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**Lecture - 38**  
**Competitors as Stakeholders; Global Competition**

We are in module 8 lecture 38. Last lecture, I have talked about what is not fair competition, and today we are going to talk about an alternative paradigm for Global Competition.

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So, our agenda for today is we will talk first about the concept of free trade in global competition and show what are the probable and actual criticisms of that concept. And then I introduce to you the idea of free sorry fair trade not free trade, but fair trade and global cooperation. So, competition there is no need to be dirty, competition does not need to be hostile and fierce that is the lesson that we will learn from this.

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**Free Trade Theory (Adam Smith, Ricardo)**

Classical (and Neo-classical) economists argued: "Free" trade in goods between countries / regions is always good for each trading country / region, and is therefore the best arrangement for everyone's welfare.

"Free" means: Free from all governments restrictions and regulations. Business should have a free hand.

"Comparative advantage". E.g. Country A grows high-quality, cloud-forest-grown coffee

Country B manufactures technologically advanced electronic products.

Liberal international trade A ↔ B allows B to enjoy imported delicious coffee, and A to access high-tech products: Both countries are better off.

First of all the idea about free trade, you see lot of people believe they believed as in we are talking about famous economist, classical economists, as well as many of the new classical economists who have argued that you know the best is the best way of doing business is without any intervention from the government. Specifically, they are talking about international business, international trade which happens between countries or which happens between regions. And, this is where they say that you know the best arrangement here is that they are left to themselves and they work out what actually how the business goes on.

So, free trade its business that is free, free from what? Free from all governmental restrictions and regulations ok. So, this is where we are talking about, no laws, no regulations from business, but business goes on between different regions and different countries. Where is competition in this? We will try to think a little, that suppose you are a businessman from country A, and if you are trying to do business in country B ok, you cross the border, and you are trying to do business in country B which may be far off.

Who are your competitors? The local traders, the local businessman who are trying to sell the same or similar products, or if not same or similar products, then very close associated, so that they are your indirect competitors. So, what we are talking about is a foreign firm going to do business in another country, and there the proponents of free trade says no rules, no government intervention, no regulations from the governments of

country A or country B. So, how does this business happens? They will say you will leave it to this business community, they will sort it out.

There is a popular argument also from this position free trade that there is win-win situation. If we leave trade free there will be win-win situation from all respect. Namely say take these example that country A grows you know coffee which is not available say in country B, whereas, country B manufactures technologically advanced electronic products alright.

So, now, let us assume that country A cannot grow electronic products, cannot produce electronic products, and country B on the other hand cannot grow coffee let us assume that. So, the proponents of free trade they will say that you know if we have liberal international trading here from A to B and B to A, then both the countries will have a win-win situation, both countries will be better off. Why? Because, people in B will be able to enjoy imported coffee which they do not have, and A will be able to give its people high-tech products ok. So, this is the how they argue that free trade is good.

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### Criticisms of "Free" Trade concept

- When international trade is unregulated by governments, many undesirable and ethically problematic outcome:
- 1. Unfair distribution: The benefits from the international trade are **not fairly distributed among the countries, or within the country**. It has not succeeded in reducing world's poverty. It may have created some billionaires in the poorer countries, but the poorer countries as a whole have not achieved the living standards of the developed countries.
- 2. **Some groups will lose out**: E.g. Domestic consumers have to pay higher price for export items. Domestic workers may lose out to countries offering labour at cheaper cost.
- 3. It encourages export-intensive countries to **exploit** the non-renewable resources **unsustainably**. E.g Relative abundance of crude oil leads to more and more extraction and export of crude oil.
- 4. Export earnings leave countries at the mercy of world price fluctuations.

Now, this concept I am afraid has been contested. In fact, there are lot of criticisms against the free trade concept. People have pointed out that there are several aspects in which a free trade can go against the ordinary people's interest and that it is not even in the interest of the trading countries. So, let us go over this one by one. First of all they have said that the very idea of free trade does not really promote fair distribution of the

benefits. Some people are doing business from country A to country B, country B to country A, the benefit stays confined to only those people, it does not necessarily become the benefit of country A, everybody in country A or everybody in country B.

For example, they point out that you know you talk about international trading, it has been going on for years centuries that has not reduced world's poverty. There are some countries who have remained poor despite allowing international trade. It may have created some businessman in those poorer countries as billionaires. But that the fact remains that the poorer countries as a whole have not come out of their poverty because of this. So, the win-win situation or comparative advantages as we are talking about does not lead to automatically a fair distribution of the benefits. The benefits are not shared equitably alright. So, it is not as rosy as the picture has been painted.

