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Free Trade is Not Free: A Case for Fair Trade

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List of Abbreviations

ANC	African National Congress
CA	Comparative Advantage
CAFTA-DR	Central America-Dominican Republic Free Trade Agreement
FDI	Foreign Direct Investment
FTA	Free Trade Agreements
GATT	Global Agreement on Tariffs and Trade
GDP	Gross Domestic Product
GHGs	Greenhouse Gases
GP	Government Procurement
HDI	Human Development Index
HDR	Human Development Report
IMF	International Monetary Fund
IPCC	Intergovernmental Panel on Climate Change
IPR	Intellectual Property Rights
ISDS	Investor-State Dispute Settlement
ITO	International Trade Organization
KORUS-FTA	US-Korea Free Trade Agreement
LDC	Less Developed Countries
NAFTA	North American Free Trade Agreement
NGOs	Non-governmental Organizations
OAS	Organization of American States
OECD	Organization for Economic Co-operation and Development
PTPA	Pacific Trade Pact Agreement
PWC	Post-Washington Consensus
QC	Quality Control
SITS	Social Index Tariff Structure
TPP	Trans-Pacific Partnership.
TRIMs	Trade-Related Investment Measures
TRIPS	Trade-Related Aspects of Intellectual Property Right
UNDP	United Nations Development Program
USMCA	United States-Mexico-Canada Agreement
USTR	United States Trade Representative
WB	World Bank
WC	Washington Consensus
WTO	World Trade Organization

Chapter 1: Introduction

Since the beginning of the 1980s, the economic performance of individual nations has become increasingly dependent on the dynamics of the global economy. This brought to light trade as the most conspicuous and contentious policy space, where the advent of global neoliberalism has been disputed in recent years. The international community has been advocating for neoliberal policies such as free trade, which are being implemented in both developed and developing countries. This has been predominantly driven by the belief that free trade is the primary engine of economic expansion and progress. As a result, state-imposed tariffs of any kind on international trade flows have been considered inefficient and almost completely hindering the progress of developing nations in the economic world. Further, the World Bank (WB), World Trade Organization (WTO), and International Monetary Fund (IMF) have also constituted the influence or interreference of any state in international trade as inefficient and causing market distortions. This thesis aims to investigate the fundamental concerns associated with free trade that make it not truly "free". The inclusion of provisions safeguarding intellectual property rights and mandating the enforcement of stringent copyright laws in free trade agreements has been observed to result in increased expenses for consumers and potential constraints on innovation and competition. Accordingly, the objective is to analyze the extent to which fair trade provides a morally and environmentally responsible substitute for global trade.

Chapter 2 primarily focuses on the background of fair trade policy and proposals. It explores the background, context, and relevance of the fair trade proposals that we are proposing as the solution to mitigate the negative impacts of neoliberalism throughout the world. Under the relevant context of fair trade theory, the chapter will shed light on the need for and emergence of fair trade theory in practice. It will further analyze the conceptual framework behind the fair trade theory. The capabilities equality approach proposed by Sen and Marxist economic theory are employed as the most viable conceptual frameworks for the implementation of fair trade, given their emphasis on the promotion of human welfare and the equitable allocation of resources. The aforementioned frameworks facilitate the adoption of equitable labor regulations and environmental preservation in fair trade methodologies, which are indispensable for ensuring sustainable and ethical commerce. Fair labor standards emphasize the protection of workers' rights, such as equitable compensation, safe working conditions, and the capacity to form unions. This is consistent with the principles of Marxist ideology, which places emphasis on the importance of providing fair remuneration for work. The capabilities approach acknowledges the significance of the well-being and growth of workers in enhancing their capacities and empowering their agency. The significance of ecological conservation in fair trade lies in its promotion of sustainable and responsible practices aimed at reducing environmental damage. The Marxist theoretical framework acknowledges the interdependence between economic structures and the natural environment, whereas the capabilities approach prioritizes the conservation of the ecological system for the betterment of present and future cohorts.

This thesis centers on the proposition that governments ought to implement rigorous labor and environmental regulations. Consequently, the viewpoints of Amartya Sen and Karl Marx are subjected to critical scrutiny. The latter portion of the chapter delves into an analysis of three discrete policy alternatives for fair trade, along with their respective methodologies for implementing an equitable trading system. Advocates of fair trade have been promoting various aspects of social, economic, and ecological development for a considerable period of time with the intention of raising awareness about these issues. However, the assessment of each proposal on an individual basis falls beyond the purview of this research.

The adherence of numerous mainstream economists to the notion that free trade is the sole strategy capable of driving the growth and development of nations and economies can be attributed to their unfounded idealization of the reductionist methodology employed in classical and neoclassical trade theories. A meticulous examination of the existing body of literature pertaining to the constraints of conventional trade models was conducted in Chapter 3 of this thesis to undertake supplementary analysis. First, it presents a brief description of the theoretical frameworks of classical, neo-classical, and new trade theories by assessing the contributions made by the theories of absolute advantage by Smith, comparative advantage by Ricardo and Heckscher-Ohlin-Samuelson, and economies of scale by Paul Krugman, respectively. What follows is an examination of the implications of conventional trade theory by comparing and contrasting it with fair trade frameworks. After that, it examines their flaws and limitations, which make them inappropriate and inadequate for grasping international commerce and growth within the framework of the present global economy. The next section provides a detailed criticism of classical and neo-classical theories as they were extensively used to advocate for "free trade" as the ultimate trade theory for mutual growth and development. Chang's extensive criticism of developed countries hypocritically preaches to developing countries to adopt liberal trade policies for growth and development. In reference to the new trade theory, Paul Krugman's redefining of the role of government in trade policies is analytically analyzed to understand the impact and repercussions of hyper globalization.

In light of this, Chapter 4 provides detailed evidence of government intervention in free trade. The chapter demarcates that certain free trade agreements (FTAs) include provisions that protect particular industries or countries, which fundamentally goes against the primary principles of free trade. It examines various free trade agreements (FTAs) that incorporate patent and copyright provisions, which confer benefits on large corporations while potentially disadvantaging small businesses and developing nations. Furthermore, it analyzes how FTAs possess the capability to lead to employment reductions in industries that lack competitiveness. The chapter substantiates the critique of FTAs by asserting that they deviate from the tenets of unrestricted trade by providing safeguards to particular enterprises or nations. It presents evidence of various provisions restricting trade and competition in several FTAs signed by the United States. It attempts to understand how the inclusion of these provisions has the potential to provide benefits to specific businesses or nations but may also impede the principles of unrestricted commerce. The chapter also analyzes the sustainability of the inclusion of provisions incorporating ecological and social regulations to create a level playing field for all signatories.

Chapter 5 provides conclusive remarks on the discourse surrounding international trade policy. The author arrives at a precise conclusion, advocating for the establishment of a state-led fair trade system, which is supported by two distinct lines of reasoning. The limitations and inaccuracies of theories supporting free trade suggest that the underlying theoretical framework is flawed. Consequently, those mainstream economists who continue to advocate for fully liberalized trade may be doing so out of obstinacy. The economists in question have not adequately anticipated the rapid transition from globalization to hyper globalization and have also neglected to account for the significance of human rights and ecological preservation. The second strand of the argument centers on the evidence indicating that the concept of "free trade," which is promoted and executed through the signing of Free Trade Agreements (FTAs), has not truly been free. The available evidence regarding the involvement of the state in the development of these free trade agreements (FTAs) establishes a robust framework for the role of government in shaping trade policies. The state is currently perceived to be operating in a manner that favors large corporations, while global financial institutions, such as the World Trade Organization, have been observed to operate in a manner that favors the global north. The argument put forth by fair traders advocating for the implementation of labor standards to reinforce social justice and environmental standards for the purpose of ecological conservation is a sound one.

Chapter 2: Fair Trade: Historical and Conceptual Introduction

2.1 Introduction

The current chapter provides an overview of the historical context of fair trade and the diverse perspectives that have been discussed regarding the establishment of ethical and sustainable international trade practices. It will indulge in historical background of fair trade movement, the specific context relevant to our study, and fair trade policies and practices under organized purview. The chapter begins with an introduction of the fair traders advocating for the states to mediate trade flows according to strong executable standards regarding sustainable environmental practices, human and labor rights, gender equality, eradication of child labor. It first, briefly, gives an uneasy historical development of trade policies in the United States. The United State switch from protectionist policies to free trade is analyzed. Many mainstream economists preach the world to adopt free trade policies if they want to see growth in their economy. However, the history as evident through research by many heterodox economists provides the intel that the countries that are now developed and preaching trade liberalization are the ones who industrialized and developed by adopting a rather strategic trade policy, which mostly was protectionist policies to protect their infant industries in their early years struggling for development. The chapter also clarifies the context under which this thesis attempts to advocate for fair trade policies. A critical approach that necessitates the role of government in establishing fair trade policies is the context this thesis advocates for fair trade.

The chapter then goes on to provide theoretical frameworks, Marx's Economic Theory and Amartya Sen's capabilities equality approach, for understanding the socio-economics importance of fair trade regime. Since the major focus of this thesis is on inclusion of strict labor and environmental standards by the governments, the evidence supporting importance of these two have been reviewed and analyzed in the writings of Amartya Sen and Karl Marx. The last section of the chapter provides three different types of fair trade policy proposals and their methodologies to implement a fair trade regime. The proposals have been included to understand the aspects of social, economic, and ecological development that the fair traders have long been championing for. Therefore, the individual critical analysis of these proposals is beyond the scope of this research.

2.2 Historical Background and Context

'Fair trade,' or new trade and investment regimes that may enjoy the advantages of international economic integration while shielding disadvantaged communities from the most harmful tendencies of neo-liberalism, emerged in the 1990s. It was highly advocated by heterodox economists and social movements around the world. Neoclassical trade theorists, in reaction to the free traders, reaffirmed their support for free trade throughout the 1990s and beyond, and even urged for additional liberalization (DeMartino, 2019). This, first of all, points us towards understanding the long and complicated history of free trade in the United, with policies and tactics changing throughout time in response to changes in economic, political, and social conditions. Free trade and protectionist measures have both been enacted at various points in U.S. history, with both having been pushed for by different governments, political parties, and interest groups. The United States has maintained its free trade and protectionist policy mix throughout the last several decades despite shifting its economic and political objectives after industrializing. Since the repercussions of hyper globalization, a byproduct of trade liberalization, have started to be widely experienced, trade imbalances, labor and environmental standards, intellectual property rights, and the effects of globalization on domestic companies and employees have all been the subject of heated discussion and controversy.

Conversely, there was also a concerted campaign in the 1990s to build a global system of "fair trade," driven by a broad mix of activists and academics who adhered to non-mainstream economic ideas. Fair trade advocates used the new trade and investment initiatives of the time, such as the negotiations for the Global Agreement on Tariffs and Trade (GATT), which resulted in the World Trade Organization (WTO), and the North American Free Trade Agreement (NAFTA), to incorporate strong, enforceable standards concerning labor and human rights, child labor exploitation, gender equality in employment, and environmental practices. These guidelines were patterned after the GATT talks that culminated in the World Trade Organization (DeMartino, 2014). Fair trade supporters have said that global economic integration promoted profits and growth by increasing worker exploitation, the wealth gap, and environmental degradation. It has been seen over and again that free trade and foreign direct investments harmed (or obstructed the execution of) social safeguards in countries that already had strong safeguards in place, and that they hindered the development of such safeguards in nations that already had poor safeguards in place.

In recent decades, "fair trade" has been a popular term among academics, socially aware corporations, international development professionals, social movement activists, and morally concerned consumers. Raynolds and Bennett (2015) describes:

> "As a concept, fair trade refers to a critique of the historical inequalities inherent in international trade and to a belief that trade can be made more socially just. This notion is increasingly linked to a set of concrete initiatives that challenge global inequalities and create more egalitarian commodity networks, linking marginalized producers in the global South with progressive consumers in the global North. In moving from abstract concept to grounded practice, fair trade works to transform international trade from a vehicle of exploitation to an avenue of empowerment. In the global South, fair trade seeks to enhance wellbeing – by fostering higher prices and wages, stable markets and employment, better work conditions and environmental sustainability – and to bolster individual and collective capacities – by strengthening information exchanges, social service access, opportunities for self-determination and local organizations. In the global North, fair trade seeks to bolster more equitable trade policies, business models and consumption practices by making available a range of goods that are produced under more socially just and environmentally sustainable conditions." (p. 3)

World Fair Trade Organization (WFTO) declares that the fair trade movement originated when people realized that traditional trading methods were harmful to both society and the environment. The late 1940s and early 1950s are seen as the beginning of the debate over fair trade since it was during this era that talks and campaigns for more equitable trading practices gained traction. The year 1988 was a watershed moment in the growth of the fair trade movement since it saw the establishment of the first Fair Trade Organization, a Dutch organization known as "Max Havelaar." This meeting marked the start of a coordinated campaign to promote fair trade norms in the agriculture and food industries. Each of these company's value fair trade practices. The Max Havelaar label was created to help ensure that small-scale farmers in developing nations were paid a living wage for the things they produced and had access to resources that would enable them to better their communities. A diverse range of stakeholders, including consumers, producers, governments, non-governmental organizations (NGOs), and international organizations, have been involved in the fair trade debate from its inception. As a result of continual discussions, debates, and activities related to fair trade principles, practices, and consequences, the movement has grown in relevance and awareness in the global economy.

According to Lyon (2010), the present fair trade movement is based on a significant and developing contradiction. When faced with escalating poverty and environmental damage in many developing nations, many buyers of fair trade products are motivated by a fierce opposition to the effects of neoliberal globalization. Fair trade, on the other hand, seeks a market-based solution to the issues posed by free markets to promote social justice and environmental sustainability (Lyon, 2010). The World Bank has advocated for market-based fair trade as an alternative to government-enforced labor standards and commodity control schemes, and a recent observer observed that fair trade's "voluntarist, non-statist program has been viewed by public institutions and corporations as fundamentally compatible with neoliberal reforms" (Fridell, 2007).

In a rather contemporary approach, fair trade promotes social justice by embracing deregulated markets, which are often responsible for deepening poverty in rural regions, rather than legal and legislative solutions enacted by governments on behalf of farmers and workers living inside their borders. Consequently, fair trade is often co-opted by the same corporations against which it formerly battled (Lyon, 2010), since its methods of attaining social justice are constrained by the nature of modern markets and the entities that regulate them. In short, Fair trade aims to change North/South commerce from a tool of exploitation to one of empowerment by challenging historically unfair international market relations. via a "trade, not aid" approach, Fair Trade seeks to reduce poverty in the developing world by bolstering producer groups and communities and enhancing the economic security of farmers and workers via more sales at fair prices.

This thesis, however, explicitly examines a critical and progressive approach on fair trade, which includes the state to practice its autonomy and legislate to take, what fair traders' reason are the basic social rights such as: labor standards, environmental standards, gender-based discrimination, out of competition to impede the exploitation based on comparative advantage in global trade. The motivation behind adopting this particular progressive and radical fair trade approach, as opposed to the market based fair trade marked goods approach, is predicated on the inherent tendency of markets to fail.[1] The free market mechanism may not result in the most efficient distribution of resources or may not produce favorable outcomes for the broader community. When market failures occur, it may be necessary to implement government intervention or other corrective measures in order to attain more efficient outcomes or address social objectives. Therefore, this thesis employs the role of government to establish fair trade regimes as suited for ta nation in accordance with overcoming the critical harms explicated by DeMartino (2000) under free trade:

> "When wages, hours and work intensity are removed from competition, the sweating of labor ceases to be a

[1] Market failure is a phenomenon that occurs when the distribution of goods and services in an unregulated market fails to attain an optimal result.

> viable innovation; when consumer safety laws are effectively implemented, the adulteration of input materials becomes unavailable in pursuit of competitive advantage; when strict environmental standards are enforced, new profitable technologies that increase external social costs (e.g., pollution) while reducing private costs are eclipsed by other technologies that reduce social costs." (p. 188)

2.3 Understanding Fair Trade: Theoretical Frameworks

This section establishes relevance of two important economic ideas to the doctrine of fair trade. Fair trade methodologies play a crucial role in promoting sustainable and ethical trade by facilitating the adoption of equitable labor regulations and environmental preservation practices. The fair labor standards prioritize safeguarding the entitlements of laborers, including fair remuneration, secure working environments, and the ability to establish labor unions. The aforementioned statement aligns with the fundamental tenets of the two theories examined in the following sections. In short, these two theories are reasonable compliments to the fair trade theory itself.

2.3.1. Amartya Sen's Capability Approach

Sen's capabilities equality approach provides a strong conceptual foundation for fair trade by essentially highlighting the importance of human well-being, individual capabilities, and social justice. A primary goal of the concept known as "fair trade" is to foster more equitable and ecologically responsible economic operations, particularly with respect to less developed countries and producers on the market's periphery. Sen's capabilities approach is consistent with the goals and ideas underpinning fair trade in a number of fundamental ways. The capability approach places human well-being at the center of development, emphasizing the importance of people's capabilities or freedoms to live a life they value. Human well-being is central to this approach to development. Similarly, fair trade prioritizes the well-being of producers, workers, and communities. Its fundamental purpose is to provide opportunities for these groups' long-term economic development and social improvement. Nussbaum (2000), wholeheartedly agreeing with Sen writes:

> “Sen’s primary use of the notion of capability is to indicate a space within which comparisons of quality of life (or, as he sometimes says, standard of living) are most fruitfully made. Instead of asking about people’s satisfactions, or how much in the way of resources they are able to command, we ask, instead, about what they are actually able to do or to be. Sen has also insisted that it is in the space of capabilities that questions about social equality and inequality are best raised.” (p. 12)

When compared to traditional economic frameworks for analyzing poverty, inequality, and human development, Sen's capability approach has emerged as the most popular option in the recent decade (Clarke, 2006). Sen's criticisms of conventional welfare economics provide the theoretical underpinnings for the capabilities equalities approach (Sen, 1999). Conventional welfare economics tends to confuse well-being with either opulence-commodities or utility-happiness (Crocker, 1992). Clark (2006) outlines how Aristotle, Classical Political Economy, and Karl Marx all contributed to the development of the capabilities approach. Marxist economic theory is also adopted in this thesis to provide another theoretical framework for fair trade.

