

Rethinking Growth through Trade:

A Two-Tiered Capabilities Approach



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Abstract

Trade has been a concern of global justice theorists since Charles Beitz prominently cited it as a fundamental cause of global inequalities in his seminal 1979 book *Political Theory and International Relations*. Yet it is only recently that theorists are beginning to address trade in and of itself. Following David Miller, I define trade as “a practice that involves the voluntary exchange of commodities or services for mutual advantage. That means, self-evidently, that both trading partners expect to be better off as a result of their exchange.” Ultimately, the problem is, that despite this definition of trade, it does *not* always benefit both partners or at the very least benefit them to the full (expected) potential of the exchange. That is, trade, quite problematically, does not fulfill its normative potential; it is not doing what it was designed to do.

This thesis proposes and develops a normative theory of justice in international trade. Thus, it falls both within the fields of political theory and normative or welfare economics. Like other theorists of trade justice, I too seek to answer the question “what does it mean for trade to be fair?” Yet unlike other theorists of trade justice, I am not looking for a theory of specifically distributive justice within trade, instead I take inspiration from an older conception of justice, one where something must fulfill its function in order to be considered just. The normative economic aspect, then, becomes important because the ‘mutual advantage’ that countries gain from trade must be benefiting economically in some way. Namely, they must be benefitting in terms of growth and/or development.

After demonstrating that this is a reasonable interpretation of a function of international trade, I propose that this idea of growth and/or development is best understood in terms of what I call a ‘Two-Tiered Capabilities Approach’ focusing specifically on country-level capabilities that can be used to assess development. Using a capabilities framework allows us to identify practical functions of international trade and then subsequently assess whether or not trade is fulfilling its purpose and where exactly it falls short. I offer that this broad understanding of development through trade must not just be focused on gross domestic product (GDP), but also a tentative list of ‘capabilities’ such as labor standards, environmental sustainability, and human rights.

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Introduction

“Commerce, which ought naturally to be, among nations, as among individuals, a bond of union and friendship, has become the most fertile source of discord and animosity.”

—Adam Smith, *The Wealth of Nations*

The relationship between trade and growth is immensely complex. Economists agree that in theory trade leads to economic growth¹ and that economic growth tends to spur human development. But the contravening factors are so numerous, and the negative externalities caused are so hard to trace and predict that the debate rages on about economic globalization’s particular utility for the purposes of growth and its knock-on effects on development.

Political theorists who engage in the debate tend to look little at the first part of this cycle—the processes of production, trade, and growth. Instead, they take these as given and look to correct for the (negative) *effects* of globalization through principles of distributive justice. Since Charles Beitz argued in 1979 that justice was not only a domestic principle but one that must apply globally as well, there has been rich debate on what exactly global distributive justice looks like.² One standard argument goes that economically developed countries take advantage of economically underdeveloped countries by exploiting their natural resources and production capabilities, and these underdeveloped countries are therefore owed duties of justice. Alternatively, mirroring the Rawlsian argument for domestic justice, claims for global justice sometimes assert that because people do not *choose* the country in which they are born, it seems unfair that they should suffer economic and moral disadvantages; therefore, this disadvantage due to brute luck of citizenship is a matter of justice. Finally, we might also want to claim that countries participate in coercive international structures, and because of the vast amount of interaction at the global level, we can globalize the basic structure,³ which then becomes the subject of justice.

¹ To put it concisely, through trade, countries effectively get access to a wider variety of resources and capital, and can gain knowledge that leads to technological advancement, causing growth. I provide fuller argument in Chapter 1 below.

² And indeed whether or not justice can even exist across national borders (c.f. Thomas Nagel, “The Problem of Global Justice,” *Philosophy & Public Affairs* 33, no. 2 (2005): 113–147; David Miller, *On Nationality*, Oxford Political Theory (Oxford: Clarendon Press, 1995)).

³ C.f. John Rawls, *A Theory of Justice* (Harvard University Press, 2009), 7.

Initially, theorists like Beitz and Thomas Pogge⁴ worked on solutions to this issue that were all-encompassing or big picture attempts to apply justice to the entirety of a global basic structure. Yet these post-Rawlsian attempts to assert the existence of a global basic structure (or attempts to find grounds for the establishment of one) have reached a deadlock, as little agreement can be reached on what exactly constitutes a global basic structure and whether or not one even exists or could be established.⁵ Others, like Simon Caney, argue that global justice duties exist irrespective of the existence of a global basic structure.⁶ Regardless, the ‘cosmopolitanism vs. statism’⁷ debate has yielded little in the way of a path forward: political theorists tend to agree that citizens in different countries have moral duties to one another, but still argue about whether or not co-citizenship equates to special relationships and if so what the grounds for them might be. By many accounts, these large-scale political theory attempts may have proven unsuccessful because of their lack of attention to the *details* of the global order and the intricacies of these globalization practices, like global finance,⁸ or international agreements and treaties.⁹ As a consequence, political theory literature on justice is now trending towards ways to circumvent this dichotomy and examining specific, existing areas of the global order, *such as trade*.¹⁰

My aim in this thesis is to preempt and circumvent traditional debates surrounding global distributive justice. Instead, I want to look holistically at the processes of production, exchange, growth, and development and examine how they can be used to improve human lives. To this point, we can identify at least two main objectives of the global justice literature: first, looking at what we owe to one another, in particular, what we owe to the worst off,¹¹ and second, assessing how to make global institutions fairer.¹² Within each of these objectives, we can identify numerous strands of thought. This thesis seeks to draw out and strengthen the connection between two specific approaches within the global justice literature: looking at development as a remedy to the problem of what we

⁴ C.f. Thomas W. Pogge, *World Poverty and Human Rights* (Cambridge: Polity, 2008).

⁵ C.f. Terry Macdonald and Miriam Ronzoni, *Global Political Justice* (Routledge, 2013); Lea Ypi, “Justice and Morality beyond Naïve Cosmopolitanism,” *Ethics & Global Politics* 3, no. 3 (January 1, 2010): 171–192.

⁶ C.f. Simon Caney, *Justice beyond Borders: A Global Political Theory* (Oxford: Oxford University Press, 2006).

⁷ C.f. Brian Barry, “Statism and Nationalism: A Cosmopolitan Critique,” *Nomos* 41 (1999): 12–66.

⁸ C.f. Tim Hayward, “Global Justice and Finance,” (Forthcoming).

⁹ C.f. Simon Caney, “Cosmopolitan Justice, Responsibility, and Global Climate Change,” *Leiden Journal of International Law* 18, no. 04 (2005): 747–775.

¹⁰ C.f. Aaron James, *Fairness in Practice: A Social Contract for a Global Economy* (Oxford University Press, 2012); Andrew Walton, “Consequentialism, Indirect Effects and Fair Trade,” *Utilitas* 24, no. 01 (2012): 126–138.

¹¹ C.f. Caney, *Justice beyond Borders*; Pogge, *World Poverty and Human Rights*.

