
tainable trade. Therefore, we agree to the statements of authors as is Bhagwati [22] pointing
that ‘globalization has a human face and that it advances, rather than inhibits, the achieve-
ment of social agendas as wide-ranging as the promotion of gender equality worldwide and
the reduction of poverty and child labour in poor countries’.

Typically, American political parties have different views on trade positions, where the
Democratic Party is the only one touching this phenomenon. The Liberal Party opposes any
agreement and regulation, while the Republican Party presents rather mercantilist views
(‘U.S. should position itself to dominate trade, promote free trade with America setting the
standards’). The Democratic Party platform on Free trade [23] shows more understanding of
the whole issue. Unlike above-presented definitions, this platform uses the only explicable
platform of ‘knocking down barriers to free, balanced and fair trade’.

If we try to assess the recent developments of fair trade initiatives, we see that eventually they
meet economics of scale issues, and it is the question how to keep business technology change
outside producers included in a traditional fair trade. Growing into a supranational organiza-
tion, Fairtrade International (FLO) is demonstrating a typical risk of megastructures—here
meaning, for instance, arguments over logo going on between FLO and their sister organiza-
tion Equal Exchange [24]. By opposing the inclusion of plantation production, it is excluding
those who work there and live from it, which means neglecting the population making their
living in organization forms established prior to emerging of fair trade initiatives. On the
other hand, it is clear that individual producers will eventually have to be included in some
kind of cooperative production due to the requirements of economic of scale and modern
business technologies. At the end of the day to be competitive, the webs of producer and
cooperatives will have to show its ability to include a broad band of the stakeholders in the
governance, policy development and ownership.

Typical requirements of the USA, EU and allies in their geopolitical positions refer to human
rights. Typically, their involvement up to now has shown that they lack information and
patience to realize this basic principle in traditional countries without turmoil. But one should
understand that disequilibria in global trade have to do a lot with inappropriate personal
treatment and dignity in traditional societies [25]. The perspective of the fair trade initia-
tive, therefore, is close related to the human rights. There are several efficient individual and
NGO’s initiatives that strive for inclusion of human rights principles into daily policy, but it
is clear that it will be the western governments’ achievements that human rights are put onto
agenda of most influential global summits that will decisively boost fair trade development.

7. Conclusions

Transparency, accountability, governance and democratization have therefore a lot to do
with fair trade. They seem quite indirect facts but can only be basic principles for the fair
trade. Therefore, direct individual actions to achieve fair trade (will always) have only limited
effect. Let us finish with the provocative statement that will hardly be accepted by most of the
readership: rather than through trivial action in the form of well-minded historical anthro-
pomorphism, we will achieve more with democratic pressures on the global aspect of the
international policy of most powerful governments of industrial countries.

The action of governments of developed countries should base on two pillars. The first pillar
is the knowledge and understanding of historical and cultural fundament of developments in
low-income countries. The second one is patient policy and acting. This means abolishment of
biased support of groups prone to swift action. Up to now such policy did not bring anything
else than an acceleration of existing problems and discrepancies.

There are not only governments of influential economies but also financial international orga-
nizations that can support the idea of fair trade. IMF and World Bank are here to step into
support adjustment of local producers for international standards and competition. This will
have to be trimmed to seek for domestic government’s support for institutional adjustment
which is a project far exceeding the possible outcome of direct fair trade initiatives.

The strongest impediment to fair trade development now is the mistrust between biggest
economies. Although China points to their trade reforms bringing in reciprocity [26], the
Trump programme forms their position basing on allegations that China manipulates its
currency to retain its competitiveness, ignoring intellectual property laws, and is exercising
illegal export subsidies [27]. In this respect, German government shows more readiness to
accept the principles of fair sustainable trade by reducing agricultural subsidies and abol-
ishing export subsidies, opening up markets in industrialized countries and promoting fair terms and conditions of employment [28]. These surely are not circumstances where most influential world governments could pursue fair trade policy, which is the only solution for assuring sustainable economic developments and sustainability.

What will probably happen? One could only hope that the time when nationalist parties gain on territory will end and that the cost of their action will not be too high. We will realize that we risk too much with building walls. This is against the impact that technology change has on business and society. Then it will be natural to strive for greater cooperation on sustainable principles. From the point of the theory of economic policy, the cooperation and inclusion are the basic argument why we need a system, e.g., institutional setting in a national economy. Its role is to assure the cooperation between economic agents. As a public good, it can only be offered by the government—in this specific case driven by economic principles and democratic pressure.

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