Fair trade is an alternative strategy suggested by Sen's internationalist definition of capabilities equality, that is, the convergence of capacities at an appropriate, generally accessible, and long-term level (DeMartino, 2000). DeMartino (2000) in his book sets that:

> “The import of capabilities equality in the trade debate is to provide a compelling basis for rejecting neoclassical theory’s strict agnosticism regarding the sources of comparative advantage. The principle encourages us to interrogate the strategies that nations (and indeed, communities and firms) adopt in pursuit of their economic interests, and to adjudicate what should and what should not serve as sources of comparative advantage…nations should be allowed (and indeed encouraged) to adopt strategies that promote capabilities equality and should be barred from undertaking those strategies that interfere with this end. From the capabilities perspective, then, we are likely to conclude that gender discrimination in employment or weak worker health and safety standards do not qualify as legitimate policies. Global policy regimes should therefore disallow (or counter the effects of) such strategies in the formation of comparative advantage.” (p. 208)

The capability approach prioritizes addressing social inequities such as economic inequity, discrimination, and exclusion. This is because the method realizes that in order to be successful, social justice must be prioritized. Fair trade strives to eliminate the global economic gaps that exist between various groups of people by encouraging fairer trading practices such as paying fair prices to producers, permitting market access, and promoting social and environmental sustainability.

The capabilities approach emphasizes the need of prioritizing the capabilities of society's most vulnerable and disadvantaged groups, such as women, children, and the poor. This shows compassion for disadvantaged populations. Similarly, fair trade prioritizes the rights and well-being of underprivileged producers, workers, and communities in order to empower these people and communities and increase social inclusion. Furthermore, it accentuates the importance of sustainable development, which is development that is holistic in character and considers social, economic, and environmental elements of development. Fair trade attempts to support sustainable production and consumption practices, such as organic farming, fair pay, and environmentally friendly production processes, in order to ensure the long-term well-being of producers, workers, and the environment. Not only this, but the capabilities equality approach also recognizes the importance of ethical issues in the formulation of development policies and practices. These concerns may include issues of democratic government, social justice, and human rights. Similarly, ethical issues are integrated into commercial methods and relationships via fair trade. Fostering transparency, accountability, and participatory decision-making are among the ethical factors.

Sen's capability approach, in general, provides a theoretical foundation for fair trade. Since it prioritizes human well-being, social justice, sustainability, ethical concerns, and the empowerment of underprivileged producers and employees, therefore, its ideals and ideas are compatible with fair trade. This approach highly stresses the need of addressing social and economic inequalities, since these imbalances have the potential to limit people's capacities and freedoms. Due of its focus on competitive markets and profit maximization, free trade has the potential to exacerbate disparities by providing strong nations or firms an edge over economies that are less developed or smaller. As a consequence, rewards and opportunities are distributed unevenly (Sen, 1999).

The capabilities approach, as proposed by Amartya Sen, is a theoretical construct that offers a more comprehensive outlook on human welfare and progress, surpassing conventional metrics such as financial resources or economic advancement. The capabilities approach prioritizes agency and freedom, highlighting the significance of an individual's capabilities to lead a life of personal value and to exercise autonomy in making choices that promote their overall welfare. Moreover, it places significant importance on the development of human potential, encompassing a diverse set of skills and abilities that are essential for individuals to achieve a sense of personal satisfaction and underscores the significance of tackling social disparities and advocating for social equity. The capabilities approach prioritizes a comprehensive assessment of well-being that is sensitive to the contextual factors that shape the social, cultural, and economic realities of individuals.

The fair trade regime aims to achieve a harmonious equilibrium between policy autonomy and universal commitments/rules[2]. The fair trade approach aims to impose specific constraints on policy autonomy, such as prohibiting the utilization of child labor and prison labor. However, it simultaneously aims to maintain policy autonomy regarding the methods employed by each nation to accomplish the objectives outlined in the fair trade system. This thesis will attempt to emphasize on inclusion of fair labor and environmental rights are also strongly complemented by the capability approach, since Sen's theory emphasizes the need of decent work and fair labor conditions as necessary components of human happiness. Further it will emphasize on the need for achieving a balance between policy autonomy and universal commitments to labor, human, and environmental protections as imperative.

Free trade may result in a "race to the bottom" in labor standards as countries compete for investment and trade by reducing worker protections, cutting worker costs, and undermining worker rights. This may result in employee exploitation, the

[2] Since several neo-classical economists support the notion of free trade by arguing that governments ought to possess extensive autonomy in labor and environmental policy. They contend that comparative advantage, which is based on varying labor and environmental standards, can be justified by cultural relativism.

establishment of dreadful working conditions, and the violation of basic labor rights, particularly in less developed countries (Ghosh, 2015). Additionally, the capability approach recognizes the importance of environmental sustainability to human well-being, both now and in future generations, and emphasizes this component of human flourishing. With its emphasis on economic growth and the unrestricted movement of goods and services, free trade can lead to environmental degradation, natural resource depletion, and pollution, all of which contribute to climate change and undermine the capabilities of vulnerable communities, particularly those in developing countries (Martinez-Alier, 2002).

Since there has been excessive disagreement on the idea of having universal labor and environmental laws, the capabilities equalities approach provides a significance of local autonomy and self-determination in the process of building culturally acceptable development routes that are responsive to local needs and values. When countries are forced to conform to global trade laws and regulations that may not correspond to their local values, cultures, or priorities, free trade may result in the loss of local autonomy. This is due to the fact that nations are required to comply with global trade laws and regulations (Nussbaum, 2000). The capabilities equality approach emphasizes the need of establishing democratic governance and participatory decision-making when developing development strategies and objectives. Consequently, power is concentrated. Free trade agreements, which are typically negotiated between strong governments or businesses, may concentrate power in the hands of a few and undermine democratic governance, resulting to the exclusion and limitation of disadvantaged groups. FTAs are often negotiated between strong nations or enterprises (Lustig et al., 2010).

Many neoliberal proponents fail to see that free trade doctrine puts the market, rather than the state, in charge of meeting social, environmental, and monetary commitments (Edelman and Haugerud, 2005)[3]. Contrary to that, numerous advocates of fair trade say that the "free market" terminology utilized by governments in developed countries is essentially disingenuous. They observe that these governments utilize global institutions such as the IMF and WTO to compel subsidy elimination in developing countries while retaining protectionist policies in their own economy (Stiglitz 2002). Therefore, governments in the industrialized North dump a major amount of their surpluses at cheap prices on deregulated markets in the global South, much to the disgust of local farmers (Fridell, 2007).[4]

The capabilities approach, as we have seen, proposes that the enhancement of human capacities, rather than economic growth, should serve as the primary goal of development. While expansion is often crucial to progress, it is not always enough. Dreze and Sen (1989) and Sen (1999) outline two major categories of development: growth-mediated and support-led. The former is put into action through quick and widespread economic development, which paves the way for an increase in fundamental capacities via more employment, greater income, and enhanced social services. The latter is effective because of well-designed social programs that promote health, education, and security. In times of disaster and suffering, public action plays a vital role in both directly supporting capacities and increasing political pressure for governmental involvement (Clark, 2006).

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[3] This is also a fundamental rationale for advocating a more progressive and radical stance on fair trade as opposed to the certification-based fair trade model that operates within the framework of the free market.

[4] This happens because the North subsidizes its agricultural sectors by an estimated billion dollars per day.

The CA can be widened by including agency, which acknowledges that people have values and goals (like protecting the environment, buying free trade products, or fighting injustice, tyranny, and oppression) that go beyond and, at times, even contradict individual happiness. Inequality, social justice, living standards, and rights and responsibilities are now focal points in the capabilities approach (Clark, 2006).

The capability approach, developed by Amartya Sen and Martha Nussbaum, emphasizes the importance of human capabilities and well-being. DeMartino (2000) reasons that for fair trade to have the potential to develop skills and well-being, it must ensure that people are paid fairly, and that environmental sustainability is recognized. In this context, "capabilities equality" refers to the idea that everyone should have equal access to the capabilities needed to live a happy life, such as educational and medical opportunities, as well as economic chances. According to the capabilities approach, developed by economist and philosopher Amartya Sen, real equality can be achieved only when everyone has equal access to specific talents, rather than just equal access to resources. True equality can only be achieved in this manner. Fair trade, on the other hand, is a commercial practice that assures farmers and other employees in developing countries are paid a salary commensurate with the worth of the items they create. This business model was created in order to make international trade more equal. Fair trade principles often involve paying producers fair rates, providing employees with safe and healthy working conditions, and contributing to the prosperity of local communities.

In a nutshell, there is a clear relationship between capabilities equality and fair trade. We can increase the likelihood that people in developing countries will have access to the opportunities and resources they need to live a meaningful life if we fight to strengthen fair trade practices. This includes sufficient remuneration for their work, access to educational opportunities and training, and the ability to participate in decision-making at the local level. By striving to promote equality in capabilities, we can contribute to ensure that all individuals, regardless of where they live or what resources they have, have the opportunity to live lives that are significant to them.

2.3.2. Marxist Economic Approach

The framework and concept of fair trade also correspondences with Marxist Economic approach. Many heterodox economists contends that Marx's ideas are still relevant today (McGonnigal, 2012; Eagleton and Mosquera, 2011; Hudson and Hudson, 2003; Webb 2007; Geysmans and Hustinx, 2016; Nilsen, 2020). Marx's ideas are more pertinent now than they have ever been, particularly in the dispute between those who support free trade and those who support fair trade. It is widely observed that hyper globalization is one of the most critical challenges that the global economy at the present time is prone to face. Therefore, as fair traders are advocating for stern solutions to this problem, we need to refer to Marx's very convincing indictment of capitalism (Hudson and Hudson, 2003; Webb 2007; Geysmans and Hustinx, 2016; Nilsen, 2020). Hence, it is safe to conclude that distresses, such as labor exploitation and environmental degradation, stemming from capitalism, as evident by Marx’s writings, are significantly what the fair traders are concerned for. Marx in Capital Volume I, demarcates that:

> “Capitalist production, therefore, only develops the techniques and the degree of combination of the social process of production by simultaneously undermining the original sources of all wealth the soil and the worker.” (p. 638)

This thesis explores exploitation of cheap labor and poor environmental standards out of many problematic outcomes of globalization. Numerous academic disciplines, including economics, politics, sociology, history, and anthropology, have conducted research on the idea of exploitation, each arriving at a somewhat different theoretical framework as a result (Berger-Tal, 2014; Sindzingre, 2018). Because of its centrality in Marx's works, the Marxist ideas and disputes around the notion have become de facto canonical texts for future examinations of the subject (Sindzingre, 2018). The idea of exploitation, as well as the question of what exactly constitutes exploitation and how it should be defined, has been the topic of driven contentions in the trade debate. However, unfortunately, for whatever reason, exploitation has always been considered nothing more than a simple reality (Krugman, 1997); nonetheless, it is also a notion that needs critical reexamination.

According to neoclassical economic theory, exploitation occurs when a producer gets paid less than the marginal output of a given production factor (Hodgson, 1980), and therefore, to maximize the returns the trade should take place based on comparative advantage (Ricardo, 1817). Marx's view, on the other hand, is that workers are exploited whenever they generate surplus value above what they are paid for it. This is because capitalists use coercion over the labor process to appropriate this surplus value (Sindzingre, 2018). To Marxist point of view, exploitation refers to the process through which workers hand over their economic surplus to capitalists. Yoshihara (2017) delineates that one of the chief characteristics of exploitation in a capitalist system is the unequal exchange of labor among workers. This explicitly resonates with the aim of fair traders to advocate for fair labor standards for all laborers, in both developed and developing countries.

To understand Marxist Economics as a framework for fair trade, first we need to understand his commodity fetishism. Personifying objects and economic classifications are what Marx defines as "commodity fetishism" (Marx, 1887; Hudson and Hudson, 2003). Anything that can be witnessed when the part of social connections that overshadows individuals, manifests themselves externally as domination by specific items is the objectification of production relations between people under the circumstances of commodity production based on private ownership (Hudson and Hudson, 2003). The capitalist personifies capital as a production relation, whereas the worker represents wage labor. The exploitation of man by man, which is hidden by the payment of wages, is only one illustration of the pervasive fetishism that penetrates all economic categories of capitalist society. Commodity fetishism reaches its pinnacle when one becomes obsessed with accumulating wealth and material possessions (Marx, 1887).

Marxist economic theory critiques the concentration of power in the hands of multinational corporations under capitalism. In his book Capital: Critique of Political Economy, Marx elaborates on the process by which people go from being passive holders of money (capital) to active capitalists who put others to work for profit (1867). As Marx puts it, "dead labor" is put to use by "living labor," or workers, to create new value. Marx considers the physical means of production to be a source of value since they are utilized by workers and are the result of the activity of previous workers. There are two points of argument he raises. He begins by saying that employees add value to the physical means of production by using them. Even while it adds to the economy, labor is nonetheless abused. In a fascinating phrase at the end of chapter six, Marx in Capital Volume 1, envisions a stylized exchange between the "owner of money" and the "owner of this peculiar commodity, labor-power," who meet in a marketplace to trade their respective possessions. They get together as equals in order to do this transaction, but then:

> “On leaving this sphere of simple circulation or of exchange of commodities, which furnishes the “Free-trader Vulgaris” with his views and ideas, and with the standard by which he judges a society based on capital and wages, we think we can perceive a change in the physiognomy of our dramatis personae. He, who before was the money-owner, now strides in front as capitalist; the possessor of labor-power follows as his laborer. The one with an air of importance, smirking, intent on business; the other, timid and holding back, like one who is bringing his own hide to market and has nothing to expect but — a hiding.” (p. 280)

This thesis attempts to understand how the closest form of Marx's ideal society can be achieved by implementing fair trade initiatives and understand the essential problems rooted within David Ricardo's theory of comparative advantage and specialization which is seen as the most straight and basic definition of free trade (Ricardo, 1817). Under a free trade regime, restrictions like tariffs, quotas, and sanctions are not in place, and to maximize output while minimizing input costs, it emphasizes a cost-benefit analysis of manufacturing only. However, Marxist ideas like reliance and exploitation can be traced back to the fair trade doctrine (Eisenberg 2005).

To improve trading circumstances, fair trade primarily aims to strengthen cooperation, conversation, transparency, and respect. To ensure that mass productions, especially factories producing on FDIs, produce under conditions of no child labor, environmental sustainability, strict labor standards, and various regulations to ensure worker safety, fair trade advocates work to encourage states to practice policy autonomy and establish their own ideal labor and environmental standards (Fridell, 2006). In a nutshell, the major objective of fair trade policies is to enhance working conditions for the sake of worker safety and the reduction of other unfavorable consequences of globalization. According to Eagleton (2015), this means that "decisions on the overall allocation of resources" would be set by representative assemblies at the local, regional, and national levels, and that "an economy which would be neither centrally planned nor market governed" will serve as a shorthand for the Marxist vision.

In light of this, this thesis evaluates fair trade as a model of 21st-century Marxist economics in international commerce. Since Marx's criticism is congruent with the problems that fair trade seeks to solve, the Marxist economic approach is utilized as the basis for the fair trade approach in this thesis. Marx postulated a vision of societal alterations and a phase of metamorphosis towards improvement. He held the belief that the ultimate goal ought to be the overthrow of capitalism and the establishment of a socialist community. Nevertheless, the implementation of reforms that tackle the fundamental social challenges is necessary to achieve this objective. Marx posited that the elimination of capitalism required a revolutionary struggle by the proletariat, aimed at obtaining dominion over the means of production and establishing communal ownership. Marx's critique of capitalism centered on the exploitation of laborers and the inequitable distribution of wealth. In a similar vein, the fair trade movement attempts to tackle issues of exploitation by advocating for trading practices that are more just and balanced, as well as regulations that promote fair labor and environmental standards, and mechanisms for ensuring accountability.

Holland (2015) argues that the concept of comparative advantage, which originated with Ricardo, is a flawed basis for economic policy because it assumes immobility of capital while, in reality, FDI has been the primary force behind the expansion of international trade since World War II and the confirmation of Marx's claims of unequal development. He explains that this has led to unequal results, undermining the Bretton Woods system established after World War II, and he proposes a post-Ricardian and post-Keynesian conceptual framework for global government, which this thesis argues may fundamentally be a system of free and equitable commerce. Marxist economic theory emphasizes the exploitation of labor under capitalism - a bigger canopy to put neo-liberalism under (Marx, 1877; Eisenberg, 2005), where workers are often subjected to poor working conditions, low wages, and exploitation by employers. Which again points towards the immediate and effective inclusion of labor laws in trade agreements, such as those related to minimum wages, working hours, and workplace safety, to help protect the rights and well-being of workers. By promoting fair labor standards, trade agreements can help address exploitation in global supply chains, ensure that workers are treated fairly, and prevent a race to the bottom where countries compete by lowering labor standards to attract investment (Gitterman, 2003; Burgoon and Hiscox, 2000; Drezner 2001; Van den Putte and Orbie 2015). This perfectly aligns with Marxist critique of exploitation which contributes to more equitable and just labor associations in international trade.

Further, Marxist economic theory also emphasizes the importance of workers' rights and collective bargaining power in challenging the power imbalances between labor and capital. Marx also argues “that unions and strikes were a vital means to militate against exploitation and wage the class struggle against capitalists” (Hampton, 2008). Labor laws in trade agreements can help promote workers' rights, such as the right to organize, bargain collectively, and engage in peaceful strikes (Kim and Park 2014). By empowering workers to have a voice in their working conditions and wages, labor laws in trade agreements can help rebalance power dynamics in global supply chains and promote more democratic and participatory workplaces (Dorman, 1988). This brings into line Marx's emphasis on the role of collective action in advancing workers' interests and can contribute again to more equitable and inclusive labor relations. Marxist economic theory critiques the social inequalities generated by capitalism, including wealth concentration and income disparities. Labor laws in trade agreements can include provisions that promote equitable distribution of economic benefits, such as requirements for fair wages, gender and racial equality, and social protection measures (Dorman, 1988). By addressing social inequality, labor laws in trade agreements can help promote social justice, reduce disparities, and contribute to more inclusive and equitable societies which has also been Marx's staunch emphasis on addressing inequality in economic systems, and can therefore, contribute to more just and balanced trade relationships globally.

Marxist economic theory, like fair trade, recognizes the environmental impact of capitalism as well, including environmental degradation, resource extraction, and climate change (Foster, 2014). Environmental laws in trade agreements can include provisions that promote environmental sustainability, such as requirements for environmental standards, conservation measures, and sustainable resource management. Promoting environmentally responsible production and trade practices, environmental laws in trade agreements can help protect the environment, prevent ecological harm, and contribute to sustainable development (Esty, 2001; Runge, 1994; Rodrik, 1997; Summers, 2000). This aligns with Marxist recognition of the interdependence between economic systems and the environment and can contribute to more sustainable and responsible trade relationships (Burkett, 2006).