¹² C.f. James, *Fairness in Practice*.

owe one another and international trade as a subject of institutional fairness. Trade has been a concern of global justice theorists since Beitz prominently cited it as a fundamental cause of global inequalities.¹³ The supposition is that under autarky, or the state of being self-sufficient through isolationism and not trading, states would not, in theory, be imposing unjust economic measures on one another. Thus, it does seem that trade is a logical starting point to address questions of an unequal global economic order.

Trade itself is a morally contentious topic: just think of the Fairtrade label on bananas and coffee. Fairtrade products have found a market because conscientious consumers are looking for a way to participate in fairer commercial practices. International trade can be the main driver of higher inequality within national borders. Trade can also provide despotic governments with arms or bring money into a country that then goes towards supporting terrorist groups. Rich countries can impose protectionist measures that prevent poorer countries from accessing their markets, while at the same time insisting that the same poor countries lower their own barriers to trade. Each of these problems poses a slightly different moral problem, despite them all being linked back to trade. I take for granted, though, that trade does have the potential to be good, particularly when it contributes to growth and development.

Growth, too, is a problematic concept and its relationship to development is even more contentious, at that. Growth is usually measured by a change to a country's Gross Domestic Product (GDP), but as I discuss in Chapter 5, this measurement is not fit for purpose. Additionally, despite an increase in GDP, there is no guarantee that everyone in the country will benefit. This thesis proposes a reimagining of the concept of growth through international trade so that when we talk about the ways in which international trade produces growth, we are instead referencing an entire process of both country and human development in terms of capabilities.

Scholars and activists alike are optimistic about the potential of international trade to reduce dependence on foreign aid, spur domestic reforms, and alleviate or even end poverty.¹⁴ This is why I go on to argue below that trade can and should be undertaken for the purposes of producing capability development (with growth as an intermediary factor). The relevant differences and their usage in this thesis are explained below. The problem is that international trade, in its current form, is not fulfilling this normative potential.

¹³ Charles R. Beitz, *Political Theory and International Relations* (Princeton: Princeton University Press, 1999).

¹⁴ C.f. Joseph E. Stiglitz and Andrew Charlton, *Fair Trade For All: How Trade Can Promote Development*, Initiative for Policy Dialogue (Oxford, New York: Oxford University Press, 2005).

Thus, we need a theory that tells us what just trade could look like if it does fulfill its potential.

Project Overview

While economists have long touted the benefits of economic growth on human development and trade's ability to provide this growth, the philosophical and ethical connection between these concepts has remained largely unexplored, even in the burgeoning trade justice literature. Political economist Lloyd Gruber offers a challenge to economists and political scientists "to reassess the long-term welfare implications of [commercial] globalization writ large."¹⁵ This thesis seeks to take up this challenge. To that end, I propose one version of what just international trade might look like: international trade that is aimed at producing, and fulfills, country and human capability development can be considered just, or at least comparatively more just than the current trading regime. (This idea of comparative justice is explored below in Chapter 3.) This thesis falls both within the fields of political theory and normative or welfare economics and finds itself at the convergence of several fields of study and methodologies.

Like the other theorists of trade justice, I too seek to answer the question "what does it mean for trade to be fair?" Or to put it differently: "What, from the standpoint of justice, would trade look like?" Recently, there has been an influx of political theory literature attempting to address this question; the global trade justice theorists argue that the international trading order is unfair, or unjust and that something must be done to rectify either the injustices created by international trade, the unjust trading order itself, or both. However, the landscape of the literature in the nascent field of trade justice is, perhaps unsurprisingly, disjointed and messy, both in the questions posed, as well as the approaches employed. Further, to my mind, the engagement with normative economic theory of international trade has been insufficient and it seems that political theorists are missing out on a vast body of work that has already been done.

The aim of the thesis is to provide a concrete and ethical linking of trade and development. I offer a framework that will help to answer the question of how we might begin to reconceptualize the relationship between trade, economic growth, and development. I then suggest that trade that operates within this framework is a version of just or fair trade. I argue that the relationship between trade and development (with economic growth which can serve as an intervening factor between the two) is best understood normatively in terms of capability

¹⁵ Lloyd Gruber, "Trade, Growth, Poverty, and Politics: Toward a Unified Theory," *Politics & Policy* 41, no. 5 (2013): 755.

development. Capabilities are properties of human beings that contribute to their well-being or enable them to live a flourishing human life. Capabilities are ascribed to individuals, but trade can also benefit countries as a whole. I develop what I call a ‘Two-Tiered Capabilities Approach’ where both individuals and countries have capabilities that can be developed through international trade. Thus, this thesis argues that the ends or function of trade are best understood in terms of both human- and country-level development. In this way, I am trying to revive the idea of ‘national welfare,’ or the idea of the well-being of a country as a whole. This idea was popular among classical economists and political theorists, but the recent trend towards liberalism has put individualism at the forefront of our thinking both in political theory and economics. Any version of fair trade must reflect respect for both individuals and countries, and a Two-Tiered Capability Approach reflects this duality.¹⁶

Following David Miller, I propose that international trade is best understood as “a practice that involves the voluntary exchange of commodities or services for mutual advantage. That means, self-evidently, that both trading partners expect to be better off as a result of their exchange.”¹⁷ In other words, trade should always be a positive-sum game for both trading nations.¹⁸ The problem is that despite this definition of trade, it does *not* always benefit both partners in the way that we might normatively want or expect it to. Despite the theoretical economic benefits, trade relations often cause real-world harms—some of which are entailed in the nature of trade, but others are not. Harms of trade that might be internal to international trade are when one sector of a domestic economy benefits from trade, but due to engagement in trade, wages in another sector depreciate. Transport companies may benefit from the importation of cheaper vehicles, but employees in the vehicle production sector may experience losses due to increased cheap foreign competition. This is why political theorists and economists often call for redistribution to accompany international trade. They say that gains in one sector can and should be used to compensate for losses in another. Unnecessary harms of trade, however, might include benefits in the short term that are detrimental in the long term. Deforestation or oil trade might be an example of this. Finally, both countries may benefit from the exchange, but the benefits to one side might be unfairly low due to problematic terms of trade.

Here, I am not looking for a theory of specifically distributive justice within trade, and instead, I take insight from an older conception of justice for this

¹⁶ The Fair Trade movement, which I discuss below in Chapter 3, is primarily concerned about individuals.

¹⁷ David Miller, “Fair Trade: What Does It Mean and Why Does It Matter?,” *Journal of Moral Philosophy* 14, no. 3 (2017): 253–54.

¹⁸ Dani Rodrik, *The Globalization Paradox: Why Global Markets, States, and Democracy Can’t Coexist* (OUP Oxford, 2012), 50.

assessment of justice in trade, one where something must fulfill its function in order to be considered just. Despite the broadly Platonic and/or Aristotelean inspiration here, this ‘teleological’ or ‘functionalist’ approach to institutions also finds grounding in modern sociological theory, which is discussed in-depth in Chapter 2. The development aspect, then, becomes important because the ‘mutual advantage’ that countries gain from trade must be benefiting in some way, namely, they must be benefitting in terms of capability development on two-tiers: human and country level.