Second, they also point out that some groups will eventually lose out. If there are no regulations from the government and international business happens, then the domestic consumers will have to sell out a much higher price for the export items. As we all know that if once product becomes export quality or yet to be exported, the domestic consumers are sufferers because then they have to pay extra amount just to get the export item. Similarly, domestic workers may lose their work to countries which offer labour at cheaper cost; you know this is outsourcing labour.

The third point is that in a way free trade if it is allowed without any regulation from the government, it may lead to unsustainable environmental practices, because you know the craze for profit makes people blind. And they keep on unsustainably using the natural resources. Think about crude oil. If the country is rich in oil, then more and more oil will be excavated until it is completely exhausted and that is what the environmentalist actually warns us about.

Fourth that free trade creates some sort of a dependence on export. See coffee and electronic products the example that I gave, country A and country B. Now, the country B people they do not grow coffee, but they depend of export from country A for coffee. And their addiction to coffee grows, and this dependence on the export leaves countries at the mercy of world price fluctuations. If you depend on export item too much, and one day the business relation either is not there or the prices have gone really high that leaves

the countries really at the mercy of those fluctuations, the market fluctuates and the country's economy in fact is shattered.

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**Criticisms of "Free" Trade concept**

5. In barrier-free trading, both sides need to be equally strong and capable. Otherwise, one-sided exploitation increases: Powerful exploits the less powerful trader, the middlemen exploit the grower, the better informed exploits the less informed.

E.g. Market defects. Effect on global suppliers: In case of agricultural farmers in poorer nations, from where the affluent countries often source their food, fruits, flowers, the farmers are often not given the information about the market, or the price, not given access to more lucrative markets and credits.

Sometimes, their ability to switch to other sources of income generation is also curtailed.

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The other criticisms of free trade are like this that it allows I mean it has enough room to increase exploitation. See in this kind of where there is government is not there to speak for any of the sides; government is not there to intervene if there are excesses on the side of the more powerful business coming from another affluent country. If there is no such interventions, no laws, no regulations, chances are that there will be one-sided exploitation, because often the rivals or the competitors are not really at equal level.

The more powerful businesses are going to exploit the less powerful ones. The more informed or more sophisticated or more learned businesses are going to exploit, the more ignorant and more or less informed businesses. There will be middlemen who will exploit the original growers. So, in a way this is not a very pretty or desirable situation from the ethical side. They cite the example of global supply chain. And they say that often the agricultural products which are sourced from poorer countries to the more affluent countries, I am talking about fruits, I am talking about crops, and there the resources are taken from the poorer countries, but the growers namely the farmers on the poorer countries are often not provided, the proper information about the market.

They do not know the actual price at which this will be sold, because they are not given the access to the markets, and they do not know much about the markets where their

produces are going to be sold. Sometimes even their ability to switch from this sort of a business transaction is also curtailed by agreement you know exploitation of those ignorance.

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**Criticisms of Free Trade Concept**

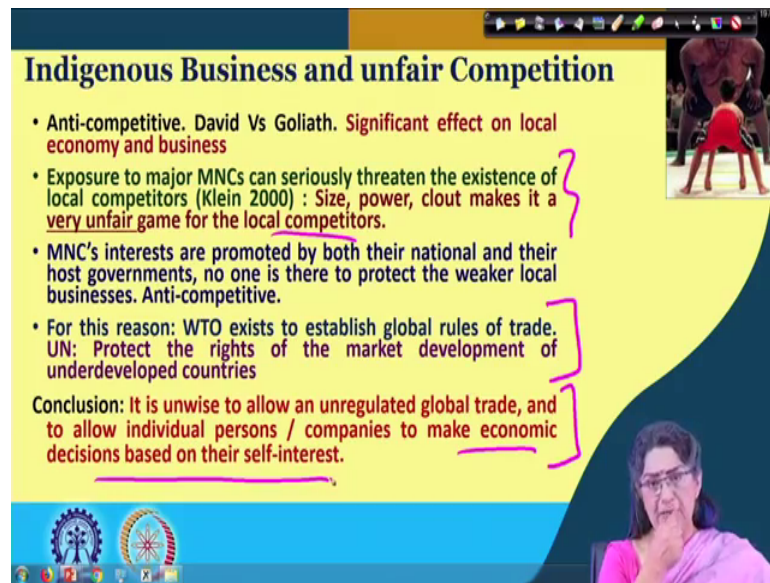
6. Different ways of doing business in different countries: New norms, new adjustments by the new players. Advantage goes to those who are more familiar with the new set-up.