Fair trade activists have helped radicalize and grow ecological defense groups around the globe as globalization's effects on the environment have deteriorated. This has led many scholars to return to Marx in search of more holistic, dialectical explanations of the social degradation of the environment (Foster, 2015; Foster and Holleman, 2014). To such an extent that it is embedded in the very framework of Marx's value analysis (Burkett, 2006), the alienation of nature is a central part of Marx's criticism of political economy and, by extension, of capital. He also underlined that people were a part of nature and the inherent conflict between their use value and their trade worth. Marx and Engles characterize the work and production process as a component of the "universal metabolic process" (Marx and Engles, 1861–1863, p. 63). Marx described socialism as the "rational regulation by associated producers of the metabolism between humanity and nature," (Burkett, 2006). Marx argued that no one, not even all the people on Earth, owned the planet, but rather that they only possessed it in usufruct as "good heads of the household," and that they owed it to future generations to pass it on in better form than they had inherited it. (Marx, 1894 : 911, 959). For instance, Marx argued that "Man lives on nature—means that nature is his body, with which he must remain in continuous interchange if he is not to die" (Economic and Philosophical Manuscripts, 1844) in order to explain how humans depend on the natural world. Because man is a part of nature, the fact that nature is essential to his bodily and spiritual well-being is equivalent to saying that nature is essential to itself. Marx (1873) explains that:

> "It is not the unity of living and active humanity with the natural, inorganic conditions of their metabolic exchange with nature, and hence their appropriation of nature, that requires explanation or is the result of a historic process, but rather the separation between these inorganic conditions of human existence and this active existence, a separation which is complete." (p. 489)

The sustainable development aspects of shared resources, co-evolution, and common property are all accounted for in Marx and Engels' communist approach. In addition, this perspective integrates environmental and social scientific approaches in a manner that is both practical and intellectual, which is in keeping with the multidisciplinary nature of ecological economics (Burkett, 2006).

According to Burkett (2006), the rising global revolt against dominant economic institutions (transnational businesses, the IMF, the WB, and the WTO) is driven by the need for more egalitarian and ecologically sustainable living options, which this thesis attempts to prove is a worldwide fair trade regime. The market, private profit, and other kinds of exploitation and oppression are not the driving forces behind human growth, he argues, and this movement requires a framework for the discussion, reconciliation, and implementation of alternative human development methods driven by life values.

If this interpretation is right, then environmentalists' (fair traders) ultimate goal must be the eradication of capitalism rather than incremental reforms inside it. We need to build a society based on collaboration, economic democracy, and long-term sustainability to prevent ecological disaster (Gasper, 2013).

In Capital, Volume 3, Marx lays forth his vision for such a society:

> "From the standpoint of a higher socio-economic formation, the private property of particular individuals in

> the earth will appear just as absurd as the private property of one man in other men.
> Even an entire society, a nation or all simultaneously existing societies taken together are not owners of the earth, they are simply its possessors, its beneficiaries, and have to bequeath it in an improved state to succeeding generations, as *boni patres familias* [good heads of households]." (p. 911)

Their most in-depth examination of this issue was found in Marx's Speech on the Question of Free Trade, which was presented in Brussels in January 1848, just before to the publication of the Communist Manifesto (Hampton, 2008). In response to the question of "what is free trade under the present condition of society?", Marx (1848) makes the argument that:

> "When you have overthrown the few national barriers which still restrict the progress of capital, you will merely have given it complete freedom of action. So long as you let the relation of wage labor to capital exist, it does not matter how favorable the conditions under which the exchange of commodities takes place, there will always be a class which will exploit and a class which will be exploited. It is really difficult to understand the claim of the free traders who imagine that the more advantageous application of capital will abolish the antagonism between industrial capitalists and wage workers. On the contrary, the only result will be that the antagonism of these two classes will stand out still more clearly." (para. 1)

In his criticism of capitalism, Marx addresses a variety of topics, including political impotence as a result of capitalism, the exploitation of the worker class, income inequities, and more (Eagleton 2011). Labor and environmental laws in trade agreements can help challenge corporate power by regulating the activities of corporations in global supply chains, setting standards for their operations, and holding them accountable for their social and environmental impacts (Chapman and Suri, 1998; French 1993). By promoting transparency, accountability, and responsible business conduct, labor and environmental laws in trade agreements can help prevent corporate abuses, promote corporate social responsibility, and contribute to more balanced and accountable trade relationships. This aligns with Marxist critique of corporate power and can contribute to more equitable and just global economic governance (Gasper, 2013).

2.4 Fair Trade Policy Proposals

Fair trade presents an alternative approach to international trade, with the aim of promoting ethical and sustainable practices. The emergence of the fair trade concept was a direct response to the exploitation of workers and small-scale producers in developing nations by multinational corporations that prioritize financial gain over the welfare of individuals and the environment. Various fair trade initiatives provide a set of viable solutions to tackle the aforementioned concerns through the promotion of equitable remuneration, secure labor conditions, and ecological preservation. It is important to note that these proposals have their own limitations. The discussion about their limitations is beyond the scope of this study but nevertheless important.

2.5.1. The Social Charter Approach

The social charter is a widely supported strategy for accomplishing the objective of setting up a fair trade regime. If a country wants to join a single market, it must sign on to a social charter promising to maintain a certain baseline of social protections. These rights, which may be seen as reflecting what member states consider to be valuable functions, are established via multilateral discussions among the concerned States. As a result, the charter might be seen as laying forth minimum standards for competence in the single market. Proponents argue that if a country has a strong enough charter, it will not engage in immoral actions in order to gain a competitive edge. Europe is the birthplace of the modern social charter movement.

Several North American fair traders, inspired by the European approach, which was included in the 1992 European integration talks, fought unsuccessfully to get a social charter included in NAFTA. The Charter guarantees a wide range of rights, from those in the workplace to those of children, the old, and the handicapped (Kraw 1990). For instance, Brown et al., noted that the draft charter included steps to strengthen the social safety net and boost community and worker participation in upholding basic environmental and labor norms (1992).

In 1993, Rothstein debriefed about the international labor laws and international trade that:

> "The Clinton administration has many opportunities to expand American export markets in the Third World, as well as to protect U.S. jobs from unfair low-wage competition, by a policy which gives greater emphasis to internationally recognized labor standards. The policy must be guided by a new international development strategy which recognizes that higher wages and the creation of internal markets are as important to Third World development as export opportunities." (p. 31)

Although the final, agreed-upon Charter falls well short of its proponents' hopes, certain (limited) social and labor norms are standardized throughout Europe (Silvia 1991). Hence, the social charters are there to help regular people and solve their concerns and as a result provide a level playing field for all the economic stakeholders, specially the labor.

Hence, modern trade agreements must adopt a cooperative strategy that prioritizes capacity-building and fosters active citizen participation, with civil society in each country guaranteed the legal standing to bring instances within the context of a renegotiated agreement (Castaeda and Heredia 1992).

The basic premises behind each of the NAFTA parallel track institutions are important for charting the course of future trade and environment efforts, even if the specific structures and functions of the NAFTA parallel track institutions are perhaps best suited to the particular circumstances of the NAFTA. Important lessons for future trade and environment efforts can be learned from NAFTA's Environmental Provisions. The implementation of these laws, together with the successes and failures that occur as a result, will serve as an important laboratory for nurturing solutions to many trade and environmental concerns. We can no longer treat trade agreements like NAFTA as if they were corporate bill of rights (Castafieda and Heredia 1992).

Our national governments are jeopardizing our ability to meet urgent ecological concerns because they do not fully understand or effectively address the environmental implications of current trade agreements. This was found to be the case by (Shrybman 1992) that to pacify the fair-traders in Congress, the Clinton administration negotiated two side agreements to NAFTA on worker rights and environmental preservation. While all three signatories must adopt their own labor and environmental rules, it is vital to remember that the side agreements do not impose a unified standard across the continent (Hufbauer and Schott, 1993). There are many promising aspects to the social charter approach, but it also has some significant weaknesses.

2.5.2. The Social Tariff Approach

Alternatively, "social tariffs", a unilateral approach, could be applied to products made in countries with less robust labor and environmental protections. The objective of this strategy is to prevent the loss of progress made in nations with high standards of labor and environmental protection while simultaneously encouraging the adoption of such standards in countries with lower ones. It aims for this by eliminating the benefit that enterprises with lower standards over their competitors have (Lebowitz 1988). There could be a number of benefits to implementing an environmental tariff in order to create a more equitable trading system (Chapman 1991). He further elaborate that the funds raised could be used to finance pollution control in developing countries, some part of the tariff funds could be allocated for research on the general problems of transnational externalities and world pollution, and producer resistance to pollution control would be diminished.

Environmental protection groups in developing nations would have a stronger domestic political position with the help of a social tariff. Further, businesses that invest in cutting-edge pollution-prevention technology would benefit economically. Due to the minimal possibility of low-standard countries agreeing to multilateral accords that contain a social tariff, a properly structured tariff would be levied unilaterally by the high-standard country (Dorman, 1992). Tariffs would be adjusted on a product-by-product basis (rather than being applied uniformly to all exports from an offending country) to negate the competitive advantage gained due to substandard products. According to this strategy, tariffs would be based on a country's own standards.

In his brief paper, Rothstein (1993) outlines why he thinks the United States should prioritize improving working conditions in developing countries. According to him, the consequences of slow growth in the developing world are rarely considered in policy debates. Hence, he proposes, the opportunity to submit complaints with the commission should be granted to workers or enterprises that claim to have suffered a competitive disadvantage because another NAFTA member has failed to observe agreed upon labor standards. The commission should have the authority to impose compensation tariffs or limit cross-border commerce in the relevant product if it finds that labor standards have been violated. The NAFTA countries should set up a "social tariff" to protect North American standards from being eroded by low-wage imports from countries outside of NAFTA. To prevent low-wage imports from non-NAFTA countries from undermining North American standards, the NAFTA countries should implement a "social tariff" (Rothstein, 1993). In summary, the idea for a social tariff would have workers and/or businesses that feel they have been disadvantaged by unfair competition from foreign enterprises who exploit lower standards petition an established authority for restitution in the form of a tariff. The authority would make a decision based on the merits of the petition after hearing evidence from both sides. The goal of the social tariff strategy is to eliminate competitive advantages gained at the expense of the environment or workers' rights.

By safeguarding domestic employees and the environment, as well as pushing foreign producers to improve their labor and environmental standards, proponents of social tariffs claim this method can help to achieve fair trade. However, critics point out that social tariffs are difficult to administer and enforce and might result in trade disputes and retaliation. To promote equitable trade, governments have implemented social tariff regimes, which are essentially import levies. Tariffs are used with the intention of leveling the playing field between domestic producers and their foreign competitors, especially in sectors where labor and environmental standards are lax in the exporting country. Social tariffs are based on the idea that home companies and workers should be protected from cheap imports by imposing higher taxes on items produced in countries with worse labor and environmental standards. This strategy would also push international manufacturers to raise their working conditions and environmental protections to compete in the U.S. market. A government may raise tariffs on clothing made in countries with lower labor standards in order to safeguard its domestic clothing industry and its workers. This would provide international apparel manufacturers an incentive to raise their working conditions so they can compete in the U.S. market.

2.5.2.1. Social Index Tariff Structure (SITS)

DeMartino, Moyer, Watkins's (2014) thought experiment on fair trade is a worth mentioning proposal under social tariff regimes. This experiment is an attempt to propose a method of ethical trade. It advocates for capability-based development, equality, and worldwide economic integration. SITS regime could be a global trade system that promotes positive trade performance and growth while penalizing export-promoting policies that harm human development, equality, or sustainability social tariffs at the multilateral level (DeMartino et al., 2014).

In this approach, an index number is assigned to each country based on its efficacy in promoting the average capabilities of its population relative to its means, sharing these capabilities evenly, and displaying a commitment to sustainability. This index ranks the capabilities of nations, and would encourage similar countries to trade with each other. Under this approach, a social tariff will be imposed when one country exports to another with a higher index number. SITS regime construction entails a number of judgment-based processes. SITS, on the other hand, reveals the normative ideals that underpin any international trading regime, which is a positive thing.

It begins with a capability performance measure for the country. The yearly UNDP Human Development Index (HDI) produced by the HDR is a first approximation of a capability indicator that allows for worldwide comparisons (DeMartino et al., 2014). The HDI takes into account income, life expectancy, and education, and the countries are ranked based on their human development.[5] Since, systemic injustice is frequently caused by class, gender, ethnicity, color, and other variables, and they fall short of capabilities equality, therefore, further data is required to create a capability-equality index In the lack of good cross-national data, income inequality data was used as a proxy for these various types of inequality. In the absence of a consensus measure of wealth or income inequality, SITS computations use the GINI coefficient for income, which is relevant and available for most countries (DeMartino et al., 2014).

The global SITS index highlights countries that have made significant social improvement. Unlike the free trade regime, which affects FDI inflows and trade performance, the SITS regime would reward governments that improve labor and environmental standards with development assistance and increased access to global markets. SITS protects employees and communities from global neoliberalism's temptations to accept lower wages and less protective standards in order to stay employed.

[5] The HDI is a composite indicator that does not directly reflect capability disparities across countries.

In contrast to global neoliberalism, the SITS system promotes human growth, equality, and sustainability while punishing those who do not. The SITS regime's index component determination and weighting, tariff band groupings, tariff sizes, conditions under which nations in distress due to natural or societal disruptions might opt out of SITS or be granted unrestricted access to others' markets, and so on are all customizable. Political, economic, normative, and practical issues all influence trading systems. SITS is purposefully unclear. This component of SITS assists in balancing the various concerns and aims that are usually present in global policy frameworks.

The authors of this thought experiment deem it as ethical since it requires wealthy countries to contribute the most and provides low-income countries with human development resources. To help low-income countries from trade, SITS revenues may only be distributed to countries with GDP per capita less than a multiple of the global average. Tariffs for SITS reflect capabilities, whereas development funding may be motivated by present operations. As a result, good performance leads to lower SITS fines but not awards, increasing a country's net benefit. SITS enhances performance by increasing market competitiveness and revenue distribution. It protects high-performing employees (for example, those with robust labor laws) and motivates low-performing employees. A SITS regime promotes a free trade order by requiring countries to pursue comparative advantage in ways that advance the regime's objectives.

The SITS experiment advocates for human and worker rights as the foundation of capabilities, and therefore, delineates that trade regimes must priorities subjects as worker and human rights, labor passivity, low salaries, gender-based oppression encompassing physical coercion over women's bodies, unequal household chores, discrimination in formal labor markets and public institutions under the state law. Human abilities are influenced by environmental quality. Environmentalism gives future generations power. For justice, fair trade must support ecological sustainability. Environmental performance should be measured. Environmental indices rank countries. For each indicator, long-term public health or ecological sustainability goals are established through international standards, leading national regulatory requirements, or scientific agreement (Emerson et al., 2012). It is concerned with growth strategies and their outcomes. SITS would penalize labor exploitation and environmental degradation in global markets. SITS that promotes trade. SITS has no impact on globalization. The dynamics of trade and investment promote human growth, equality, and sustainability. Incentives for market integration shift. "X" methods must be excluded from competition because they promise victory at the expense of political, economic, and environmental devastation (DeMartino, 2000).

2.5.3. The Sullivan Principles Approach

Another approach would be for wealthy nations to mandate that their home companies operating abroad respect basic human and environmental rights while investing in poorer nations. Drawing parallels to the "Sullivan Principles," which mandated that American companies with assets in South Africa at the time of apartheid abide by American anti-discrimination laws, Jagdish Bhagwati (1993), a proponent of free trade, proposed this technique in the context of North American integration. Bhagwati, a staunch free trade advocate, only recommended this course of action as a last resort to calm the anti-NAFTA emotions that threatened to sink the accord. This plan can be understood as exemplifying fair trade ideals regardless of its origins or the intentions of its architect.

Critics have labeled the relocation of businesses from high-standard countries to poor countries as "social dumping," and the Sullivan Principles aim to put an end to this trend. Followers of Bhagwati believe this tactic effectively eradicates social dumping without encroaching on the sovereignty of the host country. We've seen that Bhagwati disagrees with holding less-developed nations to the same criteria as more-advanced nations. It would be an affront to their independence, he says, and their economy would suffer as a result.

While critics of NAFTA have called for other signatories to adopt strong environmental regulations similar to those in the United States, this idea has been roundly rejected by Bhagwati. He elaborated that in the similar manner that United States prioritize different areas and sectors when allocating funds to meet its environmental goals, so must other signatories. It is ridiculous to assume that other trading partners will adopt a specific country's norms and values, which are nonsensical because that country would not accept them if they were crafted by anybody other than themselves. He further argues that no nation should be forced to adopt the development policies of another. While the concept of sovereignty is important, it must be weighed against the competing idea of equal freedoms to pursue goals that individuals have reason to value. The Sullivan principle was a close second to the free trade system in Bhagwati's estimation. He felt that the method preserved the sovereignty of poor countries while yet addressing the main concerns of fair traders (DeMartino, 2000).

Therefore, the goal is to craft policies that encourage this result without requiring all nations to take the same action. In this respect, the Sullivan Principles falls short. The lack of mechanisms to guarantee that the higher standards are implemented throughout the low-standard countries receiving investment is a major flaw in the proposal. It discourages FDI while offering no proactive inducement (like money) to boost QC at home. Only a small fraction of the people engaged by multinational corporations from underdeveloped countries are affected. As Bhagwati sees it, this might have a "demonstration impact," encouraging NGOs and other groups to push for widespread adoption of the higher standards enforced by international firms. This thesis does mention the shortcomings of this proposal, however, providing an alternative better solutions is beyond the scope of this research.

Given the relatively weak rights to association and political speech in many low-income countries, it is debatable whether this demonstrable influence will be sufficient to achieve universal improvements in rights and living standards without extra steps. Like the social tariff system, the Sullivan Principles policy leads nowhere. It is seen that unilateralism can be used for nationalist aims that have little to do with the policy's original motivation, despite any economists' praise. The African National Congress fought against this method when it was employed to exert pressure on South Africa (ANC). The African National Congress (ANC) was accused of caring more about the profits of foreign firms than about the welfare of black South Africans (DeMartino, 2000).