This project is divided into three parts. Part I, comprised of Chapters 1 and 2, looks at institutional theory and the economics of trade, both in theory and in practice. Here, I examine the specifically economic relationship between trade, economic growth, and development and examine why the theoretical relationship does not always match the empirical one. As Moyo notes, economically, the benefits from trade are a ‘generally accepted truth.’¹⁹ The task of Chapter 1 is to explore this generally accepted truth in more detail. I look at why countries trade, and how economic theory predicts that they should be benefitting from trade. From here, I propose a functionalist understanding of international trade. I conclude that countries open up to trade for a variety of reasons, but those reasons can all be subsumed under the umbrella of two-tiered capability development. Economists tend to use words like ‘growth’ and ‘development’ (by which they mean longer-term, sustained growth) to describe the benefits of trade. I explore these more economic conceptions of the benefits of trade in Chapter 1. That said, I propose that these benefits of trade are better construed philosophically as two-tiered capability development; I argue for this reimagining of these terms in Part III. Despite the well-established theoretical connection between trade and economic growth, paradoxically, there is a group of countries that Moyo labels “the losing globalizers, who have increased trade but seen no associated growth.”²⁰ The question then becomes ‘why?’. I address this question in Chapter 2, where I look at the harms of trade to assess why, empirically, we might consider trade unfair and why it is not realizing its theoretical potential of bringing about benefits such as growth and development.

I then turn my attention to prominent theories of trade justice in Part II, which includes Chapters 3 and 4. Part II looks at proposed solutions to the unfairness in trade identified in Chapter 2. Chapter 3 examines the Fair Trade movement. Activists have been concerned with justice in trade for years, trying practically to find ways to bring about a fairer regime. Thus, I interrogate the Fair Trade movement and argue that we have to do better because the project works

¹⁹ Dambisa Moyo, *Dead Aid: Why Aid Is Not Working and How There Is Another Way for Africa* (Allen Lane, 2009), 114.

²⁰ Moyo, 114.

within and thus plays into the current problematic confines of the international regime. Chapter 4 engages with various political theorists' solutions for fairness in international trade. Some theorists attempt to devise principles to regulate international trade. Other theorists attempt to theorize only parts of the international trading regime (trade in natural resources or arms) without acknowledging the ways in which trade in one area affects others. Most of these approaches focus on redistribution, and I argue that my theory can either build on or ultimately supersede many of these arguments.

Part III, comprised of Chapters 5 and 6, offers my own proposal for fairness in international trade. Here, I formulate a theory of development through trade inspired by the idea of development advocated by the capabilities approach. Yet instead of asking what capabilities individuals require to live a flourishing life, I argue that we must first look at what type of capabilities trade promises to promote within countries. Using a capabilities framework allows us to identify practical (if not definitive) benefits and functions of international trade and then subsequently assess whether or not trade is fulfilling its purpose and where exactly it falls short. I suggest that this broad understanding of development through trade must not just be focused on national economic growth, or increases in a country's gross domestic product (GDP), but also a tentative list of 'capabilities' such as labor standards, environmental sustainability, and human rights. This has the added bonus of applying to *all* trading nations, not just developing countries or trade between unequal partners. Chapter 5 lays out my Two-Tiered Capabilities Approach for understanding national and individual development. Chapter 6 examines how gains from trade can be used to develop individual and country capabilities. Full chapter summaries appear at the end of this Introduction.

It is here worth considering why international trade is valuable: this thesis takes a consequentialist stance on international trade. That is, I propose that it is valuable for the ends that it brings about. It is therefore worth considering if trade might be valuable for its own sake. If we were to value trade as an end in itself, we would have to say that there is something inherently valuable in the very act of exchanging goods. But we do not exchange goods for the sake of it, but rather because we wish to acquire a good that we currently do not possess. Even if we were to be hedonist hoarders and say that the acquisition of goods is an end in itself, it still shows that trade is valuable *for this reason* and not because the act of exchange is valuable. Alternatively, if we take a more altruistic view of trade and assert that trade unequivocally promotes friendship or peace through the act of exchange, we are still saying that we value trade because of its ends—peace—and not the process itself. Thus, although it might be possible to construct an argument that trade is valuable in and of itself that is not my purpose here. Therefore, it is an important theme of this thesis that trade is valuable because of the

consequences it brings about. That said, the structure of international trade has to be organized so that these beneficial consequences can be realized. Thus, a Capabilities Approach to Trade cuts across the typical procedural versus substantive fairness divide and recognizes that elements of both are important in bringing about a fair international trading system.

It is also worth noting that I take as a given that there is a right to trade. Though this may seem like a relatively uncontroversial assumption to non-philosophers, the idea that countries may not have a right to claim the profits of products made within their borders, or especially the exclusive right to resources found in their soil, is not without critics.²¹ There are some who would argue that whatever resources may be discovered within one's own borders is simply a matter of luck and therefore gains made from that brute luck are undeserved and must be adjusted for.²² Here, it is important to point out that these critics do not specifically say that there would be no right to trade products made with the resources, just that any gains from trade made with these resources must be duly compensated for in some way. While I do not espouse a luck egalitarian position, I do feel it is worth pointing out that even these critics do not argue that trade must be stopped, only that the burdens and benefits should be duly distributed.

There is no doubt that trade can be harmful, and there are bad elements of trade that we must correct for. This is the theme of Chapter 2. That said, trade can be a positive tool for both human- and country-level development, and global justice. This thesis focuses on the benefits of trade and tries to create a normative theory to bring about their realization.

Distinctions and Methodology

Here I set out several key distinctions necessary for understanding the rest of the thesis and sketch out the methodologies and assumptions used herein.

Distinctions

Agents of Trade

The first set of relevant distinctions to be made here is about the actors involved in international trade. There are four levels:

²¹ C.f. Chris Armstrong, "Natural Resources: The Demands of Equality," *Journal of Social Philosophy* 44, no. 4 (2013): 331–347; Chris Armstrong, "Against 'Permanent Sovereignty' over Natural Resources," *Politics, Philosophy & Economics: PPE* 14, no. 2 (2015): pp129–151; Petra Gūmplová, "Restraining Permanent Sovereignty over Natural Resources," *Enrahonar: Quaderns de Filosofia*, no. 53 (2014): 93–114.

²² Beitzians, for example, might levy this criticism.