7. Impact on indigenous business and competitors: Very large companies, the MNCs. They have the market power, dominance, clout and experience. Their effect on the local competitors are **decimating**. Threatens the viability of an entire local industry.

And then there is the fact that you know there are different ways of doing business in different countries. And people who are more informed about these new markets will make obvious advantages. This is a point, the seventh point which is very important, and it has been said many times about global business that the impact on the indigenous business and competitors, we are talking about the local businessman, the small business holders. The effect on them of free trade is devastating.

Because what we have here is a very large companies coming into a country where there is there are all these you know local businessman. The very large companies come with power, experience technology, advanced knowledge. And, their effect on the local competitors are often extremely adverse.

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### Indigenous Business and unfair Competition

- Anti-competitive. David Vs Goliath. Significant effect on local economy and business
- Exposure to major MNCs can seriously threaten the existence of local competitors (Klein 2000) : Size, power, clout makes it a very unfair game for the local competitors.
- MNC's interests are promoted by both their national and their host governments, no one is there to protect the weaker local businesses. Anti-competitive.
- For this reason: WTO exists to establish global rules of trade. UN: Protect the rights of the market development of underdeveloped countries

**Conclusion: It is unwise to allow an unregulated global trade, and to allow individual persons / companies to make economic decisions based on their self-interest.**

This is known as the David and Goliath situation. I am sure you have heard the biblical story about big very big David and very I am sorry big very big Goliath and very tiny David. This is an unfair and unequal competition. In fact, studies after studies suggest that the corporations, their size, their clout, their advanced position, all of these makes, it very unfair game for the local competitors. So, it is not a very fair competition at all.

If there are no governments to bring in the rules the situation becomes even worse. This is why in fact WTO exists to introduce the global rules of trade United Nations also says that the rights of the local traders must be protected. What is the overall conclusion from all these that it is not a very wise decision to allow free trade, it is not very ethical to allow completely unregulated trading that is free trade. Specifically, it is not very wise to allow individual companies to make economic decisions based on their self-interest. So, trading cannot be completely left to businesses themselves.

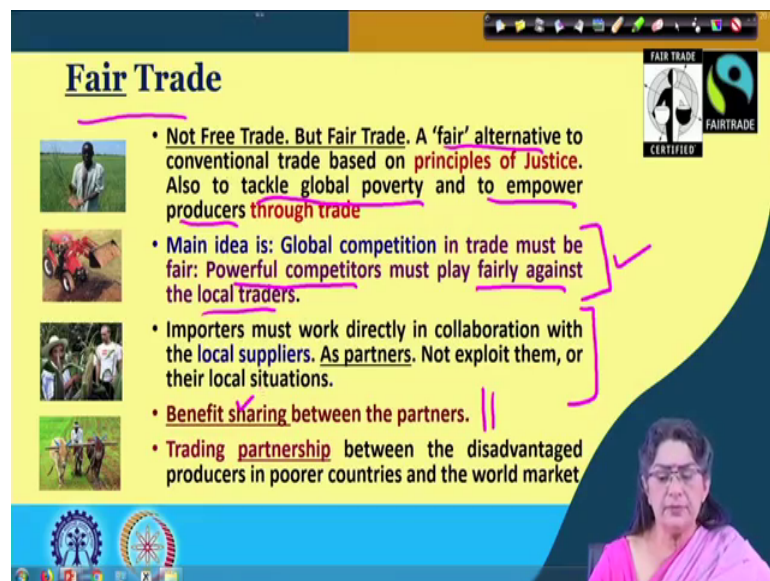


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Then what is our choice? And, this is where I introduce the new paradigm of fair trade.

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See this is a relatively new paradigm. And it says that the name itself should be noted that it is against free trade, it is fair trade fair trade, as in a fair alternative that is based on the principals of justice. Their goal is not just personal gain, but doing business while tackling global poverty and to empower the producers and the local business through trade you help those countries. So, competition is not the key buzzword here. Specifically because you are more powerful, as you are going from an advanced country



of more affluent more technologically advanced country, the powerful competitors must act responsibly and fairly against the local traders. So, competition rules you the just because you are powerful, it is just the opposite of abuse of market dominance. Just because you are dominant you should not trample on the weaker, this is what they are saying you play fairly, so that you think on their behalf and you play a healthy competition. You empower them first and then you meet them on a level ground.