2.6 Conclusion

This chapter analyzed the developments in fair trade theory's advocacy in context with its historical background, the perspective which is relevant to our study, and its policies and practices under organized purview. It was found that nearly every single contemporary industrialized country has, at some point in the course of their economic development, enacted severe rules and regulations, as well as formulated its own requirements prior to participating in trade liberalization. Therefore, the big trading entities like WTO essentially include the freedom for contemporary developing countries to practice their policy autonomy and formulate their own fair trade polices when they enter in trade agreements. These entities should be there mediate the agreements and not impose the liberalization restrictions as favorable for the developed countries. Not only this, but the main goal of any international trade agreement should also be to ensure that human development and environmental conservations takes indefinite lead over merely generating trade flows and profits. This will be discussed further in detail in Chapter 3.

Chang and Green (2003) present favorable argument as:

> "The tightening-up of foreign investment regulation after the Second World War by these three countries (UK, France and Germany) reflected the changes in their status in the world of international investment. As they exchanged places with the USA, becoming net recipients of FDI, rather than net providers, they adopted the same restrictions on foreign investment that they had previously criticized when the USA had used them. This suggests that countries have used, and indeed should use, different policies towards foreign investment according to their role as investment providers or receivers. Since developing countries are today almost always at the receiving end, it follows that they too need, and should be allowed to have, significantly more freedom to regulate foreign investment in their long-term interest than do the developed countries." (p. 16)

The chapter defends the point of view of various heterodox economists and social and human rights activists in favor of adopting an internationalist egalitarian perspective in criticism to mainstream view of free trade, since 1990s. It provides a background, context and two important economic framework that can be analyzed to understand and champion for a fair trade regime. Many heterodox economists pursued a rather comprehensive movement to advocate for multilateral fair trade regime (DeMartino, 2014). Economic policy makers, if they really want humanity as a whole, and individual societies within, to develop to its full potential and become an ideal society needs to divorce from their fetishism with increased economic returns and focus on devising policies that prioritize human development and environmental conservation.

Chapter 3: A Brief History of International Trade Theories and their Impact on Globalization

3.1 Introduction

There still exists wide global consensus on free trade as the best international trade policy. Many economists still advocate their believes that free trade is the only way to go if nations want to achieve economic development and growth. The United States adopted a protectionist strategy in the early years after its independence from Britain in 1776. Protection of home producers from foreign competition and encouragement of economic self-sufficiency were among the goals behind the placement of tariffs on imported products. There was a trend toward free trade advocacy in the United States in the 19th century, a time of great industrialization and economic prosperity. It was only after the World War II that United States "liberalized its trade and tarted championing the cause of free trade" (Chang, 2007). The thesis analyzes this argument in depth later in this chapter. David Ricardo's theory of comparative advantage, which argued that countries can benefit from specializing in producing goods or services in which they have a comparative advantage and engaging in trade with other countries for goods or services in which they do not have a comparative advantage, is largely credited with popularizing the concept of free trade (Chang, 2007).

In short, depending on the economic and political climate of the time, the United States implemented a variety of protectionist and free trade policies throughout the late

19th and early 20th century. Economic and political factors, such as the need to safeguard domestic industries, raise funds, and resolve labor issues, prompted the imposition or removal of tariffs. Following WWII, the United States took the lead in establishing the Bretton Woods system and other international economic institutions that would foster global economic stability and free trade. The United States has engaged in several trade talks and accords, and it played a pivotal role in the establishment of international institutions like the General Agreement on Tariffs and Trade (GATT), which evolved into the World Trade Organization (WTO).

There have been several official free trade accords signed based on this unwarranted support of the free trade as the ultimate international trade strategy. For instance, the U.S.-Peru Trade Promotion Agreement was signed into law in 2007 by President George W. Bush (PTPA). By lowering tariffs and other trade barriers, this agreement sought to increase commerce between the United States and Peru.[6] Once the North American Free Trade Agreement (NAFTA) expired in 1994, the United States signed the PTPA as its first FTA. Since the U.S.-Colombia Trade Promotion Agreement in 2006, this was the first trade pact inked between a South American country and the United States. This treaty entered into force on February 1, 2009, after being passed by the United States Congress in November 2007. Many businesses backed it because they believed it would boost exports and create jobs, but unions and environmentalists opposed it because they feared it would promote outsourcing and do harm to workers and the environment.

[6] It also included provisions to further safeguard workers' rights and the environment.

This chapter will critically analyze the old trade models and the new trade model that have been the fundamental basis of free trade proposals proposed, accepted, and implemented globally. It is important to note that mostly these FTAs are heavily supported by the economies of global north with the help of international financial institutions.

3.2 Theoretical Limitations of International Trade Theories

This section provides a brief critical summary of old trade and new trade theories to understand the dynamic of globalization. Some of the theories included are just to understand the evolution of international trade practices and theories, and their in-depth analysis is beyond the scope of this study.

3.2.1. Mercantilism

During the period spanning from the mid-sixteenth century to the late eighteenth century, the trade policy formulation and implementation in a majority of European nations were primarily influenced by the philosophy of mercantilism, as noted by Heckscher (1931) and Magnusson (1994). According to the theory, the most effective approach to augmenting wealth was through global trade and expansion of territories. There were certain advantages observed, including an increase in commercial operations. According to Viner's (1937) analysis, the mercantilist school of thought posited that the principal objective of commerce was to attain a "favorable" balance of trade, which was characterized by an excess of export revenues relative to import expenditures. The main objective was to enhance the country's economic prosperity through specific means, such as diminishing imports and elevating exports, promoting the growth of domestic businesses, and procuring colonies to gain entry to their innate resources (Irwin, 1996; O'Brien & Williams, 2016).

The British Navigation Act of 1651 exemplifies a mercantilist trade policy that was prevalent during that era, as noted by Taylor (1972) and Wallerstein (1980). According to Wallerstein's (1980) account, transportation of imports originating from continental Europe was restricted to British ships or those registered in the country of origin. Additionally, foreign vessels were prohibited from engaging in coastal trade activities within England. Mercantilism has faced criticism on multiple fronts within academic discourse. Initially, a multitude of economists who advocated for free trade held the belief that the prioritization of amassing valuable metals was misguided. Instead, they argued that a country's economic well-being should be assessed based on its output and utilization of goods and services.

The mercantilist trade policy exhibited a hostile stance towards multilateral trade agreements, as it involved the imposition of import taxes and quotas, and the prohibition of the shipment of industrial equipment, raw materials, and skilled personnel, with the aim of supporting domestic industries. Adam Smith and David Hume (1752) were notable critics of the mercantilist theory, as noted by Viner (1937). Smith emphasized the importance of free trade and specialization, primarily due to their contribution to economic growth. The analysis conducted by Smith investigates the impact of implementing a fundamental mercantilist principle, which involves the imposition of tariffs or embargoes on commodities produced abroad. According to the author's definition, the aforementioned "restraints" confer advantages to particular domestic sectors, as indicated by the user. The imposition of a tariff on imported goods results in an increase in their cost, while a complete prohibition may lead to a corresponding escalation in the cost of smuggling them.

Consequently, there exists a comparative reduction in the expenses of domestically produced commodities of analogous kind, potentially leading to a circumstance where local manufacturers attain a predominant stance in the regional marketplace. Under conditions of restricted trade, purchasers tend to demonstrate a higher level of readiness to pay an elevated price premium, as opposed to scenarios where trade is not restricted.

According to Smith's analysis, the imposition of such restrictions has a negative effect on the well-being of the populace, as individuals strive to optimize the utilization of their available resources. The proposition put forth by the author suggests that the intervention of the government in this specific process would impede its advancement. When the potential benefits are comparable, individuals tend to favor domestic trade and transportation of goods over international trade, owing to the relatively lower risks associated with the former. As per the author's assertion, a significant increase in import costs could dissuade their importation, leading to a reduction in customs revenue due to the decrease in imported goods outweighing the augmented charges.

According to Smith's assertion, there exist specific circumstances where limitations on imports are considered necessary. The author's proposal entails the cessation of importing commodities from companies involved in activities related to warfare, in order to promote their growth within the national market. It can be argued that if domestic items are taxed, it is justifiable to subject foreign items to the same taxation. The author cautions against expediting the reduction of import tariffs or relaxing import limitations as a means of preventing potential disruption to the domestic economy. Smith presents a pessimistic viewpoint regarding the likelihood of trade liberalization, which he attributes to the influence of politicians and their affluent supporters who advocate for protectionist policies.

Smith argues that the imposition of import restrictions has negative consequences for both business enterprises and ethical values. The author's literary work is based on the concept of "innate entitlements" (Smith, 1776), which serves as the primary source of his indignation and the viewpoints expressed therein. According to Smith's analysis, the prohibition on exporting sheep and grain is considered a violation of the right to utilize one's own resources to the fullest extent possible. The infringement of this fundamental right could be deemed necessary for a critical objective, such as readiness for military confrontation. Mercantilism, according to

Wallerstein (1980) facilitated both imperialism and exploitation. According to Smith (1776), the implementation of mercantilist policies such as protectionism and tariffs resulted in heightened international tensions and reduced commerce, ultimately leading to trade wars. According to Smith's assertion, the implementation of import tariffs tends to benefit merchants primarily, without being a necessary outcome. Smith asserted that the implementation of free trade would yield advantages for all parties concerned. Additionally, he refuted the concept that a nation's affluence was predominantly reliant on its accumulation of gold and silver. Several economists have posited that mercantilist practices were employed to justify the appropriation of resources and labor from colonies and other countries. The outcome of this phenomenon was the
proliferation of destitution and a surge in disparities.

3.2.2. Classical Economic Theory:

Adam Smith, in his revolutionary manuscript "The Wealth of Nations," published in 1776, presented classical trade theory and specifically the principle of absolute advantage that laid the foundations of free trade across. Smith rationalized that nations should focus their production efforts on the kind of commodities at which they have a absolute competitive advantage, and should engage in trade with other nations in order to acquire the types of things that they are unable to produce as effectively (Appleyard & Field et al. 2006). According to the notion of absolute advantage[7], nations should focus on exporting those products which they can produce efficiently and inexpensively as compared to all other nations. Then, in return, they should buy from nations that do have an absolute edge in the products they import, driving up global prosperity via more trade. Absolute advantage is the foundation for enormous profits that result from trading between diverse producers of commodities that each have their own distinct absolute advantages (Smith, 1776).

Smith, in 1776, made his feted case for free trade. "Free trade", over time, attained an intellectual status that remained unchallenged by any other doctrine at that time (Irwin 1996, Viner 1937). Gradually, the proposition that freedom to trade internationally is more favorable than protectionism for an economy, both individually and as a whole, endured a lot of criticism but remained relevant and widely supported. Smith puts forward the

[7] Adam Smith pioneered the school of thought known as "laissez-faire" economics, which holds that a free market driven by competitive, self-interested actors would naturally achieve a state of efficiency that promotes increased output and wealth creation. Smith (1776) writes in Wealth of Nations that the greatest advance in the productive capacities of work is the result of the division of labor. His famous pin factory example is the clearest illustration of this. The concept of absolute advantage is a worldwide extension of his concept of division of labor.

proposition that, for the general opulence—state of high consumption amongst all the societies, each and every single society is to be exposed to a global market where production and specialization take place in various labor forms (Meek and Skinner 1973). According to Appleyard and Field et al., (2006), one of the most essential reasons that Adam Smith favored free trade was the availability of necessary market for increased output resulting from the division of production at industrial level. Aspromourgos (2009) further explains that if the global market is exposed to the variety of specialized labor (free international trade), it will facilitate the extension of the benefits of division of labor to other societies (economies) around the globe. This will favor general opulence globally.

There are plenty of assumptions that Smith makes for his idea of absolute advantage to work efficiently. First, he assumes that labor is the only factor of production, and the relative number of labor unites required for production translates the cost of production. However natural resources and capital also determine the costs of production, which in turn determines the prices. This theory is also a very simplified version involving only two countries and two commodities; hence this assumption divorces the theory from the realities and complexities of the real world, and simply assumes that the international trade is merely all about bilateral agreements. Smith also assumes no costs of trading goods across borders, which is completely detached from the reality of variation in prices and production depending on transportation costs. For the global division of labor, providing low-tech inputs may not be as valuable as being further up the value chain. In the absence of an industrial policy to supersede free trade theory, the historical record shows that free markets in the Third World simply meant deadly competition from experienced foreign firms before local enterprises had sufficient playing field to compete with international prices. This was true even in the most labor-intensive manufacturing industries, where low wages were no match for the knowledge of advanced countries.

In short, this classical theory of economics is founded on a number of assumptions, the most important of which are that trade is advantageous to all parties involved, that there are no costs or impediments to trade caused by transportation, and that means of production are not transportable across nations. Moreover, it presupposes that markets are fully competitive and that prices adjust in such a way as to guarantee that every nation specializes in the production of the items in which it has a comparative advantage (Amsden, 2008). Therefore, the classical trade theory has been criticized on the grounds that it does not adequately take into account the impact that technological advancements, economies of scale, and other variables that might influence patterns of trade can have. They further say that it does not address problems like as income inequality and the distributional impacts of trade, both of which are major concerns in today's society. The framework illustrates that absolute cost trade will benefit technologically sophisticated economies and force poor nations to produce inexpensive labor and raw commodities (Shaikh 2003). He explains that this paradigm convincingly demonstrates that trade based on absolute costs would benefit technologically sophisticated industrialized economies while pushing poor nations down the ladder in exchange for cheap labor and raw resources.

If absolute advantage is to be accepted as an accurate notion, and the nations use division of labor to reap benefits from international trade, all the countries require infrastructure to execute Smith’s idea to enjoy the wealth created by production process separation while continually improving their production methods, equipment, etc. It is highly unlikely that all the world's poorest countries would benefit from this type of universal luxury, especially if research and development are mandatory prerequisites. Theoretically, the poor nations should take part in universal opulence, however, their capabilities and access to the market are restricted to only participate by producing primary goods and raw materials. Therefore, developing nations can contribute to division of production operations and enjoy its universal opulence if they have a strong domestic market, manufactures to trade, technological advances, etc., but not so much if they are in the low-technology parts of the chain and certainly not if they are only supplying primary goods, according to their absolute advantage. In heterodox economics, the notion of absolute advantage has been revived to better comprehend trade within the context of competitive advantage.

Despite these critiques, the classical theory of trade, especially the notion of absolute advantage, continues to be a significant topic in economics. It has also affected debates on trade policy and international trade agreements. This thesis affirms, regardless of its shortcomings, the idea of absolute advantage continues to serve as a cornerstone of classical trade theory, building upon the work of earlier economists.[8]

Smith's concept of absolute advantage served as the foundation for David Ricardo's theory of comparative advantage. Ricardo refined Smith's idea that a nation "A" is also able to manufacture a product at an opportunity cost[9] lower than that of another nation "B",

[8] Globally, the way nations think about and act upon international trade and specialization in production is largely attributable to the notion of absolute advantage and classical trade theory more generally. While being critiqued and improved upon throughout time, the theory's fundamental concepts are still useful in modern economic discussion. The classical trade theory served as the basis for the development of a new school of thought known as neoclassical trade theory, which was developed in the latter half of the 19th century and the early 20th century. It places a strong emphasis on the part that market forces and individual decision-making play in defining trade patterns and the consequences they have on welfare.

[9] The value of the next best option that is not taken advantage of to generate a thing is referred to as the opportunity cost of that thing.

then nation “A” has a comparative advantage over nation “B”. The idea was, that even if a nation does not seize an absolute advantage in production of any good or service in the global economy, according to Ricardo's theory, it should focus on producing items for which it possesses a comparative advantage (Ricardo, 1817; Samuelson, 1948). This enables nations to increase their total production of commodities and reap the benefits of increased commerce. Ricardo, whilst extending Smith’s idea, also favors international trade with the most important underlying assumption that there are no transaction costs (i.e., trade is completely free). He presented the concept of comparative advantage and proposed that the countries should focus on the production of the good with the lowest production opportunity cost (1817). The idea of comparative advantage is the central tenet of the neoclassical school of thought in economics and commerce. Opportunity cost is included into the equation, and the potential advantages from trade due to nations specializing in the production of items for which they have the lowest opportunity cost are highlighted.

One of the major arguments against the idea of comparative advantage is that it is based on unrealistic assumptions, such as perfect competition and full employment (Stiglitz, 2019). The underlying assumptions of the comparative advantage model makes it difficult to apply it to the real-world scenarios and thus make the argument for free trade invalid. Prasch (1996) argues that these assumptions fail in practice. The model does not account for the externalities and assume that the total private costs are equal to the total social costs. This model further assumes constant returns to scale and perfect competition to imply that trade can only arise based on the comparative advantage. Another problematic assumption is the perfect mobility of the factors of production from one industry to another. The labor in industrial goods production cannot effortlessly shift and contribute to the production of agricultural goods—there are transitions costs that might be quite large, that are ignored by the comparative static nature of the models. In case of developing countries, many industries, such as electronics and clothing, will be wiped out by the imports based on comparative advantage. This will result in outflow of labor from threatened industries to absorb into the informal sector. This labor transfer will reduce the standard of living and the overall well-being of developing nations.

Since, developing and developed economies have quite dissimilar production structures. Therefore, for free trade to be mutually beneficial based on comparative advantage, production possibility frontiers and comparable costs need to exist in the first place. The most concerning drawback of Ricardo's comparative advantage theory is embedded in its sole focus on static, short-term gain in a single period. Which is also holds for the Heckscher-Ohlin model. It completely overlooks the need to expand production capacity for sustainable economic development and prosperity over the long-term. Palley (2006) concludes:

> "Although there are always gains from trade, countries can suffer from further globalization – their future gains from trade may fall, making them worse off than before. This sobering conclusion derives from pure trade theory, which assumes away macroeconomic problems such as unemployment, trade deficits, and financial instability. When these problems are factored in, the case for strategic trade policy becomes even stronger." (p. 5)

The notion of comparative advantage is nevertheless an important part of international economics and commerce, regardless of these criticisms. The scope of the theory has been broadened by some researchers to include issues including technological transfer, institutional quality, and political economy (Helpman & Krugman, 1985; Rodrik, 1995; Acemoglu et al., 2012). Throughout the course of the last two centuries, the idea of comparative advantage has been the subject of intense scrutiny and development. While it has been criticized for its assumptions and limitations by some academics, it is nevertheless used by others as a lens through which to examine the pros and cons of a liberal international commerce. Over the course of the previous two centuries, researchers have improved and expanded upon this idea, and a wealth of literature has been produced investigating its applications and caveats.