1. **The international trading regime as an institution:** This is the set of rules, agreements, and interactions that take place internationally. The WTO is part of this, though it is worth noting that the WTO itself exists primarily to provide a forum for nations to undertake multilateral bargaining and to help implement the agreements made. (It also theoretically has adjudicating power, but its mechanisms for enforcement are very weak.) The WTO is of significance because it sets some of the background conditions against which trade is undertaken, but it is only a part of the picture. Increasingly, countries are making their own regional and bilateral agreements without the use of the WTO.
2. **The individual countries involved in the trading:** Countries both import and export goods and services, but more importantly, individual countries' policies impact how trade is regulated (or not). As Christensen puts it "The deliberations of states, both within the WTO and elsewhere, determine the content of trade-related agreements. In other words, states choose the rules that are to govern international trade."²³ Trading nations are, in this thesis, my primary concern both due to my assumption that states have duties to their citizens and that the rules that nations create impact the distribution of the benefits and harms of trade worldwide.
3. **Corporations:** In this age of globalization, firms do most of the actual *trade* or *exchange* by bringing goods and services into the countries for use or to sell elsewhere. Multinationals pose a further complication to this already complicated network of exchanges because while the supply chain might go through different countries, the entire production might occur under one firm making moral responsibility in terms of country-level distribution ambiguous. Corporations become an important mediating factor in a Two-Tiered Capabilities Approach because they serve as an intermediary between individuals and the state: the state makes the rules for corporations to follow, and corporations employ individuals.²⁴
4. **Individuals:** While individuals are rarely involved directly as parties in the act of international trade, they bear most of the burdens of trade; this involves both individual consumers and producers, as well as individuals whose lives are impacted by a country's trade policy. Individual consumers, by participating in 'ethical consumerism,' may affect demand

²³ James Christensen, *Trade Justice* (Oxford, New York: Oxford University Press, 2017), 7–8.

²⁴ It is worth noting here that large and economically powerful firms often can exert influence over legislation. This poses a huge problem, not just for trade but for democracy as well. Unfortunately, a lengthy discussion of the growing power of corporations is outside the scope of this project. I briefly address the role of firms in producing capabilities in Chapter 6.

for certain goods, but this will be a relatively small increase in relatively few sectors of the economy. The Fairtrade label, for example, focuses primarily on certain foodstuffs and textiles but has little to do with other industries. We may argue that all people have a moral duty to participate in ethical consumerism, but even that will have little direct or immediate impact on trade policy, so I leave individual responsibility aside here. Instead, my main concern with individuals is how the effects of trade can impact them and what should be done about it.

It is worth noting that trade economists tend to talk about trade as it applies to overall welfare or efficiency gains for the country as a whole. The assumption here is that if a firm or industry becomes better off, then so will the entire country because the firm contributes positively to GDP measurements. David Ricardo, the father of modern trade economics, in his theory of comparative advantage²⁵ treated countries as units. Portugal produces wine, England produces cloth; not Cockburn's (which did exist during Ricardo's lifetime) produces wine, and Felthams (which did not) produces cloth. It is not until Paul Krugman and the development of New Trade Theory in the 1970s and 80s that international trade economics really began paying careful attention to firms. It is, of course, necessary to remember that economists are theorists, too, and just like political theorists, they find some level of abstraction necessary to produce their models. Thus, in this same vein, I also tend to treat trade as benefitting the entire country (not just through the medium of GDP, but through the idea of growth more generally) except where it is necessary to draw out the distinction and in Chapter 6 where I look at the specific role that corporations play in capabilities development.

Free Trade, Fair Trade, Protectionism, Openness, and Liberalization

Here it is worth clarifying several concepts around the idea of trade. The default position of most economists is that free trade (trade unregulated by the government) is good, and protectionism (barriers to trade, often in the form of tariffs or non-tariff barriers like production standards) is bad. The logic behind this argument is simple. "Imagine two people exchanging goods with each other. They would voluntarily trade their goods if and only if they both benefit from doing so. Thus, government intervention to prohibit, restrict, or tax their trade restricts their ability to realize welfare gains from such mutually beneficial exchange."²⁶ The opposite of free trade is technically autarky, which is the state of not trading at all. While these are presented as a dichotomy, in actuality, most countries sit on a spectrum where some sectors of the economy are protected, and others are more

²⁵ The theory of comparative advantage also assumes full employment of resources, especially labor, which may not be true in actual economies.

²⁶ Stiglitz and Charlton, *Fair Trade or All*, 24–25.

open.²⁷ Openness, then, refers to the level of protectionism (or rather lack thereof) that a country has in place.

Liberalization is the process of opening up a country to trade. In today's markets, this usually refers to developing countries who either have protectionist measures in place to protect fledgling industries from international competition or these same countries developing sectors for export. Liberalization can be a good thing: it gives domestic firms a larger market in which to sell their products (through increased demand), and as they continue to produce more, they can benefit from economies of scale. It can also mean that they can purchase goods needed in their own production (known as 'intermediary goods') at a lower cost, which lowers the overall cost of production. Competition from foreign firms means that domestic firms have to improve their own production in order to compete and therefore they could experience efficiency gains from competition. Finally, all of these gains in efficiency then have the ability to affect the rate of economic growth positively.²⁸ Yet while liberalization has several benefits, it can also cause many harms, including increased domestic inequality. "Opening up to trade does not make everyone in a country better off. Instead, it changes the distribution of income and creates winners and losers. The standard economic argument is that the net gains from trade liberalization are positive, so the gainers can compensate the losers and leave the country better off overall. Unfortunately, such compensation seldom occurs."²⁹ This is why economists concerned with social welfare usually say that redistribution and trade liberalization are bedfellows,³⁰ and it gives us insight into why so much of the global trade justice literature focuses on redistribution. I discuss this in further depth below.

Sean Ehrlich, in his book *The Politics of Fair Trade*, defines fair trade as "concern about the effects of trade on workers and the environment, and a desire to ameliorate these effects."³¹ He is careful to stress that the movement as a whole goes beyond the product certification and labelling, that we often associate with it. (Think again of the coffee and bananas.) Ehrlich further notes that the Fair Trade movement is often conflated with protectionism. However, he argues that the two have different motives. Whereas protectionism is borne out of concern for one's own country and domestic industries, Fair Trade is borne out of altruistic concern for distant others.³² Both may call for protectionist measures, but for different reasons. While I think that this schema is slightly oversimplified, I do think

²⁷ Stiglitz and Charlton, 12.

²⁸ Stiglitz and Charlton, 25.

²⁹ Stiglitz and Charlton, 28.

³⁰ C.f. Rodrik, *The Globalization Paradox*, 57–58.

³¹ Sean Ehrlich, *The Politics of Fair Trade: Moving Beyond Free Trade and Protection* (Oxford University Press, 2018), 32.

³² Ehrlich, 27–35.

Ehrlich is correct to differentiate intentions for protectionism and for the Fair Trade movement. I discuss this further in Chapter 3. For now, suffice to say that this thesis is part of the fair trade literature as Ehrlich defines it, but I am skeptical of the organizations that participate in the more formal Fair Trade movement.