So, importers have to work with the local suppliers as partners. Partners as in share the information about market, share the information about the pricing, and not exploit them. Benefits to be shared between the partners and trading partnerships. So, we are finding the buzzwords here, one is cooperation, one is partnership, and third is benefit sharing things that were missing from the concept of free trade.

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**Fair trade**

- "Fair Trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers".
- Also projected as: A Developmental Goal
- Allows opportunities to the disadvantaged producers in developing countries to move out of poverty through creating market access under beneficial and not exploitative terms: Empowerment through international trade. "Trade, not Aid".

So, this is the concept of fair trade. What you see here is a direct quotation from the fair trade website, fair trade is a trading partnership. As I pointed out it is a partnership relation between business from one country to another business in another country, based on dialogue, transparency and respect. Watch the terms, these are value terms that seeks greater equity in international trade. It contributes to sustainable development. So, there is commitment for environmental protection and conservation by offering better trading conditions to, and securing the rights of marginalized producers and workers.

Fair trade is promoted also as a developmental goal. You are trying to bring the benefits of development through trading to the underdeveloped or developing countries. In fact, the disadvantage producers in the poorer countries are being given an opportunity to compete in the more lucrative markets. And the slogan has been trade, not aid alright, because typically developmental aid has been given support has been given, but this fair trade says that this is another opportunity to empower to help them to develop, but only through doing business. This business has to be based on a partnership model.

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**Fair Trade: Seven Basic Practices**

1. Co-operation, not competition: With local business, and suppliers
2. Direct purchase from the producers: Eliminating profiteering middlemen
3. Transparent, long-term trading partnerships: Global partners
4. A guaranteed, minimum price to the local producer / supplier / competitor to cover the costs of production, usually set higher than of Market minimums: Protection from global market risks
5. Focus on development and technical assistance via the payment to local growers / suppliers of an agreed Social Premium (often 10% or more of the cost price of goods), if they form a cooperative among themselves, and put a part of the profit back into their community.
6. Provision of market information to the local business / supplier
7. Sustainable and environmentally responsible production

THIS MARK SUPPORTS A FAIR DEAL FOR FARMERS

There are seven basic principals or practices that are connected to fair trade, and they are first of all as I said very first one is not competition, but cooperation. So, the businessman from one or business firm from one country goes into another country, and with the local business and the suppliers cooperate they form a team; second, no middlemen, but direct purchase from the producers. Transparency, long term trading partnership; transparency as in not hiding information from the, you do not hide information from the partner you hide information from your enemies adversaries.

So, transparent and trading relationship, that is going to be long term relationship. The fourth and the fifth are very interesting points I will I am going to elaborate them and show you to you. But, the fourth point is about a ensuring a minimum price that the local businessman or the local supplier will get, so that when there is any market risk globally, the local businessman does not suffer. So, one kind of a pricing that you discuss that

could be guaranteed minimum price, no matter how the product is sold, no matter how the market behaves, this much is guaranteed to the local business, this is about a premium fair trade premium.

So, in extra payment will be given to the local grower or the local business if they utilize some of the money they have made for the development of their community or their area. This is known as the social premium, agreed social premium. And often this is a real incentive for the local business. Sixth as said provision of market information to the local business or supplier and seventh is about environmentally being conscious in the whole production or whole supply chain. This seven are the working principals for fair trade.

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**Fair Trade and Social Justice**

- **Price:** A guaranteed price that is supposed to cover cost of sustainable production. Ensure that local growers get minimum price by the purchaser. If market rises, fair trade price also rises. Growers are protected from the risk of reducing to poverty by the whim of the commodity market.
- Market access to marginalized producers from developing countries

**Other facets:**

- **Sustainability:** Better Environmental outcome locally and globally. Cuts down on heavy pesticide usage.
- **Capacity building and empowerment:** Local social and community development
- **Fair trade premium:** Separate payment for social and economic development in the producing communities. Local co-ops for fair distribution of benefits among the locals

I said I am going to elaborate about this price specifically, and other interesting features of fair trade, specifically link them to social justice. Social justice is about rectifying any inequalities social inequalities. If there are poorer people, if there are people who are socially disadvantage, you try to empower them how do how does fair trade work for that one is through the pricing.