3.2.3. Neo-classical Economic Theory

Developing on the traditional theory of comparative advantage, the Heckscher-Ohlin theory (also known as the factor-proportions theory) was formulated in the early 20th century. In the 1920s and 1930s, two Swedish economists, Eli Heckscher and Bertil Ohlin, independently developed a hypothesis based on the premise that the level of technology in trade nations is similar and that each country has a specific level of factor endowment in either of the two factors of production in a very simplified model (Heckscher, 1919; Ohlin, 1933). According to this economic theory, nations would focus on exporting and importing products that make the most of their plentiful resources for making certain types of commodities (Samuelson, 1948). Neoclassical trade theory presents the notion of the Heckscher-Ohlin model, which explains trade patterns on the basis of disparities in the factor endowments of different countries. The model predicts that nations would export products that make use of their plentiful factors of production while simultaneously importing products that make use of their limited factors of production (Heckscher, 1919).

The Heckscher-Ohlin Model (1933) proposed that the economies should produce the commodities that extensively require their abundant factor endowment (either labor or capital), and the free international trade of a specific commodity derived from the abundant factor endowment will result in price convergence across the two trading parties. Among the foundational assumptions upon which Heckscher-Ohlin theory is built are free-market competition, consistent returns to scale, and factor immobility across nations (Stolper & Samuelson, 1941). With this paradigm, we can see why some nations export products that make extensive use of their plentiful factors while others import products that make extensive use of their scarce elements (Leamer, 1980). When nations' factor endowments change over time, the theory predicts that trade will cause a convergence in factor prices (Vanek, 1968).

The subsequent presumptions serve as the foundation for the Heckscher-Ohlin theory's theoretical framework: different countries have varied resources, or endowments of factors, of the elements of production, such as labor and capital, economies throughout the world employ the same production technology to manufacture the same items; the market is said to have perfect competition when there is no way for any one entity to influence either the price or the quantity of goods or services being offered, the production process displays constant returns to scale, which means that output grows proportionately with inputs as the size of the operation increases (Subasat, 2002). In essence, this idea proposed that a nation will export commodities that make use of the plentiful factors of production in its economy and buy items that make use of the scarce factors of production in its economy. For instance, a nation that has a plentiful supply of labor would export products that are labor-intensive and import those that are capital-intensive.

Prasch (1996) argues that it is problematic to assume that two countries have static set of technologies (know-how). That's a critique for both the comparative advantage theory by Ricardo and Heckscher-Ohlin model. For instance, in case of global south, the model assumes that it is abundant in unskilled labor and compares it with global north which is well endowed with skilled labor. However, skilled labor is not a resource that should be taken as given, instead it is developed over time. According to the H-O Model, developing countries' given level of unskilled labor is its natural endowment, and therefore, it again fails to take into consideration the economic development over time. The reason behind this is that it is not a dynamic model, and like comparative advantage, it promises just a one-time jump in consumption.

If developing nations were to identify the unskilled labor as their potential natural endowment and produce the unskilled labor abundant goods, it will mean ignoring their potential to create new sets of endowments (like capital and skilled labor) to ensure the economic prosperity and development over time. Further, H-O Model assumes perfect competition and constant returns to scale, and emphasis only on factor endowments to initiate trade flows (Krugman, 1987).

Subasat (2009) points out that according to this model, the trade possibilities are greater amongst the countries that are dissimilar in their endowments. Theoretically, it implies that developing nations and developed nations should have greater trade possibilities, however, historical, and present evidence shows us that the most frequent and beneficial trade is happening between the countries within Global North (and since then, with China, which he doesn't account for). He believes that the trade flows driven by the abundant factor intensive outputs is rather obvious, and therefore it fails to provide any convincing evidence about how a country could benefit from specializing in production of their abundant factor intensive goods.

Subasat (2009) argues that factors of production are not only naturally existing, but they can also be produced; for instance, labor can be trained, and capital can be created. In case of free trade agreement between global north and global south, the advocates of factor endowment theory might argue that trade openness will gradually shift the production of unskilled labor-intensive commodities to skilled labor-intensive commodities. However, this should then suggest an opposite shift (from skilled labor-intensive commodities to unskilled labor-intensive commodities) in global north. This model merely gives us the idea of how a country would behave under the free trade regime and not how they should behave to promote economic development and prosperity-the main argument in favor of fair trade. These are not models of economic development at all.

The Heckscher-Ohlin theory has been criticized for a number of reasons, the most prominent of which are its assumptions of perfect competition and the homogeneity of labor and capital inputs (Lall & Streeten, 1977; Deardorff, 1984). Moreover, the model disregards the impact of technological development and creative thinking on comparative advantage (Kravis, 1956). Yet, the Heckscher-Ohlin theory is still widely used as a model for analyzing intranational and international commerce and income distribution (Markusen, 1986; Feenstra & Taylor, 2014). The neoclassical trade theory, in its whole, offers a theoretical framework for studying the impacts of international trade on welfare and the allocation of resources, and it has had a key influence on trade policy throughout the 20th century. Nevertheless, critiques of the assumptions and predictions of neoclassical trade theory have led to the creation of alternative trade theories, such as the new trade theory and the political economy approach. These theories have been developed in response to these concerns.

Further, the Heckscher-Ohlin theory has been expanded and modified in a variety of different ways, including as the Stolper-Samuelson theorem (1941), which predicts that free trade would lead to a redistribution of wealth amongst factors of production inside a nation. In general, this thesis does not deny that the HeckscherOhlin theory continues to be an essential addition to the area of international trade theory and has had a substantial impact on the administration of trade policy.

3.2.4. New Trade Theory

In the 1980s, a new school of trade theory arose that aimed to improve upon the neoclassical model of international commerce by include such concepts as economies of scale and imperfect competition. Being one of the first economists to argue that a company's capacity to spread its fixed costs across a bigger output would provide it a competitive advantage in international commerce, Krugman (1979) was among the first to bring the notion of economies of scale into trade theory. Helpman and Krugman later expanded on Krugman's work by creating a model that accounted for economies of scale and imperfect competition (1985).

The conceptual framework of new trade theory is based on the following principles: It is possible for companies to achieve economies of scale in their manufacturing processes, resulting in a reduction in average costs as production volume increases. Imperfect competition arises when companies possess some degree of market power, allowing them to charge prices that exceed their actual costs. Companies also engage in product differentiation, where they offer goods that are not perfect substitutes for one another.

According to the new trade theory, the dominance of certain nations in exporting specific manufactured goods can be attributed to economies of scale. A country with a substantial domestic market may have a comparative advantage in producing goods at a lower cost per unit relative to a smaller country. As a result, the larger nation possesses a competitive advantage in global trade. The novel trade theory elucidates the rationale behind the engagement of nations in intra-industry trade, wherein nations are involved in both importing and exporting of goods that are analogous to each other. This phenomenon can be attributed to the ability of nations to specialize in the production of various iterations of a particular product, leading to the emergence of product differentiation.

The model exhibited that firms manufacturing similar products within a particular geographical area may form a cluster, thereby conferring them with a competitive advantage in the international market. Baldwin (1989) expanded upon the concept of clusters and proposed that governments could promote their growth through measures such as investments in education and infrastructure. According to the speaker, trade agreements may promote the development of clusters by facilitating the increased mobility of commodities, money, and people.

This section elucidates the manner in which new trade theory effectively supplanted the three primary argumentative foundations of the models in the old trade theories, namely perfect competition, constant returns to scale, and homogenous goods. The novel trade theory pertains to trade that is predicated on external economies or the amplification of returns to scale. The concept of economies of scale provides nations with an incentive to engage in specialization and exchange of goods and services. In cases where there are increasing returns to scale, the industry's production will experience a more than proportional increase when the inputs are doubled. In light of this, it can be observed that economies in the global south are poised to benefit from lower production costs of raw materials and primary goods in comparison to their global north counterparts, owing to the relatively lower wages prevalent in these regions. Asymmetry is expected to exist, as noted by Finlay (1984). One potential explanation for the initial advantage could be attributed to the variances in unskilled labor supply between the northern and southern regions. Hence, taking into account all pertinent variables, it can be inferred that emerging economies are poised to experience amplified returns to scale within their raw material and primary goods sectors. The new trade theory proposes that developing nations should intervene by providing subsidies to their industries that will experience increasing returns to scale.

The tenets of the new trade theory acknowledge the overall advantages of liberalized trade, while also acknowledging the existence of circumstances in which such benefits may not be realized. Given this circumstance, the emphasis transitions towards the identification of specific circumstances in which trade can generate tangible benefits and serve as a catalyst for economic development (Shaikh, 2003). Particularly in discussions of regional trade agreements and the role of state in supporting economic growth, the new trade theory has been formative (Krugman, 1981). It has been criticized, nevertheless, for having such little empirical evidence and for failing to take into consideration variables like the rate at which technology is evolving and regional variations in factor endowments (Grossman & Helpman, 1995; Deardorff, 2005).

The idea of strategic trade policy is one of the most important things that modern trade theory has contributed to the field of trade economics. This notion proposes that governments may improve their country's competitiveness in specific sectors by offering subsidies or other types of assistance (Krugman, 1981). This, on the other hand, has been met with opposition and remains a contentious issue among economists. The evidence analyzed in Chapter 3 will show that regardless of the case for intervention, the government intervention has failed to tackle the issues of social and ecological imbalances. This thesis shows that the intervention is mainly encouraged for protection of domestic industries and not to hinder the labor and environmental exploitation.

3.3. A Critical Reassessment of Trade Models

Trade models served as the theoretical basis for the concept of free trade, which advocates for the elimination of trade barriers and the promotion of international trade based on each country's comparative advantage and increasing returns. However, the assumptions of these models have been challenged for their lack of real world implication and reductionism. This section examines the historical and intuitive evidence challenging the free trade policies.

3.3.1. Historical Evidence Against Old Trade Theories

Chang (2002), as opposed to many economists, argues against the free trade policy as a universal mandate for the developing countries. United States adopted industrialization policies against the advice of Britain. Chang explains that Smith (1776) advised Americans to adopt free trade policy and import the industrial goods from Britain than to manufacture (and protect) them at home. Since, United States had comparative advantage in producing agricultural goods (and exchanging for industrial goods). Even though the United States was advised against the production of industrial goods and to stick with importing them, they went ahead and introduced protectionist policies for their infant industries. For almost a hundred years till the second world war, United States had the most protected economy globally with the highest tariff rate in the world (Chang 2002). Soon after the end of second world war, when United States achieved dominance, it started championing the free trade. Countries that have more open trade regimes tend to experience faster economic growth. Partially, this can be attributed to the benefits that are obtained as a result of transparency. Openness can be considered a "forcing variable" as it influences policy decisions. Countries with inward-oriented policies may be tempted to implement counterproductive policies, but they may not be able to adopt them or may abandon them quickly if they have an outward-oriented trade regime (Krueger, 1990).

Chang explains how the developed countries, while still in their developing stages, did not practice what they are preaching to the current developing economies. United States – beacon of free trade, used more aggressive tariff protections than the countries (e.g., Germany and Japan) associated with state interventionism. He makes the argument that tariff protection policies, export subsidies, research and development support, cartel arrangements, infrastructure investments in many countries, specially United States and Britain, were the crucial component of their sustainable economic development strategies. Williams (1994) points out that Britain's early capitalist development was centrally driven by slavery and monopoly. Therefore, association of Britain's industrial success to free trade is a mere myth.

In the United States and Britain, agricultural development, propelled by protectionist policies and other state interventions, expedited the process of industrial development (Shafaeddin, 1998). In the United States, particularly, the state facilitated capital accumulation, institutional development, infrastructural build-up, and Research & Development training for development of the domestic economy. Chang (2002) sheds light on how numerous successful economies, rather than using free trade, used strategic trade policies and specific industrial policies to achieve dominance. He further gives the example of China's, India's, and Mauritius's economic growth to establish the fact that many developing economies prospered under protectionist policies as opposed to what the free trade advocates advise. Undoubtably, Chang advises developing countries against any strict free-trade agreement proposed by the countries in global north. Chang demonstrated, through his assiduous research, that the United States and Britain's advice to emerging economies regarding laissez-faire national industrial and free trade policies are completely contradictory to the practices they themselves pursued to achieve dominance.

3.3.2. Deepening of globalization: Redefining Role of Government

During the 1990's, campaign for the establishment of 'fair trade' regime by various activists and heterodox economists, was discredited heavily by many leading trade theorists including Krugman (DeMartino, 2014). Krugman, around 1960s, expansively argued that taking fair trade position will harm third world countries the most. Alongside many other free trade economists, he argued that fair trade is not a serious position, and it hurts the very masses that it essentially claims to protect. He believes that the moral outrage amongst the challengers of trade liberalization stems from their unreal expectations towards production standards in Global South.

Some of the arguments made by neo-classical trade theorists against fair trade are almost compelling. One of the arguments by Krugman (1997) for justification of free trade is the lack of alternatives for the poor nations. He presented a thorough argument regarding the competitive advantage that the Global South possesses in the global market due to their low labor wages. Krugman asserts that the workers' limited access to alternative employment options is the primary factor contributing to their meager compensation. Producers prioritize cost minimization over improving healthcare and living standards for workers. Therefore, laborers in developing nations are confronted with perilous work environments regardless.

Another argument by Krugman was that the global poverty is not something caused by the multinational corporation for profits but has persisted since long before. About two decades ago, Bangladesh and Indonesia were only exporting raw materials while importing most other manufactured goods whereas there was a rapid growth of some other small Asian economies. The mere purpose of their own inefficient manufacturing sectors was to serve domestic markets under import quota. The only improvements that have taken place in these economies are the direct or indirect result of the actions of ‘soulless multinationals and rapacious local entrepreneurs’, who take advantage of the cheap labor. According to him, the lower wages have given these economies the competitive advantage in the global markets.

Further, Krugman (1997) argues that given most of the starving rural populations in the third world countries working as subsistent farmers, the wage laborers working at slave wages in the garment and shoe factories are far better off. He gives the example of how industrialization in poor economies like Indonesia, where people have preferred to work as scavengers on garbage dump than any alternative jobs, had significantly improved the lives of local people. The standards in Indonesia had been so poor, that the progress was measured by the per capita consumption of calories. He explains that the relatively higher wages in these industries was an incentive for people to move from alternative sectors. Further, this growth of industry and creation of jobs had a ripple effect throughout the country. As the burden on land decreased, the rural wages increased. The unemployed labor force dwelling in cities in search of work started to shrink and the firms started competing by offering higher wages. To support this argument, Krugman gives the example of South Korea and Taiwan where he believes that this process went on for too long and finally resulted in average wage approaching the wage of an American teen-ager working at a McDonald's.

He believes that the fair trade movements cause significantly more harm than the good they suppose they will do. In 1993, there was a ban on imports from Bangladesh's textile firms if they had employed children. Therefore, the factories stopped employing children. As a result, significant number of children were left out on streets, and a big chunk of those were coerced into prostitution (Krugman, 1997). The call for harmonizing production and labor standards for trade, therefore, is merely a lack of understanding of the cultural and social paradigms in poor countries. Employment in the industries serving the needs of multinational corporations is way better than alternatives. The only way possible for these developing nations to be able to export manufactured goods is their competitive advantage due to having cheap labor and poor labor standards. In Krugman's (1997) own words:

> "The point is that third-world countries aren't poor because their export workers earn low wages; it's the other way around. Because the countries are poor, even what look to us like bad jobs at bad wages are almost always much better than the alternatives: millions of Mexicans are migrating to the north of the country to take the low-wage export jobs that outrage opponents of NAFTA. And those jobs wouldn't exist if the wages were much higher: the same factors that make poor countries poor -- low productivity, bad infrastructure, general social disorganization -- mean that such countries can compete on world markets only if they pay wages much lower than those paid in the West." (para. 6)

In addition to Krugman, many other neo-classicals had opposed fair trade harmonization of environmental and labor standards. Bhagwati and Srinivasan (1996), argue that the differential environmental standards of developing countries are simply due to the differences in endowments and technologies across the countries. The neoclassical economists claim that the development of David Ricardo's theory of comparative advantage considers the climate and technology in reference to culture relativism and subjective priorities, and therefore, advocates that free trade will maximize global welfare. Bhagwati contests that countries, based on their natural differences in priorities, will assign importance to various environmental externalities. For instance, a country depending upon its technology and endowments may want to prioritize people not dying of starvation than saving the dolphins and reducing ecological degradation.

In short, the Krugman almost three decades ago, in his multiple books and articles, recognized almost every opponent of free trade and globalization as fool who is unable to understand the field of economics very well. He bluntly called the fearful commentary on economic competition with nations with lower labor and environmental standards, like China, as ridiculous. He did not want the US labor force to worry too much about the globalization, as it will only have an insignificant impact on their prosperity. Fair traders who think that their cries are to help the poor exploited workers in third world countries are only halting the developing nations' overall progress and maybe even reversing the some they had achieved through globalization.

Interestingly, in 2007, Paul Krugman tepidly switched his stance on fair trade movements. He does not do so by advocating for fair industrialization in the developing countries, but rather the protection of less-educated, unskilled American workers. According to his opinion, as the import of labor-intensive goods from third world countries is increasing, the wage of American un-skilled labor is rapidly decreasing. While in 1996 Krugman believed that the US workers should not worry about the impact of globalization on their prosperity, the recently suspicious 2007 Krugman reasons that persistent free trade agreements with third world countries will damage the American workers the most.

> "By all means, let's have strong labor standards in our pending trade agreements, and let's approach proposals for new agreements with an appropriate degree of skepticism. But if Democrats really want to help American workers, they'll have to do it with a pro-labor policy that relies on better tools than trade policy. Universal health care, paid for by taxing the economy's winners, would be a good place to start." (para. 15)

He agreed that many mainstream economists, failed to foresee the globalization inevitably leading to hyper globalization. He states that trade, even though not the main source of increased economic inequality, has begun to contribute way more than anticipated in the

1990s. Specially the excessive imports from countries like Mexico and China where the wages are only eleven and three percent, respectively, of the United States' level have proven to be detrimental to national economic equality. Although Krugman accepts this dark side of hyper globalization, he still opposes protectionist policies as they will result in closing the global markets to the poor nations in third world. Therefore, he claims that 'labor standards', allowing for unionizing and preventing slave and child labor, must be inserted in free trade agreements with US. He even called out the Bush Administration for not supporting the inclusion of these labor standards in trade agreements, as it might force them to mend their own labor policies.