Additionally, there has been substantial debate over the role of free trade promoting GDP growth, versus protectionism to safeguard domestic industries. The answer seems to be, in theory and in practice, that both patterns of trade can be beneficial for different countries at different times. This thesis takes an agnostic position on the ‘correct’ levels of openness. Progressive development economists are keen to stress that growth and development policies are not one-size-fits-all. It is perfectly consistent with my Capabilities Approach to Trade that tariffs or other protectionist measures be introduced with good reason. I assume that some degree of openness is good, but I shall leave it to the econometricians and policymakers to do the calculations.³³ Essentially, although it can be shown that there are certain circumstances in which protectionism is beneficial, it is certainly not true that free trade is always incompatible with justice.

Irwin puts the problem impeccably when he writes:

Since the time of the ancient Greek philosophers, there has been a dual view of trade: a recognition of the benefits of international exchange combined with a concern that certain domestic industries (or laborers, or culture) would be harmed by foreign competition. Depending upon the weights put on the overall gains from trade or on the losses of those harmed by imports, different analysts have arrived at different conclusions about the desirability of having free trade. But economists have likened free trade to technological progress: although some narrow interests may be harmed, the overall benefits to society are substantial.³⁴

The notion of benefits from free trade is grounded in the idea of *national welfare*, or the idea that the country as a whole can benefit. National welfare (which is distinct from the idea of growth) is an idea that modern economic theory is skeptical of, but I want to reiterate its importance to just trade. Economists argue that there is no such thing as welfare of the nation, instead “there are only desires of individuals, which get more or less imperfectly reflected in the objectives of the government.”³⁵ As discussed in more detail below in Chapter 2, while it may be true economists today tend to think of national welfare (if they admit to such a thing at all) as the aggregate interest of individuals, something meaningful in the

³³ Tariff and subsidy levels are usually determined by a combination of political and economic policy goals.

³⁴ Douglas A. Irwin, “A Brief History of International Trade Policy – Econlib,” accessed July 18, 2018, <https://www.econlib.org/library/Columns/Irwintrade.html>.

³⁵ Paul R. Krugman and Maurice Obstfeld, *International Economics: Theory and Policy* (Addison-Wesley, 2006), 229.

idea of community and shared interests is lost as the idea of national welfare is abandoned.

For now, though, this section seeks only to show that free trade is not, as Krugman once put it, *passé*.³⁶ First, however, it is also very much worth noting that while in theory, completely free trade is usually the standard around which models are built, even economists as far back as Adam Smith recognized that completely free trade is not a reality of countries' economies. "To expect, indeed, that the freedom of trade should ever be entirely restored in Great Britain, is as absurd as to expect that an Oceana or Utopia should ever be established in it. Not only the prejudices of the publick, but what is much more unconquerable, the private interests of many individuals, inevitably oppose it."³⁷ Because there will be some domestic losers of trade, 'private interests' of individuals in the sectors that will lose from trade will insist that they gain some protections from the potential harms of opening up the economy. That being said, it is still important to recognize that "The modern argument for free trade is not based on unrealistic assumptions which lead to unrealistic conclusions."³⁸

Growth versus Development

The precise meaning and use of the words 'growth' and 'development' are subject to fads in the literature. There seem to be two interpretations: 1) the words are used as equivalents, or 2) growth refers to the economic side: increases in GDP, whereas development refers to the human side: increase in overall standard of living. The second view essentially proposes that the purpose of economic growth (usually understood in terms of national income, GDP, or at the very least numerically) is good because it produces human development. Development then encompasses a much broader idea of 'growth' because it implies increases in areas such as health, education, and freedom, in addition to income. Because on this understanding, development also includes income increases, which is usually equated to growth, the separation of the two words becomes blurred. Growth leads to development, but development also includes economic growth.³⁹ Betancourt proposes the following understanding that includes an element of temporality that helps to further separate the two terms:

³⁶ Paul R. Krugman, "Is Free Trade *Passé*?", *The Journal of Economic Perspectives* 1, no. 2 (October 1, 1987): 131–144.

³⁷ Adam Smith, *The Wealth of Nations* (Bantam Classic, 2003), 591 (bk IV.ii).

³⁸ Steven Michael Suranovic, *International Trade: Theory and Policy* (Flat World Knowledge, Incorporated, 2010), chap. 120.1.

³⁹ Roger R. Betancourt, "Growth Capabilities and Development: Implications for Transition Processes in Cuba," *Economic Development and Cultural Change* 44, no. 2 (January 1, 1996): 316.

If one accepts that economic processes are characterized by novelty, irreversibility, and hysteresis, the essential distinction between growth and development falls on whether or not these processes result in an improvement in the standard of living, however defined, over long periods of time. The practical significance of this distinction is that over long periods of time environmental circumstances change, and in modern times dramatically so. Development implies that the set of processes determining the functioning of a society, even if unique to that society, allow it to adapt to this fundamental uncertainty in such a way as to improve the standard of living of most of its members. Growth, on the other hand, can be followed by long periods of stagnation. No matter what definition of the standard of living one adopts, the relevant question to distinguish between growth and development is how the standard of living of the majority of the population evolves in response to changing circumstances. Hence, any definition of the standard of living, if it is to be useful, should yield mechanisms that permit an improvement in our understanding of these evolutionary processes.⁴⁰

I adapt this distinction throughout the thesis: growth refers to increases in economic activity, and development refers to standards of living (unless otherwise noted). As I argue below, growth through trade should ultimately be used as a tool for development, but trade can directly contribute to development as well.

Further, there are two levels of growth and development relevant to this thesis. Usually, when used in conjunction to trade, the term ‘growth’ refers to increases in GDP. This is country-level growth, but trade can also increase individuals’ income, which might be analogized, then, to individual-level economic growth. These both refer to increases in specifically economic well-being. Development, on the other hand, is usually used, especially in the capabilities literature, to refer to individual development: increases in individuals’ standard of living. Development, of course, can also refer to countries’ trajectories towards becoming more prosperous nations. In other words, in economic development literature, trade helps growth, and when growth is sustained it promotes development. In this thesis, I want to reimagine this idea of country development away from this largely monetary or wealth-based conception of development and towards a more holistic conception of development, analogous to the human development that the capabilities literature proposes. The connection between growth, development, and trade, as well as their wider usage in the main theory of this thesis comes below in Chapter 1. In Part III, we see how a Capabilities Approach to Trade once again blurs the lines between growth and development because both economic progress and human flourishing are important in this reconceptualizing of the ends of trade.

⁴⁰ Betancourt, 316–17.

It is also worth noting that I tend to treat development as an aggregate process, and I do not look at sufficientarian or prioritarian growth directly. While these approaches to development are important, they are not something that trade itself can directly influence. This has a direct bearing on distributive theories of international trade, especially that proposed by Aaron James's Structural Equity theory, explored in Chapter 4 below. Trade leading to sufficientarian or prioritarian growth would require a secondary theory of how to distribute the gains of trade and would have to be through targeted government intervention, and while that is not against the goals of the thesis, it is outside of its scope. I discuss distribution and the gains of trade more in-depth below.