Remember I had said a guaranteed minimum price, so that the cost of the production is covered if the market rises the cost will be adjusted meaning you are going to get more. If the market falls, even then remember there is a guaranteed minimum that will be paid to you, so that growers or the suppliers in the poorer country is protected from the risk of reduce being reduced to poverty by the market fluctuation.

When you do not have enough to stand by all kind of fluctuations, you stand at the risk when the market fluctuates you might be wiped away totally wiped out you will become bankrupt. So, to save you from the bankruptcy, there is a guaranteed minimum price this is known as the fair trade price. Market access we I have already talked about. The second one that I want to talk about price is the fair trade premium as said it is a separate payment on top of the minimum price for social and economic development in the community, by the growers.

The local business if they put back some of the money earned into development of their own community or region, then there is a separate payment that will be made. In fact, fair trade urges that cooperative should be made by the growers instead of individual; they can make a cooperative, and then the community benefits from this trading.

Other facets are there is a steep there is a very clear environmental line here better environmental outcome fair trade, this is the fair trade logo which insist upon environmental or certifies that it is environmentally friendly. For example, heavy pesticide usage is absolutely discouraged, and empowerment local social community development.

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**Examples of Fair Trade Items**

- Coffee, tea, juice, flowers,
- Fresh Fruits, dried fruits
- Wine, chocolate, cakes
- Cotton, herbs and spices, rice, pasta, oil
- Beauty products: Shea butter, cocoa butter

• In India: Many Fair Trade products, artisans, and companies  
Tea from Makaibari, Chocolate by Pascati etc.

The slide features a vertical column of images on the left: a cup of coffee, an orange, a bunch of bananas, a bar of chocolate, and a jar of shea butter. On the right, there is an image of a brown paper bag labeled 'MAKAIBARI'. A video inset in the bottom right corner shows a woman with glasses and a pink sari speaking. The slide is set against a yellow background with a blue footer containing logos.

If you ask me what are the fair trade products you know which business is doing this, I have to give you plenty of examples coffee, tea, juice, fruits, flowers, you name it chocolates, cakes, herbs, spices, specifically in India we have a tea going from here this

you know this is a picture of an actual Makaibari tea which is which also carries the fair trade logo. So, it is not that I am making this up, but this is something that businesses have adopted the fair trade mark, the fair trade certification and the fair trade way of doing business.

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**Fair trade certification and mark**

- **Fair Trade Certification:** Product certification, that meet environmental, social and developmental standards. Improved labour and living conditions for the farmers, and a way of farming that protects environment and people.
- Most widely used: **FLO International certification.**
- **Fair Trade mark:** Stands for consumer empowerment to influence the way companies do business and the choices they can make as consumers

So, this is what I was talking, but the fair trade issues this is the logo. The fair trade certification means something. It certifies a certain product that it has come it is complaint with environmental concerns social concerns and developmental concerns. It also certifies that there has not been any labour right violation or human rights violation. And it also talks about the way in which it has been grown that protects the workers as well as the planet or the environment.

So, this is not a fabricated piece of imagination, but actual business model an actual way of doing business, and it is known to be used in international trade, instead of competition cooperation. The fair trade mark also stands for consumer empowerment. The consumers can demand that why are you not following the fair trade. So, it is an empowerment of the consumers to influence the way the companies do business specifically in the international markets.



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**References:**

- Moore, G. 2004. The Fair Trade Movement: Parameters, Issues and Future Research. *Journal of Business Ethics* 53: 73-86.
- Howse, R. and M. Trebilcock. 1996. The Fair Trade–Free Trade Debate: Trade, Labour, and the Environment. *International Review of Law and Economics* 16, 61–79.

The slide features a dark blue background on the left with the word 'References' in a yellow, cursive font. The right side is a light yellow panel containing the references. At the bottom right, there is a small video inset showing a woman with glasses and a pink sari. Two circular logos are visible at the bottom center of the slide.

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**Conclusion:**

In Module 08 lecture 38, the topic of fair practices in global competition was discussed. The traditional concept of Free Trade was discussed, along with some objections against it. As an alternative business paradigm in global competition and supply chain, the concept of Fair Trade was briefly introduced.

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So, with that I am going to do end this lecture on this is this was our lecture on competition how global competition can be managed what is the alternative paradigm, and I introduced the paradigm of fair trade. The obvious contrast was with the free trade alright. So, with this I am going to end this today's lecture. We will come back with more.

Thank you very much.