Krugman is skeptical that these amendments will positively affect the American workers, as regardless of the labor autonomy to organize unions, the third world workers will remain to earn lower wages. Hence, the wages in US will be forced to decrease. He concludes that the mere amendments in trade policy are inadequate to achieve these goals. There is a need for better pro-labor policies separate to the trade policy with a clause on labor standards. One such policy would be to tax the winners in the economy and use that to provide healthcare for all.

Krugman (2019) argued, that although the reliance on data for the correct estimation of the modest impact of trade on relative wages was inevitable, the early 1990s period was merely the beginning of the era of increasing trade flows. The volume and nature of trade following the globalization eventually entered unlimited international exchange flows. There was decrease in the cost of shipping overseas and eventually, the capital was also freely mobile across borders. Subsequently, he would argue that the impact of export producing countries was actually a lot more during the fifteen years following 1995 than they could anticipate in the 1990s consensus.

Krugman contended the backlash on globalization in the light of trade imbalances. On contrary to his former pure mainstream approach, he later argued that ignoring trade deficits due to their insignificant impact in long-run is not a well thought approach; as the spiraling imports inflict a negative shock on the American manufacturing industry workers in the short-run. For instance, after 2000, the manufacture goods deficit increased sharply in the United States which resulted in a sharp decline in employment in manufacturing industry. Therefore, the globalization has received such backlash in past years. Lastly, Krugman (2007) admitted to his shortsightedness in ignoring the analytical methodologies focused on workers in particular industries and communities would have better presented the short-run trends. Hirsh (2019) recalled that "Krugman has been forthright in recent years in second-guessing his earlier assertions about the effects of open trade."

The 1990s consensus heavily relied on the models that presented the effects of trade on unskilled or skilled labor and ended up concluding that trade did not significantly contribute to rising inequality. Krugman's tepid switch to the fair trade, also includes his newly formed opinion on significance of having both winners and losers (Heckscher Ohlin Model) resulting from trade and not merely looking at the overall increase in global consumption.

Considering this switch in his stance, this thesis takes a stance that a staunch free trade proponent like Krugman, after understanding the previously ignored fallacies of hyper globalization, felt the need to redefine the role of government in trade policies. The paper further favors the inculcation of fair trade clauses in trade agreements. In addition to the effects of globalization not standing the test of time; the gender, labor and environmental blindness of theories supporting trade liberalization calls for the need of fair trade agreements. Essentially, the agreements based on fair trade will result in trade and labor policy autonomy for developing countries who have been bonded by free trade agreements with various countries in Global North. This can result in nations having proper pro-labor policies complimented by trade policies to ensure prosperity. WTO and other international financial institutions should facilitate these agreements between global economies. Moreover, the countries will have the independence to explore, acknowledge and prioritize their standards regarding labor, environment, race, and gender. Achieving fair trade agreements based on cultural relativism will not only increase the overall prosperity but will also help in achieving development on the basis of Sen’s (2000) capabilities approach, and Marx’s ideal society thriving towards development and equality. Hence, under fair trade regimes, the welfare state will aim towards immediate promotion of true capabilities in all social groups resulting in overall growth of a nations involved in trade flows.

3.3. Impacts of Trade Liberalization and Hyper Globalization

The international trade liberalization has carried significant expansion of economic activities and driven the economic growth (not quite equally for the global north and south) since the early 1980s, and so the climate injustice and demeaning labor standards have prevailed at large scale. This sections provides facts regarding social and ecological imbalances caused by adoption of above mentioned free trade doctrines.

3.3.1. Ecological Imbalances: Competing on Environmental Standards

The key energy injustice is the extreme over dependence of the global societies on the use of fossil fuels to satisfy the expanding energy demand for the production and trade of economic goods. According to the International Energy Agency, in 2016, the global output production has doubled since the 1973. Since then (1973) the world only experienced about 4% reduction (recorded in 2016) in the use of coal, oil and gases for the energy production regardless of the advancement in high technology (McCauley, 2018). The trends show that as the freedom of trade grew, the emissions carbon dioxide and other harmful gases increases which led to the global climate change. Trade leads to very high level of transport-related emissions, such as nitrogen dioxide form the motor vehicle exhaustion. Trade liberalization requires increased transportation of goods, and in current economy the capital mobility which contributes to hazardous wastes and toxins being spilled into the environment. Not only increased global carbon emissions, but trade also shifts their patterns. A very significant amount of carbon emissions has resulted from the production of export goods for North America and Europe in China. The trade flows of goods being produced in Global South and exported to Global North for consumption have fair share in producing environmental externalities (Davis and Caldeira, 2010). This has caused a differential impact of climate change on various groups.

Globally, the environment is bearing a heavy burnt of the climate change due to substantial economic activity that the trade liberalization has stimulated. Some may disagree, but the evidence from around the world, especially in China during the lockdown during COVID-19, shows that heavy economic activity (mostly the production and transportation of goods for export) contributed to bad air quality and harmful greenhouse gases (GHGs) emissions. According to Caine (2020), almost half of the reduction in nitrogen dioxide (which is emitted from the burning of fossil fuels) occurred as the heavy industries in China were shut down amidst the lockdown. In short, we can find significant evidence that the current global economic dynamics and trade liberalization has been substantially impacting the environment adversely. We can assess the environmental externalities of trade, the estimates of demand-based carbon emissions (final demand distribution across economies for the embodied carbon emitted globally), using the OECD Inter-Country Input-Output database combined with the carbon emissions by the burning of fuel and industrial production across economies (Yamano & Guilhoto, 2020 and Wiebe & Yamano, 2016).

China, Germany, India, Japan, Russia and United States are some of the leading contributors to the carbon dioxide emissions in 2018 (OECD 2021). European Union (EU 27)[10]. The environmental externalities and the trade openness for China is the perfect example of unaccounted trade flows considering the global climate. In 2018, three times increase in the per capita demand for carbon emissions can be seen in China since 1995. According to the International Energy Agency, China's economic activity accounted for approximately thirty percent of the global carbon emissions (2018). These carbon emissions are caused by the combustion of energy related fossil fuels (IPCC 2013). In 2020,

[10] Refers to twenty-seven European Union countries: Austria, Belgium, Bulgaria, Croatia, Republic of Cyprus, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, Netherlands, Poland, Portugal, Romania, Slovakia, Slovenia, Spain and Sweden.

China is emitting 10.67 billion out of 34.81 billion tonnes of total global carbon emissions (Friedlingstein et al., 2022). To understand the relation between trade (open) to the climate degradation we can look at China as an example.

Zheng et al. (2019) divides the history of China's carbon emissions into three stages: First, the launch of reform and opening up (2000) where the carbon emissions were increasing slowly at 4.2%; second, becoming the part of WTO (2001) and the emissions were growing at the annual rate of 8.5%; and finally, where the emissions rate was growing at 0.81%. The period after China joined WTO experienced high carbon emissions as the industrial production increased significantly in response to the trade openness. After 2001, there was openness to trade without any restrictions, so China's investment increased significantly in the energy-intensive industrial production and therefore the world experienced the sharp increase in environmental externalities due to combustion of fossil fuels for the purpose of energy consumption. On the other hand, the OECD countries are the net importers of the embodied carbon emissions. Although the share of United State of America in global carbon emissions is less than a half of that of China, it remains one of the highest consumer of embodied carbon emissions. In 2019, United States' net import of carbon dioxide was approximately 7% higher than its net exports (Andrew and Peters 2021). Many other countries, for instance Japan and Germany, from the Global North are highly contributing to the climate injustice. According to Harris and Roach (2013), a significant portion of emissions are resulting from the production in Global South (China) to be exported to and consumed in Global North (United States and Europe). There is a separation of cost and benefits of the negative externalities which results in high inequality around the globe. Resulting in the proposition that trade patterns have extremely important implications for negotiations at the international level.

The intensive combustion of fossil fuels for heavy industrial productions to compete in open trading system has had immense adverse impact on the climate. There is a need to rework the doctrines of trade around the global (specially between global south and north) to reduce inequality and differential impact of climate change. These climate change evidences have resulted in wide ranging contentions against the trade openness by the environmentalists (World Commission on Environment and Development, 1987). Some economists argue that the economic growth and development can be achieved rather sustainably along with improving environmental conditions. One such policy is "fair trade". Fair trade is a model that seeks equity in international trade. This fair-trade approach's theoretical groundwork is based on "harmonization of capabilities at a level that is sufficient, universally attainable and sustainable" (DeMartino 2002). This thesis will look at the impact of implementing fair trade policies on the environmental externalities and climate change.

3.3.2. Social Imbalances: Competing on Labor Standards and Safety

The phenomenon of capital mobility, which has emerged as a result of the process of hyper globalization, has been extensively noted to have led to the outsourcing of inexpensive labor by large corporations in the global south. According to Davidson et al. (2007), in order to compete on a global scale, reduced production costs are utilized through the implementation of lower wages and substandard working conditions. Furthermore, as per Cooney's (1998) analysis, the International Labor Organization (ILO) has exhibited a significant lack of efficacy in countering the escalating influence of transnational corporations on a global scale. The author posits that the primary cause is attributed to inadequate enforcement capabilities. The fair traders argue that it is crucial to establish enduring objectives aimed at restructuring the bargaining power of labor and capital owners. This necessitates the involvement of national governments in fair trade agreements, thereby exercising their autonomy.

Mazzucato (2018) deftly recalls the debate over such limited and quantitative measurement, as well as, more importantly, the generation of value in the economy. She notes that the economic debate on value has mostly focused on price while disregarding the history of economic thought on production and wealth distribution. She thinks that environmental, labor, and poverty legislation should be more than just supplements to policymaking. Instead, these factors should be key to evaluating today's value metrics, such as GDP and, by extension, economic growth. To do this, it is even more necessary to negotiate an international agreement to ensure that countries that meet minimum environmental, labor, and other standards are not discriminated against in the global value chain. Improvements in both environmental and labor conditions are crucial to attaining sustainable development, in which current economic development efforts take into account resource availability and the standard of living of future generations (Krugman, 2011).

As production has shifted to global south, fair traders have raised concerns regarding the working conditions and labor standards in developing economies. . Globalization and the spread of industry supply chains to developing nations have sparked a heated debate over how to improve labor standards in these emerging production centers

(Locke & Romis, 2007). There is a growing realization that low labor standards in developing countries can lead to a race to the bottom, in which big corporations seek out the lowest-cost production locations regardless of labor standards. The issue of child labor, hazardous work environments, prolonged working schedules, and inadequate remuneration are enduring challenges in numerous production hubs situated in developing nations. The aforementioned concerns have led to disputes and instances of discomfiture for large corporations that make use of said amenities.

Numerous academic studies have provided evidence of the prevalence of such challenges in workplaces located in developing nations. The prevalence of child labor in factories across Bangladesh, China, and India has been documented by Connor and Dent's (2005) research. Additionally, hazardous working conditions have been observed in various industries in countries such as China, Bangladesh, and Indonesia. As per Kernaghan's (2006) findings, instances of prolonged working hours and inadequate remuneration were observed in industrial sectors situated in China and Mexico (Lazare, 2006). These issues have resulted due to worldwide competitive forces, which can prompt the implementation of cost-reduction tactics that culminate in unfavorable labor conditions and inadequate remuneration for workers (Elson and Pearson, 1981; Kabeer 2004). In many developing countries, the implementation of labor laws and regulations by local governments is often hindered by insufficient resources and a lack of political determination, thereby perpetuating these problems.

Consequently, there has been a surge in demands by fair traders for multinational corporations to assume accountability for the labor conditions prevalent in the factories where their merchandise is produced. Numerous enterprises have established codes of conduct and monitoring mechanisms to tackle these concerns. However, detractors argue that these endeavors have been insufficient in addressing the magnitude of the issue. In light of the constrained ability of numerous governments in developing countries to implement their labor regulations (Baccaro, 2001; Elliott and Freeman, 2003), multinational corporations have established their own "codes of conduct" (Scharge, 2004; Mamic, 2004) for their suppliers, along with diverse monitoring mechanisms designed to ensure adherence to these codes. The statement pertains to the incapacity of several governments in developing nations to perform the aforementioned task, as noted by Baccaro (2001) and Elliott and Freeman (2003). Locke and Romis (2007) assert that global corporations and labor rights nongovernmental organizations rely on compliance checks as the primary approach to addressing poor working conditions in manufacturers within the global supply chain. Though not official, the objective is to ensure that factories adhere to their respective codes of conduct. However, various free traders express their obliviousness towards importance of fair trade policy measures negotiated by international organizations such as WTO, IMF and WB. Evidently, the women in question aspire to enhance their working conditions. Kabeer (2008) explains the dilemma of exploited women in manufacturing industries in global south, due to the absence of a social safety net, is cognizant of the fact that their sole alternative, employment in the informal sector, is significantly inferior. Consequently, they are precluded from advocating for improved labor standards. Efforts to enforce labor standards globally via trade sanctions may result in the displacement or relocation of jobs to the informal sector. In the absence of measures to enhance the circumstances of laborers in the private sector, the imposition of "the social clause" may exacerbate social disparities in the labor market.

Notwithstanding the casual nature of these codes with regards to authorized trade agreements, advocates of equitable trade and societal activists in the developed world have contended that there are "inequitable" labor practices and circumstances in the trading partners of developing countries that require suitable trade policy measures to "equalize the opportunities." The present thesis endeavors to argue in favor of a fair trade system that can establish a "level playing field." There is a concern that the augmented imports from nations where labor standards are purportedly not enforced at an adequate level may have an adverse impact on the remuneration and labor conditions in the industrialized importing nations. There is a contention that laborers in emerging nations are susceptible to exploitative and oppressive labor circumstances, and that their remuneration is repressed.

3.5 Conclusion

The significance of trade has garnered considerable attention from economists, policy experts, government officials, and the public, on a global scale, and this attention definitely holds a strong merit. During the postwar era, and particularly in recent decades, there has been a gradual rise in the proportion of worldwide economic activity that can be ascribed to trade. Furthermore, during the 1990s, trade negotiators hailing from both the Northern and Southern hemispheres collaborated to develop expansive trade accords. The aforementioned accords have considerably facilitated the liberalization of the transnational flow of goods, services, and capital.

The creation of the World Trade Organization (WTO) as a result of the negotiations held during the Uruguay Round of discussions on the General Agreement on Tariffs and

Trade (GATT) is considered the most extensive among the various agreements. This agreement was achieved shortly after the implementation of the North American Free Trade Agreement (NAFTA), which aimed to fully deregulate trade across North America within the subsequent ten years. The North American Free Trade Agreement (NAFTA) was ultimately ratified by the governments of the United States, Canada, and Mexico, despite encountering substantial opposition within each country.

It is noteworthy that in 1997, a mere three years subsequent to the ratification of the North American Free Trade Agreement (NAFTA), President Clinton encountered an inability to secure congressional endorsement for fast-track authorization (DeMartino, 2000). The aforementioned authorization would have enabled the administration in question to engage in negotiations aimed at extending the stipulations of the North American Free Trade Agreement (NAFTA) to additional countries situated in the Latin American region. This occurrence of failure transpired a mere three years subsequent to the ratification of the North American Free Trade Agreement (NAFTA). The World Trade Organization (WTO) has faced notable criticism, especially in the Southern regions, where farmers have expressed opposition to the organization's potential social and economic impacts. Despite the ongoing progress towards complete economic integration, various factions globally such as labor associations, have expressed notable apprehension regarding the character and consequences of neoliberal unification.

Chapter 4: How Free Are "FTAs"? Evidence of Government Intervention

4.1 Introduction

Free trade agreements (FTAs) have been a topic of controversy since their inception. Advocates argue that they enhance market accessibility and commercial activity, thereby stimulating economic growth and employment opportunities. FTAs aim to facilitate international trade by removing tariffs and non-tariff barriers. The outcome is expected to be a result of competition, lower prices for consumers, and the advancement of the economy. Nevertheless, detractors argue that FTAs exhibit a lack of impartiality and instead provide preferential treatment to prominent corporations and affluent nations at the expense of emerging nations and small enterprises (Rodrik, 2018).

Nonetheless, several FTAs comprise clauses that safeguard specific sectors or nations, a practice that some contend contravenes the principles of unrestricted commerce. Several FTAs containing patent and copyright clauses that provide advantages to big corporations at the expense of small enterprises and emerging economies are discussed in this chapter. Moreover, FTAs have the potential to result in job losses within non-competitive industries. The potential negative impact on the local economy and workforce is also a matter of concern by fair traders.

The chapter validates the criticism on FTAs on the grounds that they do not adhere to the principles of free trade, as they offer protection to specific businesses or countries. For instance, the Central America-Dominican Republic Free Trade

Agreement (CAFTA-DR) safeguards the interests of American pharmaceutical enterprises, whereas the US-Korea Free Trade Agreement (KORUS FTA) safeguards the interests of American automobile manufacturers. This phenomenon could potentially confer advantages upon certain enterprises or countries while hindering the principles of free trade.

It is widely believed that FTAs exhibit a bias towards larger corporations and industrialized nations at the expense of smaller enterprises and developing countries (Warren, 2015). While larger organizations possess the necessary resources to take advantage of FTA opportunities, smaller enterprises may lack the means to do so. FTA have the potential to displace small businesses in underdeveloped countries that lack the resources to compete with multinational corporations given the lack of transparency in dispute settlements (Hahm et al., 2019). Further, they have the potential to result in adverse effects such as unemployment and negative externalities stemming from heightened economic activity. This chapter provides evidence that free trade policies never actually adhere to the notion of "free." The state intervention to safeguard the rights of developed nations and big corporations is one of the biggest instance of protection in these so called "free trade agreements."