Economic Distinctions

Within the economic literature on trade, I have identified two important competing methodologies in relation to conceptualizing trade:

- A. **Positive** versus **Normative** conceptions of trade: This distinguishes the thinkers that have descriptive definitions (positive) of international trade from those that have prescriptive or moralized conceptions of international trade (normative).

This distinction is about the *definition* of trade. Classical economists like Aristotle (to the extent that we can call him an economist), Adam Smith, David Ricardo, and J.S. Mill had largely normative theories of trade, whereas more modern economic theories tend to be more positivist in nature. We can think of the distinction as one between prescriptive theories of what trade *should* be doing (normative) and descriptive theories of what trade *is* doing (positive).

- B. **Economic** versus **Political** conceptions of trade: This asks whether the analysis of trade can be restricted to examination of market purposes only (economic) or if we can actually utilize international trade to ameliorate other global political issues (political).

This distinction then is about the *purpose* of trade. What I call the 'economic conception of trade' holds that the realm of trade should be limited to market access and exchanges. This tends to follow a more traditional view of positive economics where economists are 'neutral among ends' meaning that they do not evaluate or compare between outcomes of economic exchange. Analysis is limited to market access and exchange. The second school of thought is what I label the 'political conception of trade,' which argues that it is perfectly consistent to undertake trade for and evaluate trade based on political reasons. Political conceptions of trade might involve issue linkage and non-trade initiatives (NTIs), such as environmental standards, labor standards, human rights, or liberal values.

(One might even take this conception further and argue that trade is peace-promoting.⁴¹)

The political/economic divide is present throughout the literature, but it has become more prevalent in modern (post-globalization) debates and is best captured in competing views about the role of trade agreements. One school of thought holds that trade agreements should be kept ‘pure,’ so to speak, and not include any clauses regarding extra-economic activity. A competing school of thought, however, holds that trade agreements not only should include clauses about extra-trade activity, but also that trade agreements are actually an ideal place to put these types of initiatives because they can place unique pressure on countries that other types of international agreements cannot.⁴²

Methodology

Non-Ideal Theory

One question that arises when trying to construct an account of just trade concerns what kind of theory it is, and in particular whether it is an exercise of ideal theory or non-ideal theory. That is, given that trade is an *actual* practice undertaken by *consumers, firms, and governments as they currently exist*, yet justice is an *ideal* for which we are striving, how realistic or practical must a theory of trade justice be?

Though Rawls discussed ideal and non-ideal theory in terms of ‘compliance,’ the terms have evolved into a section of (meta-)political theory of their own.⁴³ Ideal theory has come to mean political theory that abstracts away empirical facts or idealizes certain aspects of society, and non-ideal theory aims to guide action within a society and about reform practices in a way that is

⁴¹ C.f. John Stuart Mill, *Principles of Political Economy: With Some of Their Applications to Social Philosophy* (Longmans, Green, and Company, 1909), VIII.2.

⁴² Laurence Boisson de Chazournes, “WTO and Non-Trade Issues: Inside/Outside WTO,” *Journal of International Economic Law* 19, no. 2 (June 1, 2016): 379–81; Kent Jones, “The WTO Core Agreement, Non-Trade Issues and Institutional Integrity,” *World Trade Review*, November 2002; Lisa Lechner, “The Domestic Battle over the Design of Non-Trade Issues in Preferential Trade Agreements,” *Review of International Political Economy* 23, no. 5 (2016): 840–871; Karolina Milewicz et al., “Beyond Trade: The Expanding Scope of the Nontrade Agenda in Trade Agreements,” *Journal of Conflict Resolution*, 2016.

⁴³ Early in its conceptual development, there was a debate as to which type of theory was correct for political theorizing. This debate remains on the practice-dependent versus practice-independent accounts of justice, but now most theorists have seemed to agree that both are needed in a political theory; the question simply becomes how much of which type at what stage in the theorizing. For a useful picture of the current state of the ideal/non-ideal theory debate see Laura Valentini, “Ideal vs. Non-Ideal Theory: A Conceptual Map,” *Philosophy Compass* 7, no. 9 (2012): 654–664.

applicable here and now.⁴⁴

Following Rawls, I argue that ideal theory is an important precursor to non-ideal theory. That is, we must have an ideal for which to strive and match our real, non-ideal rules to.⁴⁵ Economists, without using the same terminology, use a similar distinction frequently, for example when they refer to concepts, such as perfect equilibrium, which is a theoretical economic concept that is an ideal state for a market to be in, rather than being a real or existing feature of markets. Consequently, this method will be useful in speaking of ideal trading conditions from both a philosophical and economic standpoint and comparing actual situations to it.

A Functionalist Understanding of Institutions

This leads us to the final methodological commitment, that of a teleological or functionalist understanding of trade as an institution. These sociological approaches to institutions maintain that institutions are created or designed for a specific end goal. “On the teleological account, as on more broadly functionalist accounts, the definition of an institution will typically include a description of the human good or social benefit that it purports to produce.”⁴⁶ So for example, where universities produce knowledge as a collective social good, I argue that trade should be seen as producing capability development as a collective social good.

It is here worth drawing out a small difference between teleological and functionalist accounts. Roger Scruton, for example, warns us about conflating teleological with functionalist explanations.⁴⁷ Essentially, an end need not *always* be the same thing as a function. One way that we might think about this is that the

⁴⁴ C.f. Zofia Stemplowska, “What’s Ideal about Ideal Theory?,” *Social Theory and Practice* 34, no. 3 (2008): 319–340; Ingrid Robeyns, “Ideal Theory in Theory and Practice,” *Social Theory and Practice* 34, no. 3 (2008): 341–362; Adam Swift, “The Value of Philosophy in Nonideal Circumstances,” *Social Theory and Practice* 34, no. 3 (2008): 363–387.

⁴⁵ For Rawls, we apply them to the basic structure to give it its ideal form and then use this as our guide to make alterations to preserve background justice. Adjustments to the basic structure will be necessary because background justice will eventually erode. In making the relevant adjustments to the basic structure, we need an ideal by which to judge if our adjustments are in line with a just basic structure. The idea of an ideal basic structure also speaks to the concept of reflective equilibrium and public reason. Instead of establishing justice at the beginning through the bargaining process behind the veil of ignorance, we now come to a more practical picture of society, realizing that justice will be an on-going process that will require constant adjustments. So, what we end up with is two versions of the basic structure, an ideal, perfectly just picture, and the actual one (c.f. John Rawls, *Political Liberalism* (Columbia University Press, 2005), 281).

⁴⁶ Seumas Miller, “Social Institutions,” in *The Stanford Encyclopedia of Philosophy*, ed. Edward N. Zalta, (Stanford University, 2011), <https://plato.stanford.edu/archives/win2014/entries/social-institutions/>.