4.2 Brief History of North American Free Trade Agreements

Since, the United States of America holds a crucial position in the global economy, rendering it a significant case for analysis in the context of world trade activities, it is reasonable to begin with a discussion of its role in FTAs. The United States harbors some of the most prominent multinational corporations worldwide, exerting significant influence in shaping global trade dynamics, and it has taken a prominent role in advancing free trade policies and accords, exemplified by initiatives such as the North American Free Trade Agreement (NAFTA) and the Trans-Pacific Partnership (TPP). After the end of World War II, the US government took a leading role in promoting the ideals of free trade and creating international institutions to facilitate its implementation. Chang (2002) recalls that:

> "It was only after World War II, with its industrial supremacy unchallenged, that the United States liberalized its trade and started championing the cause of free trade – once again proving List right on his "ladder-kicking" metaphor. However, it should be noted that the United States never practiced free trade to the same degree as Britain did during its free-trade period (1860 – 1932)." (p. 85)

From 1947 until 1994, the world was bound by the multilateral pact known as the General pact on Tariffs and Trade (GATT)[11]. Its purpose is to facilitate international commerce by lowering trade barriers such as tariffs. In the years after World War II, GATT was essential in reshaping the international trading system and the whole global economy. GATT underwent eight rounds of negotiations, each of which was designated as a "round" and assigned a sequential number (Crowley, 2003). The Kennedy Round, a trade negotiation that spanned from 1964 to 1967, yielded a noteworthy outcome of a 35% decrease in tariffs (La Barca, 2016). The Tokyo Round, a multilateral trade negotiation spanning from 1973 to 1979, is notable for its incorporation of non-tariff barriers into the negotiation framework (Coppolaro, 2018 and Gilbert, 1986).

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[11] See WTO:
https://www.wto.org/english/tratop_e/gatt_e/gatt_e.htm#:~:text=The%20General%20Agreement%20on%20Tariffs,from%20all%20WTO%20member%20countries
For detail analysis of its principles see: Wolf (1987), Baldwin (1987) and Bhagwati (1990 and 1991)

The Tokyo Round facilitated the subsequent Uruguay Round, which yielded extensive outcomes and significantly advanced the global economic integration (Coppolaro, 2018). The Uruguay Round, which took place from 1986 to 1994, was a comprehensive and ambitious series of negotiations that resulted in the creation of the World Trade Organization (WTO) (Zeiler, 2012). The principal aims of the Uruguay Round were to reduce tariffs and non-tariff barriers, improve market access for services, and strengthen the protection of intellectual property rights. Subsequent to the formation of the WTO, GATT remained a binding agreement until 1995, when it was replaced by the Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) under the auspices of the WTO[12] (Kennedy, 2015 and Correa, 2007). The inclusion of TRIPs in the Uruguay Round, however, was opposed by many fervent free-trade advocates (Bhagwati, Krishna, and Panagariya 2014). Currently, the WTO remains the primary global organization tasked with the responsibility of supervising international trade and resolving trade-related disputes.

Furthermore, the North American Free Trade Agreement (NAFTA) was ratified in 1994 amongst the United States, Canada, and Mexico[13]. The elimination of trade barriers and promotion of unrestricted movement of goods, services, and investments between the three nations was facilitated by this agreement (Hakobyan and McLaren, 2016). NAFTA was the inaugural trade agreement between industrialized and emerging nations, and it had a notable influence on the economic conditions of the participating nations (Romalis,

[12] See WTO: https://www.wto.org/english/thewto_e/thewto_e.htm
See USTR: https://ustr.gov/issue-areas/trade-organizations/world-trade-organization-wto
[13] See USTR Archives: https://ustr.gov/about-us/policy-offices/press-office/ustr-archives/north-american-free-trade-agreement-nafta

2007). Several significant provisions of NAFTA comprised the removal of tariffs on numerous commodities, the expansion of service markets, and the safeguarding of intellectual property privileges. Another FTA, United Stated-Jordan Free Trade Agreements, followed in 2000[14].

In 2004, United States signed The Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) with Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua[15]. The objective of the agreement was to enhance the trade and investment activities within the member nations. The agreement encompassed clauses pertaining to agriculture, textiles, and services. The inclusion of intellectual property provisions in CAFTA-DR was a contentious issue due to the perception that such provisions favored US industries over those of the other participating nations (Castro, 2015). Several other FTAs followed the CAFTA-DR[16].

Successively, the Trans-Pacific Partnership (TPP) was a significant trade agreement that involved the United States and was signed in 2016 by twelve countries in the Asia-Pacific region[17]. After the inauguration of the Trump administration, the United States opted to withdraw from the aforementioned agreement in 2017 (Riley, 2017). The Trans-Pacific Partnership (TPP) had the objective of diminishing tariffs and other

[14] See USTR: https://ustr.gov/trade-agreements/free-trade-agreements/jordan-fta
[15] See USTR: https://ustr.gov/trade-agreements/free-trade-agreements/cafta-dr-dominican-republic-central-america-fta
[16] See USTR: https://ustr.gov/trade-agreements/free-trade-agreements
2004: United States-Australia Free Trade Agreement
2005: United States-Chile Free Trade Agreement
2006: United States-Oman Free Trade Agreement
2007: United States-Peru Trade Promotion Agreement
2011: United States-Korea Free Trade Agreement (KORUS FTA)
2012: United States-Colombia Trade Promotion Agreement
[17] See USTR: https://ustr.gov/trade-agreements/free-trade-agreements/trans-pacific-partnership/tpp-full-text

impediments to trade, enhancing labor and environmental safeguards, and encouraging investment within the participating nations.

Ultimately, the United States, Canada, and Mexico entered into an agreement in 2018 known as the United States-Mexico-Canada Agreement (USMCA) as a replacement for the NAFTA[18]. The accord encompasses clauses pertaining to workforce and ecology, alongside revised safeguards for intellectual property. The revised agreement entails significant modifications such as the imposition of elevated thresholds for the proportion of North American content that must be met by specific products to be eligible for exemption from tariffs, the establishment of fresh regulations of origin for automobiles, and the expansion of the Canadian dairy market to US farmers (Lea, 2018 and Norman, 2018).

4.3 Government Intervention in Provisions of the Free Trade Agreements

Notwithstanding the label "free trade," governmental intervention has been quite evident in free trade agreements. This section examines various methods through which governments have intervened in Free Trade Agreements (FTAs).

4.3.1. Intellectual Property Rights (IPRs)

Incorporation of clauses pertaining to intellectual property rights (IPR) or property rights is a common practice in trade agreements within the United States trade and investment framework (Dur et al., 2014). IPRs in FTAs have strengthened over time. FTAs

[18] See USTR: https://ustr.gov/trade-agreements/free-trade-agreements/united-states-mexico-canada-agreement

initially eliminated tariffs and quotas, however, later, trade agreements required to address IPRs in the information economy. Developed nations desired IPRs in FTAs to safeguard their pharmaceutical, software, and music industries. NAFTA, signed in 1994, protected IPR[19]. NAFTA covered copyrights, trademarks, patents, and trade secrets. The 1995 WTO Agreement on Trade-Related Aspects of Intellectual Property Rights (TRIPS) also added comparable portions[20]. The TRIPS agreement encompasses three primary domains of intellectual property rights, namely patents, copyrights, and trademarks. It lays down fundamental principles that regulate intellectual property rights, such as national treatment and most-favored nation, and also sets out the minimum standards for IPRs and their enforcement (Osgood and Feng, 2017). The 2004 CAFTA-DR[21], 2012 KORUS[22] and 2016 TPP[23] FTA included stricter IPR protections. These parts addressed piracy, counterfeiting, copyright protection for digital material, and longer medication patents. In 2020, USMCA replaced NAFTA with intellectual property responsibilities[24]. USMCA protects patents, copyrights, and trademarks. The USMCA also prohibits online piracy and counterfeiting and ensures adequate intellectual property infringement sanctions.

FTA IPRs are blamed for impeding access to crucial pharmaceuticals and other improvements. Strong IPR restrictions benefit industrialized countries' firms and hinder emerging nations' access to breakthrough technology. In conclusion, industrialized nations

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[19] See OAS: http://www.sice.oas.org/trade/nafta/chap-172.asp#A1714
[20] See WTO: https://www.wto.org/english/tratop_e/trips_e/trips_e.htm
[21] See USTR: https://ustr.gov/sites/default/files/uploads/agreements/cafta/asset_upload_file934_3935.pdf
[22] See USTR: https://ustr.gov/sites/default/files/uploads/agreements/fta/korus/asset_upload_file273_12717.pdf
[23] See USTR: https://ustr.gov/sites/default/files/TPP-Final-Text-Intellectual-Property.pdf
[24] See USTR comparison of NAFTA and USMCA: https://ustr.gov/sites/default/files/files/Press/fs/USMCA/USMCA_IP.pdf

have sought greater safeguards, increasing IPRs in FTAs. FTA IPRs are contentious because to worries regarding innovation and pharmaceutical availability IPRs have evolved. FTAs initially eliminated tariffs and quotas. Trade agreements required to address IPRs in the information economy. Developed nations desired IPRs in FTAs to safeguard their pharmaceutical, software, and music industries.

The inclusion of property rights clauses in trade agreements in the United States is based on the belief that strong and enforceable protections for intellectual property are essential for promoting innovation, creativity, and investment, as well as fostering economic growth and progress (Richards., 2002 and 2004). The provisions typically define the scope, duration, and enforcement mechanisms for intellectual property rights, and may also include provisions related to technology transfer, disclosure of information, and dispute resolution. Proponents of strong intellectual property rights embedded in trade agreements argue that they are essential for promoting innovation, protecting investments in research and development, and ensuring fair conditions for business enterprises. According to the proponents, these clauses are consistent with international agreements and standards, and could promote the development of innovative concepts and economic growth.[25]

The inclusion of robust intellectual property rights (IPRs) clauses within free trade agreements (FTAs) can be perceived as a manifestation of state intervention in so called “free trade”. The implementation of intellectual property rights (IPRs) via trade agreements represents a deviation from the conventional free trade doctrine (Smith, 1776; Ricardo,

[25] See (Kim, 2015), (Kim et al., 2016) and (Manger and Shadlen, 2014)

1817), which advocates for the advancement of competition and innovation by enabling unrestricted movement of commodities and amenities across national boundaries (Bhagwati, 2007). This thesis delineates that rather than fostering innovation, the practice in question seeks to establish legal monopolies or oligopolies that curtail competition and impede the advancement of novel products and technologies, particularly in emerging economies. The aforementioned intervention confers advantages to the corporations that possess the patents or copyrights. However, it may have deleterious effects on consumers by augmenting prices and restricting access to indispensable medicines, technologies, and cultural products.

Notwithstanding the potential benefits of strong intellectual property rights, detractors raise concerns about their potential negative impact on the availability of pharmaceuticals, diffusion of technology, and the ability of developing countries to attain their developmental goals. The argument put forth is that overly strict regulations on intellectual property may hinder the availability of affordable medications, limit market competition, and hinder the ability of developing countries to adopt and adapt technologies for their economic progress.

The incorporation of IPRs in the US-Jordan Free Trade Agreement[26] led to elevated costs, postponed introduction of generic pharmaceuticals and drugs, as noted by Abbott et al. (2012). According to Alawi and Alabbadi (2015), data exclusivity has resulted in a restriction on the accessibility of generic drugs and medications. According to Kyle and McGahan's (2012) research, the implementation of patent protection for Research and

[26] See USTR:
https://ustr.gov/sites/default/files/uploads/agreements/fta/jordan/asset_upload_file120_8462.pdf

Development (R&D) has resulted in an increase of R&D activities in developed countries, while the same cannot be said for developing countries. The study conducted by Shaffer and Brenner (2009) investigated the drug availability in Guatemala subsequent to the rigorous enforcement of Intellectual Property Rights (IPRs). The findings revealed a decrease in the accessibility of existing generic drugs and a delay in the importation of new generic drugs. In short, the prediction of limited medication accessibility by all pre implementation of IPR studies turned out to be an expected outcome (Trachtenberg et al., 2019).

4.3.2. Investor-State Dispute Settlement (ISDS)

The inclusion of the Investor-State Dispute Settlement (ISDS) mechanism has been observed in multiple Free Trade Agreements (FTAs) that have been ratified by the United States. The eleventh chapter of the North American Free Trade Agreement (NAFTA) includes provisions for Investor-State Dispute Settlement (ISDS)[27]. According to Article 1101[28], the chapter's scope is defined as follows: an investor belonging to a Party is entitled to present a claim to arbitration under this Section, alleging that the other Party has violated specific obligations. The definition of "investment" and "investor", obligation of fair and equitable treatment, and minimum standard of treatment is established in subsequent chapters.

[27] See OAS: http://www.sice.oas.org/trade/nafta/chap-111.asp#Chap.XI
[28] See: http://www.sice.oas.org/trade/nafta/chap-111.asp#A1101

Similarly, Chapter 11, Section B[29] of the United States-Korea Free Trade Agreement (KORUS FTA) encompasses ISDS provisions. The chapter's scope is established by Article 11.1, which pertains to investments made by investors from one party within the jurisdiction of the other party. Chapter 9, Section B[30] of the Trans-Pacific Partnership (TPP) agreement also incorporates provisions pertaining to ISDS. The chapter's scope, as stipulated in Article 9.1, pertains to investments made by investors belonging to the TPP member states. Likewise, the fourteenth chapter [31] of the United States-Mexico-Canada Agreement (USMCA) incorporates ISDS provisions, albeit with certain modifications as compared to the NAFTA.

It is noteworthy that the ISDS provisions have been a subject of controversy and have encountered censure from diverse sources. The ISDS mechanism has garnered significant interest from both scholars and the public, necessitating a thorough analysis (Hahm et al., 2019). Rodrik (2018) explains that ISDS is not immune to challenges as it operates beyond established legal frameworks, grants excessive authority to arbitrators, lacks adherence to or establishment of legal precedents, and precludes the possibility of appeal. The inclusion of ISDS in trade agreements among advanced countries with well-functioning legal systems, is more challenging to justify, despite its potential benefits for developing nations. It is due to their perceived capacity to erode national sovereignty and exhibit partiality towards multinational corporations at the expense of domestic enterprises. Stiglitz (2015) expounds that:

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[29] See USTR: https://ustr.gov/sites/default/files/uploads/agreements/fta/korus/Chapter_Eleven_Investment.pdf
[30] See USTR: https://ustr.gov/sites/default/files/TPP-Final-Text-Investment.pdf
[31] See USTR: https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/14-Investment.pdf

> "International corporate interests tout ISDS as necessary to protect property rights where the rule of law and credible courts are lacking. But that argument is nonsense. The US is seeking the same mechanism in a similar mega-deal with the European Union, the Transatlantic Trade and Investment Partnership, even though there is little question about the quality of Europe's legal and judicial systems. To be sure, investors – wherever they call home – deserve protection from expropriation or discriminatory regulations. But ISDS goes much further: The obligation to compensate investors for losses of expected profits can and has been applied even where rules are nondiscriminatory, and profits are made from causing public harm." (para. 8-9)

In short, trade and investment agreements offer foreign investors expanded property protection rights that surpass those enshrined in domestic constitutions.[32] The aforementioned entitlements are conferred via agreements pertaining to trade and investment.

4.3.3. Government Procurement (GP)

The method through which governments purchase goods and services for internal use is known as government procurement, and it is covered under several FTAs. Chapter 10[33] of the NAFTA laid out the rules and regulations that were to govern government procurement throughout the three member countries with the aim of promoting greater levels of transparency and fairness throughout the procurement process. In particular, it mandated that each member nation should treat suppliers of goods and services from the other members equally and without discrimination. Discrimination against suppliers from

[32] See Corporate Europe Observatory: https://corporateeurope.org/en/international-trade/2014/04/still-not-loving-isds-10-reasons-oppose-investors-super-rights-eu-trade
[33] See OAS: http://www.sice.oas.org/trade/nafta/chap-101.asp#Chap.X

other member nations is prohibited under Article 1001. The need that all members provide one another "national treatment" in terms of government procurement is one of Chapter 10's most significant provisions. This means that all bidders from each member nation must be treated equally with respect to the procurement process and are not permitted to be the target of discriminatory or protectionist activities. While Article 1003 mandates that every member state promptly publish its procurement policies and regulations.

Similarly, the provisions pertaining to government procurement in the CAFTA-DR[34] mandate that all participating nations must extend equitable treatment to suppliers of goods and services from other participating nations during their government procurement procedures, with certain exceptions. The aforementioned pertains to the acquisition of commodities and amenities by federal establishments, state-owned corporations, and sub-national entities. Within the framework of CAFTA-DR, member nations are obligated to disclose their procurement opportunities, along with the standards and methodologies employed to assess proposals, with the aim of promoting impartiality and openness in the procurement procedure. Notwithstanding, specific exclusions are applicable to particular government procurement undertakings, including those associated with safeguarding national security, promoting public health, or preserving cultural heritage.

Likewise, chapter 17 of the US-Korea Free Trade Agreement (KORUS) contains rules for public procurement[35]. Each member nation is required to provide suppliers of products and services from the other member nation fair and transparent procurement

[34] See USTR: https://ustr.gov/sites/default/files/uploads/agreements/cafta/asset_upload_file766_3926.pdf
[35] See USTR: https://ustr.gov/sites/default/files/uploads/agreements/fta/korus/asset_upload_file2_12716.pdf

procedures. Article 15.2 states that each member nation must promptly publicize its procurement policies and regulations and forbids discrimination against vendors from the other member countries. Furthermore, government procurement is also covered in Chapter 13[36] of the USMCA and Chapter 15[37] of TPP. Under these provisions each member nation is required to provide suppliers of products and services from the other member nation fair and transparent procurement procedures. Article 13.2 of USMCA specifically states that each member nation must promptly publicize its procurement policies and regulations and forbids discrimination against vendors from the other member countries.

Critics claim that these clauses might hurt domestic businesses and result in the privatization of public services. For instance, the government procurement clauses in FTAs have come under fire for giving foreign companies access to government contracts at the cost of domestic firms and employees. Upon conducting a comprehensive analysis, it can be inferred that if emerging economies were to grant market access in government procurement, they would relinquish their authority over a crucial policy instrument for development (Sengupta, 2012). Sengupta suggests that developing nations may only be required to adhere to transparency measures outlined in the GP provisions of their Free Trade Agreements, without any additional obligations. Despite the prevalent lack of transparency and corruption in several developing political and economic systems, along with significant gaps in the implementation of development-friendly GP policy, it is imperative for developing nations to address these issues domestically while preserving the

[36] See USTR: https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/13_Government_Procurement.pdf
[37] See USTR: https://ustr.gov/sites/default/files/TPP-Final-Text-Government-Procurement.pdf

flexibility and significance of this policy tool. Particularly talking about the prospects of GP provisions in India's FTAs, Sengupta (2012) declares:

> "It is important again to emphasize that India can always invite global bids on a need basis as it does currently without making legal commitments to do so. India should not be giving up development-sensitive policy tools for very dubious gains in return." (p. 22)

Additionally, some contend that these clauses may lead to a race to the bottom in which governments slacken labor laws and regulations to draw in foreign investment. Furthermore, a lot of people think that the laws and regulations described in the chapter have actually made the procurement process extremely difficult for smaller businesses to navigate, giving larger organizations an advantage.