⁴⁷ Roger Scruton, *The Palgrave Macmillan Dictionary of Political Thought* (Springer, 2007), 459.

function is the cause for which something was created, and the teleology is the effect produced. Yet, we can see how, for institutions, the two are intimately connected. The function of an institution is essentially a way or means by which to bring about a certain end.⁴⁸ So for example, in a university, the function of the institution is to bring about an end, which is education. So, although the two concepts can be separated, I argue it is not necessary to do so here for my purposes.⁴⁹

In institutional theory, there are normative and descriptive theories, and while they do not collapse into one another, they are closely related. Descriptive theory tells us what institutions look like. Normative theory tells us what the institutions “realistically could be, and ought to be. Normative theory thereby gives direction to institutional actors, policymakers, citizens, and other stakeholders in the actual world.”⁵⁰ Seamus Miller also reminds us that, “there remains a conceptual distinction between the institution as it is and the institution as it ought to be, even for those extremely rare (nonexistent?) institutions that are exactly as they ought to be.”⁵¹ (This is similar to the distinction between positive and normative economics described above.) I explore this more fully below in Chapter 1, as well as addressing why it is a matter of justice when the descriptive and normative theories of institutions do not align.

Seamus Miller writes:

The normative character of social institutions includes the collective goods that they produce, the moral constraints on their activities, and a variety of institutional moral rights and duties (as opposed to moral rights and duties that are logically prior to institutions, that is, natural rights and duties). Such institutional moral rights and duties include ones that are derived from institutionally produced collective goods and, indeed, that are

⁴⁸ C.f. Karen Neander, “The Teleological Notion of ‘function,’” *Australasian Journal of Philosophy* 69, no. 4 (1991): 455–57.

⁴⁹ To be pedantic, Seumas Miller also cautions against conflating consequentialist and teleological accounts: “According to consequentialism the rightness or wrongness of actions, procedures, or policies is logically dependent only on their outcomes and, therefore, is not logically dependent on whether or not they were intended or otherwise aimed at.... By contrast, according to teleological theories, the intentions and, in particular, the outcomes aimed at, that is, ends, are in part definitive of the rightness or wrongness of actions, procedures, and policies – and, indeed, of social institutions themselves. On this kind of view the outcome of an action cannot be morally significant – as opposed to good or evil in some more general sense – unless it was in fact intended, or could have been intended (or was or could have been otherwise aimed at).” (Seumas Miller, *The Moral Foundations of Social Institutions: A Philosophical Study* (Cambridge University Press, 2010), 20). One could argue about his interpretation of consequentialism, but suffice to say that when I said above that I am being a ‘consequentialist about trade,’ I mean that I care about the outcomes relative to the institution’s purpose—or what Miller calls the teleological account.

⁵⁰ Miller, 2.

⁵¹ Miller, 14.

constitutive of specific institutional roles, such as the rights and duties of a fireman or a banker.⁵²

In other words, when we look at an institution, we observe moral duties that arise directly *because of the institution*. There also may be tangential duties that arise because of these institutions, such as a moral duty to obey the law, but they are still related back to the institution itself in the sense that, “Even if they are in part based on an institutionally prior human right (e.g., a basic human need, the right to freedom), their precise content, stringency, context of application (e.g., jurisdiction, national territory, particular economy), and so on can be determined only by reference to the institutional arrangements in which they exist and, specifically, in the light of their contribution to the collective good(s) provided by those institutional arrangements.”⁵³ This functionalist understanding of institutions is a theme throughout the thesis, not just international trade. While I explain and draw out the teleological nature of international trade in Chapter 1, I also argue in Part III that the state has a function which is providing for its people.

Trade as a Site of Justice

Now I must establish why trade that fulfills its function should be considered *just*, and trade that does not should be considered *unjust*. As noted in the above, justice literature has taken a strong turn towards focusing solely on distributive justice, but it is worth remembering that it is not the only conceptualization of justice in political theory.⁵⁴

The ancient Greeks’ version of justice was one in which things were arranged properly and did what they were supposed to do; they fulfilled their proper functions. For Plato, for example, justice applied when each part of the city and of the soul was doing its proper job. Aristotle had two separate, but related ideas of justice that were both about fairness and getting one’s due.⁵⁵ Justice, in these cases, was a virtue of people or states, rather than a matter of policy or formalized norms. Thus, my version of justice here follows in the tradition of Plato, Aristotle, and Rawls and treats justice as a virtue of institutions. And, just like for Aristotle, Rawls, and even Plato implicitly, there is a distributive *element* to this

⁵² Miller, 3.

⁵³ Miller, 65.

⁵⁴ In fact, the path down this route has been criticized for distracting us from other social goods like community and respect, c.f. Wenar, *Blood Oil*, esp. the Epilogue; Elizabeth S. Anderson, “What Is the Point of Equality?,” *Ethics* 109, no. 2 (1999): 287–337.

⁵⁵ Aristotle’s two versions of justice were distributive justice, which involves fairly dividing benefits and burdens, and corrective justice, which requires us to restore a fair balance to uneven social relations. Like Aristotle’s other virtues, justice is a mean between two extremes: receiving either too little or too much relative to one’s desert (Aristotle and Terence Irwin, *Nicomachean Ethics (Second Edition)* (Hackett Publishing Company, 2000), 1129a–1134a).

version of justice, but it is not the point of justice. Instead, this version of justice is about things fulfilling their functions or doing their jobs. Thus, I want to call this a functionalist or teleological version of justice, in that things are just when they fulfill their proper function.

The next thing to consider then is why trade not fulfilling its function is a matter of justice. The argument goes like this: normatively, international trade as an institution produces a social good which is best conceptualized as a two-tiered version of capability development (this conceptualization of the ends of trade is defended in Part III below). The fact that trade should produce a social good then triggers moral considerations. Descriptively, trade does not always bring about this social good, and therefore it is not fulfilling its function. This then makes trade that does not fulfill its function a matter of justice.

Chapter Outline

Part I – Understanding Trade

The first part of the thesis looks at economic theory and empirical evidence to provide the grounding for my theory of justice in international trade.

Chapter 1 – A Functionalist Understanding of Trade

The purpose of this chapter is to use economic theory to explore the benefits of trade in order to establish that international trade, functionally, should produce a social good, which can be summarized under the heading of growth and/or development, (I propose a reconceptualization of these concepts in Part III). Using functionalist institutional theory, I argue that some institutions have a purpose of producing a social good and it is of moral concern to us when they do not produce that social good. I explore functionalist institutional theory in greater depth and show why it is an appropriate framework for analyzing international trade. I then turn to economic theory to propose an understanding of what the social good that the institution of international trade might be. I highlight the connections between trade, growth, and development and explore how growth and development can be understood as a social good. I first look at classical economic theory to show how, normatively, these theorists predicted that trade *should* be producing growth and/or development. Second, I look at contemporary economic theory to analyze more descriptive theories of the relationship between trade and growth and development. I conclude with a functionalist definition of international trade that says that international trade is undertaken to produce a social good, which can broadly be understood as growth and subsequently development.