4.3.4 Regulatory Cooperation

The regulatory cooperation provisions incorporated in free trade agreements (FTAs) are intended to facilitate the standardization of regulations and standards across the nations involved, with the objective of mitigating trade impediments and fostering economic amalgamation. For instance, chapter 25[38] of the Trans-Pacific Partnership (TPP) was designed to foster collaboration and synchronization among member nations in the formulation and execution of regulatory measures, as part of its overarching objective. The promotion of regulatory cooperation to facilitate trade and investment among member countries was specifically mandated by Article 25.1. Similarly, the KORUS Free Trade Agreement contained a section dedicated to Technical Barriers to Trade, specifically

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[38] See USTR: https://ustr.gov/sites/default/files/TPP-Final-Text-Regulatory-Coherence.pdf

outlined in Chapter 7[39]. This chapter encompassed various provisions pertaining to regulatory cooperation. The establishment of a Regulatory Cooperation Council, as stated in Article 7.10, aims to promote cooperation and coordination between regulatory authorities in both countries.

Moreover, the United States has signed other FTAs that incorporate regulatory cooperation provisions, such as the USMCA. The Regulatory Cooperation chapter (Chapter 28)[40] within the USMCA outlines a structured framework for collaboration on regulatory matters, encompassing the formulation of uniform strategies to address regulatory concerns and the exchange of optimal methodologies.

In general, the provisions pertaining to regulatory cooperation within Free Trade Agreements (FTAs) are a contentious issue and are prone to receiving critical feedback. Although regional trade agreements with regulatory provisions have the potential to decrease trade barriers and encourage economic integration, they are most likely to result in the dilution of significant health, safety, and environmental regulations, as well as the exertion of substantial corporate influence on the regulatory framework (Schmidt, 2009).

4.3.5. Anticorruption Provisions

Generally, as per the federal legislation of the United States, engaging in corrupt activities, such as bribery, by multinational corporations or other entities with the intention of obtaining contracts is considered illegal. The Foreign Corrupt Practices Act (FCPA)[41] is

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[39] See USTR: https://ustr.gov/sites/default/files/uploads/agreements/fta/korus/asset_upload_file604_12708.pdf
[40] See USTR: https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/28_Good_Regulatory_Practices.pdf
[41] See Dept. of Justice: https://www.justice.gov/criminal-fraud/foreign-corrupt-practices-act

a federal statute that was enacted in 1977. The regulation stipulates that U.S. corporations, foreign corporations that are publicly traded on U.S. stock exchanges, and individuals and organizations acting on behalf of said corporations are prohibited from participating in acts of corruption. The aforementioned legislation forbids the offering of any type of remuneration or advantage to officials of foreign governments, political organizations, or aspirants for the purpose of acquiring or retaining commercial advantages.

Particular to the FTAs, the objective of anticorruption provisions is to mitigate and counteract corrupt activities in both public and private domains, enhance openness and answerability, and foster principled commercial conduct in trade agreements. For instance, the anticorruption provisions of CAFTA-DR necessitate that every party involved must criminalize bribery and embezzlement and implement measures to prevent and identify corruption in the public sector[42]. The agreement encompasses measures aimed at fostering transparency in governmental procurement, safeguarding individuals who report illegal or unethical activities, and strengthening collaboration among the signatories to prevent and counteract corrupt practices.

In addition to the aforementioned, the Trans-Pacific Partnership's (TPP) anti-corruption chapter encompasses clauses mandating the criminalization of bribery and embezzlement, and necessitates that each participating nation implement or uphold measures aimed at preventing and identifying corruption within the public sector[43]. The aforementioned text encompasses measures aimed at fostering transparency in the realm of public procurement, bolstering collaboration among involved parties to prevent and

[42] See USTR: https://ustr.gov/sites/default/files/uploads/agreements/cafta/asset_upload_file294_3938.pdf
[43] See USTR: https://ustr.gov/sites/default/files/TPP-Final-Text-Transparency-and-Anti-corruption.pdf

combat instances of corruption, and instituting protocols for managing situations involving potential conflicts of interest.

The recently ratified United States-Mexico-Canada Agreement (USMCA) includes an anticorruption chapter that mandates the criminalization of bribery of public officials and individuals involved in business activities, as well as the implementation of preventative measures to detect and deter such illicit behavior[44]. The document additionally encompasses clauses aimed at advancing transparency in governmental purchasing processes, reinforcing safeguards for individuals who report misconduct, and augmenting collaboration among involved entities to forestall and counteract corrupt practices.

These provisions are expected to have positive impact on the trade agreements, however, the implementation of anti-corruption provisions within FTAs can present difficulties stemming from challenges related to enforcement, transparency, cultural nuances, intricacy, aversion to change, and inadequate coordination. Overcoming these obstacles necessitates a persistent endeavor from all parties concerned. As issues concerning the jurisprudence of allegations of corruption in investment arbitration have been the subject of extensive discussion in economic policies, there have been relatively few studies conducted on the increasing practices of anti-corruption provisions (Yan, 2022). In particular, there is a lack of a methodology for extensively assessing the driving reasons and expectations of anti-corruption measures in the present inventory of IIAs.

[44] See USTR: https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/27_Anticorruption.pdf

4.3.6. Social and Ecological Provisions

Numerous primary free trade agreements (FTAs) entered into by the United States of America incorporate provisions pertaining to social and ecological considerations, such as labor rights, safeguarding the environment, and promoting sustainable development. Chapter 23[45] of the United States-Mexico-Canada Agreement (USMCA) encompasses provisions pertaining to labor, such as the elimination of forced labor and the entitlement to engage in collective bargaining. Furthermore, Chapter 24 comprises stipulations that are linked to the ecosystem. The aforementioned provisions encompass commitments to maintain compliance with environmental regulations and ensure the protection of biodiversity[46].

In the same vein, chapter 19 of the Trans-Pacific Partnership (TPP) encompasses provisions pertaining to labor, which entail the proscription of child and forced labor, as well as the capacity to participate in collective bargaining[47]. Although Chapter 20[48] incorporates certain provisions pertaining to the environment, including obligations to safeguard endangered species and combat illicit fishing and logging, Sachs (2015) delineates that these provisions are:

> "A set of standards on labor and environment that purport to advance the cause of social fairness and environmental sustainability. But the agreements are thin, unenforceable and generally unimaginative. For example, climate change is not even mentioned, much less addressed boldly and creatively." (para. 7)

[45] See USTR: https://ustr.gov/sites/default/files/files/agreements/FTA/USMCA/Text/23%20Labor.pdf
[46] See USTR: https://ustr.gov/sites/default/files/files/agreements/usmca/24_Environment.pdf
[47] See USTR: https://ustr.gov/sites/default/files/TPP-Final-Text-Labour.pdf
[48] See USTR: https://ustr.gov/sites/default/files/TPP-Final-Text-Environment.pdf

Detractors of these clauses contend that they lack the necessary efficacy to uphold social and ecological standards, and that they may be undermined by the ISDS (Investor-State Dispute Settlement) mechanism and other policies that prioritize corporate interests (Johnson, Sachs and Sachs, 2016). This argument posits that the aforementioned provisions may be invalidated by other provisions that prioritize corporate interests. Moreover, there is a perspective held by certain economists that suggest the utilization of these clauses by affluent nations as a means of imposing their norms upon less developed nations, rather than fostering authentic sustainable development and equitable social outcomes (Bhagwati, 2007). This constitutes an additional argument posited by certain individuals.

One potential motivation for domestic industries to advocate for the inclusion of labor and environmental standards in trade agreements is to protect themselves from competition with inexpensive imports that may be perceived as having an unfair advantage due to less stringent labor and environmental regulations. This concern stems from the fear that such imports could be subsidized, leading to a competitive disadvantage for domestic industries (Teslik, 2007). According to Bhagwati (2007), international companies or industries may promote labor and environmental standards in order to gain a competitive edge over more efficient producers from other countries in the global market. This is because such standards would increase the production costs of their international rivals. According to Schmidt (2009), individuals who support a trade agreement, that is met with disapproval due to its perceived negative impact on the environment or human rights, may suggest the incorporation of minimal labor and environmental regulations as a means of appeasing those who oppose the agreement.

4.4. Conclusion

Government intervention has exerted a notable influence on the terms of trade around the world, with varying degrees of involvement and impact. The North American Free Trade Agreement (NAFTA) is a notable example of governmental interference in trade in North America. The inclusion of intellectual property protections in NAFTA was advocated by the US government with the aim of safeguarding the interests of US industries. Likewise, within the framework of the United States-Mexico-Canada Agreement (USMCA), the government of the United States advocated for heightened entry into the Canadian dairy market under government procurement provisions. The aforementioned interventions are indicative of the political and economic interests that underlie the actions of the respective governments, thereby highlighting the fact that "free trade" agreements are not entirely devoid of government influence[49]. This in turn, what this thesis attempts to justify, calls to take into consideration the labor and environmental regulations for sustainable global development.

For decades, academics and policy makers have debated whether labor and environmental norms should be included as criteria in trade agreements. Concerns about the social and environmental consequences of trade liberalization and globalization inspired a late-twentieth-century push to incorporate labor and environmental criteria in trade treaties. However, implementation of these extended provisions seems to be a mere

[49] According to Lal (2000), certain neoclassical theorists contend that state intervention should not be employed to address market failures due to the potential for bureaucratic inefficiencies to exacerbate the situation. Hence, free trade – free market phenomenon should be completely devoid of government intervention.

formality, and therefore fair trade movement arose in reaction to concerns about these particular effects of trade liberalization and globalization.

Two auxiliary agreements were established concurrently with the founding of the North American Free Trade Agreement (NAFTA) in 1994. The North American Agreement on Labor Cooperation (NAALC) and the North American Agreement on Environmental Cooperation (NAAEC) are the names of these two accords. These two accords were both signed in North America. These new agreements were a formal attempt by the United States, Canada, and Mexico to include social and environmental considerations into existing trade agreements. All three nations agreed to sign them. Since then, labor and environmental requirements have been integrated into trade agreements at all levels, including regional, bilateral, and global. Some supporters of adding labor and environmental restrictions in trade agreements say that doing so would guarantee that trade gains are distributed more equally and that social and environmental safeguards are maintained. Skeptics, on the other hand, argue that there is a risk of negative effects for competitiveness, costs, and sovereignty. It is noteworthy to mention Johnson, Sachs and Sachs's argument analyzing provisions regarding ISDS and environment (2016):

> "Over the past year, we have been warning, for example, of the threat the dead poses to sustainable development and the environment. Unfortunately, recent developments have done nothing to dispel these fears. Indeed, there is growing evidence that a mechanism in the deal represents a major grant of power to corporations, one greatly disproportionate to the rights of all other domestic actors including local governments, tribal governments, environmental organizations, citizens, and companies.
>
> That mechanism, investor-state dispute settlement (ISDS), gives multinational companies outlandish sway over regulatory policies, including environmental

> protection. The Obama administration told us not to fear, but the use of ISDS in an existing deal, NAFTA, underscores the seriousness of the threat as one of the President's most important environmental decisions is now at risk." (para. 2-3)

Given the evidence of intervention by the governments to protect big corporations, this thesis strongly defends the inclusion of labor and environmental protection laws as an integral part of, first, the development policies and then, the international trade agreements. This chapter particularly concludes that the integration of labor rights and environmental standards should constitute a fundamental component of any novel trade accords that any country in global north engages in, serving as an initial measure towards accomplishing this objective. The enforcement of these codes may be achieved through the imposition of trade penalties, similar to the enforcement of investor rights and intellectual property rights as stipulated by the North American Free Trade Agreement and the World Trade Organization. Additional examination of the methodology employed to implement these provisions falls outside the purview of this thesis yet remains highly significant to scrutinize. The production process necessitates crucial inputs, including labor and the environment, which are both indispensable and scarce resources. It is imperative that in forthcoming trade agreements, the treatment and consideration afforded to investors should be extended to encompass the aforementioned group.

Chapter 5: Conclusion

The negative consequences of trade, such as job displacement and declining wages, as well as environmental damage, grew dramatically in the 1990s, as new trade agreements and massive increases in international capital flows drove rapid increases in trade volumes. Despite these issues, global financial institutions are doing little to assist workers and communities affected by globalization (Scott, 1998). In order to offer a case for fair trade, this thesis aims to examine the ramifications of globalization, free trade, and a relatively biased government action. Because the purpose of fair trade is to achieve greater fairness and transparency in economic operations and trade on a global scale. It is important to note that the certification-based fair trade model functions within the context of the free market, thus this is another basic argument for promoting a more progressive and radical approach on fair trade.

Two distinct conceptual frameworks were examined, both of which are complimentary to the basics of a fair trading system. Sen's capabilities was first employed as a conceptual framework. The capabilities equality approach focuses primarily on the advancement of human capacities. This may be accomplished through developing and executing fair trade policies that encourage worker capacities, particularly those of marginalized and disadvantaged groups, expanded access to markets and jobs, and technological innovation. It can also be used to improve distributional equity. Fair trade policies, which guarantee that the advantages of trade are dispersed evenly across different groups, will assist achieve this aim. Furthermore, the capabilities framework approach encourages participatory decision making. By incorporating safety requirements into manufacturing, fair trade rules can impact the decision-making power of employees and customers. Finally, the capabilities approach promotes environmental stability, which helps to prevent environmental degradation, natural resource depletion, and pollution, all of which contribute to climate change and undermine the capabilities of vulnerable communities, particularly those in developing countries. As a result, fair trade policies will lead to environmental protection.

Second, the significance of Marx's criticisms of capitalism and his understanding of exploitation to fair trade was studied. Marx maintained that workers are exploited under capitalism by capitalists who take surplus value from their labor while paying them less than the full worth of their job. This exploitation can result in inequality, poverty, and a lack of fundamental necessities and opportunities. Marx's work is crucial in understanding how multinational firms exploit employees in developing nations by extracting surplus value from their labor in the framework of international commerce. Low earnings, terrible working conditions, and restricted prospects for promotion can all contribute to this. It especially influences conversations about the need to solve global economic exploitation and injustice. Proposals for fair trade regimes use Marx's insights to create laws that promote more justice and eliminate exploitation in global supply networks. Fair trade policies, for example, can contain measures for worker empowerment, collective bargaining, and livable wages, all with the goal of minimizing worker exploitation in developing nations.

This thesis then went on to investigate and comprehend the flaws of free trade policies. Many mainstream economists continue to believe that free trade is the only strategy that will lead to the growth and development of nations and economies, which is due to their unwarranted romanticization of the reductionist approach of classical and neoclassical trade theories. These theories considerably simplify complex real-world phenomena to basic variables. These theories were found to focus solely on factor endowments, technological inequalities, and trade profits, while disregarding cultural, political, and social factors that impact international commerce. A careful review of literature on the limits of traditional trade models was used to do additional analysis. Despite the fact that the new trade models incorporated more complex dynamics than classic trade theories, such as strategic behavior, multiple equilibria, and endogenous growth, they failed to explain the role of government in the context of sustainable development.

The standard viewpoint characterizes the mainstream trade perspective, which is still generally recognized and accepted. Neoclassical supporters continually push for free international commerce. Historically, the notion of free trade was widely considered to be the absence of state restrictions on the worldwide interchange of goods and services. Import taxes, export and import quotas, licenses, and other measures geared especially at managing trade flows are among the policy tools described above. The use of these policies is seen to change naturally occurring trade patterns and reduce social well-being. Currently, the concept of free trade includes the absence of technical trade barriers. Despite their stated domestic objectives, the aforementioned laws are perceived to be excessively trade-distorting (Bhagwati 1993).

In summary, it is suggested that differences in policy regimes across nations may limit the reciprocal gains normally associated with free trade (Dorman, 1988). Disparities in environmental and labor rules have the ability to disrupt trade and financial operations that would otherwise take place, since they provide a competitive advantage to many businesses in countries with lower social standards. According to this line of reasoning, several supporters of labor and human rights, as well as environmental quality, argue that their political initiatives are jeopardized by the consequences of free trade. Despite evidence indicating negative effects of hyper-globalization resulting from unrestricted trade, a significant number of economists maintain the belief that free trade is the only strategy capable of promoting the growth and development of nations and economies. This perspective is often influenced by an ideological inclination towards reductionist approaches inherent in free trade theories. Interestingly, following a thorough examination of evidence of government intervention in FTAs, this thesis concludes that "free trade" is not truly free. There exists ample evidence of government interventions solely encouraging and protecting large corporations and investors rather than the actual development and sustainability factors, namely labor and the environment. All of this adds up to a persuasive case for establishment of a fair trade regime that can strike a balance between a nation's policy autonomy and its global commitments to raise labor and environmental standards.

To reiterate, fair trade certification within a free market system supports equitable pricing for farmers and workers in developing countries. It functions within the present market system, which is built on a capitalist paradigm that emphasizes profits above social and environmental concerns. The willingness of consumers to pay extra for fair trade items in order to support fair trade is dependent on market volatility and consumer demand. Fair trade sales are rarely a consistent source of revenue for fair trade producers; therefore, they may experience challenges depending on these fluctuations. Not only that, but wage contraction over the last several decades has made it difficult for consumers to pay the fair trade premium, forcing them to rely on cheaper replacements for fair trade products. As a result, there is a need to create a more progressive fair trade framework in which states may exercise policy autonomy while adhering to their international labor and environmental responsibilities.

Following a thorough examination of evidence of government intervention in FTAs, this thesis concludes that "free trade" has never been free and that it must be replaced by a global fair trade regime in which nations can exercise their autonomy. There is an urgent need to alter the role of government in sustaining social and environmental conditions for national development and progress. The evidence of clauses safeguarding large firms and investors highlights the significance of worker rights and environmental standards as essential agenda items for any future international trade agreements. These codes may be enforced by trade sanctions, tariffs, and charters, in the same way as investor and intellectual property rights are enforced under the NAFTA and WTO accords. Labor and the environment are vital, rare resources and key inputs to the production and development processes, and they should be accorded the same amount of attention and reverence in all trade agreements as investors and multinational firms. Incorporating labor and environmental standards into trade agreements is an important step toward promoting equitable trade benefits for all stakeholders, rather than just dominant corporations and developed countries. To be effective, these standards must be provided with greater gravity and enforcement methods than simple provisions.

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