Chapter 2 – Harms of Trade

This chapter looks at the reasons that international trade is not fulfilling its function, which I argued in the last chapter was conceivably understood as growth and/or development. A myriad of issues can interfere with countries reaping the benefits of trade: from the sectors in which trade is occurring to a country's initial factor endowments, and from poor corporate investment strategy to bad macroeconomic policy. To ask, then, why trade is fulfilling its function is not a straightforward question. Thus, in this chapter, I examine several factors that make trade unfair in order to illuminate reasons why trade is countries cannot fully reap the benefits of trade, or even why trade is sometimes actively harmful. Additionally, in this chapter, I do not seek to proffer a comprehensive account of why international trade, as it currently stands, is unfair. Instead, this chapter offers a series of evidence and case studies that provide us with a starting point for understanding ways in which the international trading system might be thought to be unfair to certain countries. I divide my analysis of unfair trade into two parts: the precarious nature of developing economies and how developed countries take advantage of them through trade, and structural injustices of trade entailed in how the rules of international trade are set up.

Part II – Proposals for Just Trade

The second part of the thesis examines activist and philosophical proposals to bring about fairness in the international trading system. These solutions must correct for the harms of trade discussed in Chapter 2.

Chapter 3 – We have to do Better than Fair Trade

This chapter is dedicated to assessing the Fair Trade movement. Starting with the motivation that there is already a relatively widespread movement called 'Fair Trade' that claims it is attempting to do something very similar to what I am proposing to do in my thesis, I begin by examining this movement, both for its philosophical content and its practical or applied principles. I look first at a popular activist movement trying to bring about (greater) fairness in trade for several reasons. First, the Fair Trade movement predates the philosophical theories of trade that I discuss below, yet very few philosophers attempt to engage with it. Second, I intend to draw out philosophical principles that the Fair Trade movement can give us, lest it be a path worth pursuing in order to bring about widespread change and fairness to the international trading regime. Since the Fair Trade movement itself is under-theorized, I first try to conceptualize the movement and its aims. I then respond to a depiction of Fair Trade that Andrew Walton posits where he equates the Fair Trade movement to partial justice. I conclude that while Fair Trade has admirable goals that are similar to my own, it

will never be temporally or structurally sufficient to bring about widespread change or fairness to the international trading regime. Thus, we have to do better.

Chapter 4 – Political Theories of Just Trade

Chapter 4 moves on to assessing the philosophical literature on justice in international trade. I identify three themes that run throughout the literature: consent, redistribution, and growth. Of these, I argue that the first two are overemphasized in the literature and that growth is underemphasized. I preliminarily suggest that a Capabilities Approach to Trade supersedes and subsumes the worries about consent and redistribution. I first turn to Frank Garcia who proposed that ‘consent’ is necessary for trade, otherwise the transaction is not trade but rather coercion or theft. I then turn to Leif Wenar’s proposal for ‘Clean Trade’ whereby we must stop buying oil from tyrannical governments because it is stolen from the people of those countries. He justifies his claim based on a theory of property rights and consent for this property to be sold. With both of these proposals, I argue that consent alone is insufficient to ground a theory of justice in trade. I then turn to Aaron James, whose proposal for ‘Structural Equity’ in international trade entails distributing the burdens and benefits of trade so that no one is worse off than before trading interactions. I argue that a focus on capability development through trade provides a better system for imagining how the allocation the burdens and benefits of trade might take place, than does James’s system of redistribution. Finally, I examine Matthias Risse and Malgorzata Kurjanska’s ‘Weak Westphalian View,’ a proposal comprised of four principles of just trade. I argue that my Capabilities Approach to Trade is a feasible way of realizing their proposal.

Part III – A Capabilities Approach to Trade

In Part III of the thesis, I present my own theory of justice in trade showing how a Two-Tiered Capabilities Approach to Trade fits into the functionalist understanding of trade that I proposed in Chapter 1, corrects for the harms of trade that I identified in Chapter 2, and supersedes or improves upon the proposals for justice in trade that I discussed in Part II.

Chapter 5 – A Two-Tier Capabilities Approach

In this chapter, I argue that on a functionalist approach to trade, the function of trade is best understood, not as previously labelled as growth and/or development, but rather as what I have labelled as a Two-Tiered Capabilities Approach. Under this framework, which I developed, while the ultimate aim is to develop individual capabilities, international trade is best aimed at developing what I call ‘country capabilities.’ This chapter first critiques GDP as a standard for measuring and

assessing growth through trade. It then explains the capabilities approach and some of its variations, and then looks at why this type of approach is a desirable way of assessing development. Next, I turn to explaining how a Two-Tiered Capabilities Approach might work and how we might conceive of country capabilities. I ultimately argue that country capabilities are best understood as the capacity a country has for providing for its people. On this two-tiered approach, traditional individual capabilities and country capabilities form a reflexive relationship where individuals provide the productive capacities necessary to facilitate country capabilities and country capabilities facilitate the well-being of individuals through improved state services and capacities.

Chapter 6 – Just Trade as Development, Broadly Construed

In this final chapter, I examine various ways in which gains from trade can be used towards capability development. I argue that trade can contribute directly to both individual and country capabilities. Further, gains from trade can also serve as conversion factors for capabilities. Using Robeyn's schema of three types of conversion factors (personal, social, and environmental), I give a non-comprehensive list of ways in which trade can supplement capability development. This chapter also addresses the role of the market and the state for capability development, the role of corporations as an intermediary between the two levels of capabilities, and the implications of a Capabilities Approach to Trade for the current international trading regime.

PART I – UNDERSTANDING TRADE

1

A Functionalist Understanding of Trade

“Wealth is not the good we are seeking; for it is merely useful for some other end.”

—Aristotle, *Nichomachean Ethics*

Put simply, countries encourage trade because it benefits them. Countries can produce different goods because of varying production factors and resources, so they can benefit by encouraging the production and exportation of the goods they produce comparatively well. Trade also allows countries access to a wider range of goods by importation than if they tried to produce everything domestically. That said, economists construct a variety of models of international trade and these models differ on exactly why countries trade and how they benefit from it. This chapter seeks to answer the question ‘why do countries trade?’ or ‘what is the purpose of international trade?’.

The conclusion of this chapter is that growth that enables or leads to development is a reasonable interpretation of the function of international trade. Consequently, part of the purpose of this chapter is to show that one plausible reading of a teleological institutionalist approach to trade is that trade is actually, based on economic theory, supposed to be mutually beneficial to both trading partners in terms of growth and eventual development. This chapter both offers a history of ideas surrounding international trade, as well as serving a means by which to gain greater philosophical understanding of the principles and parameters of international trade. I show that an understanding of trade that combines both economic and political features is perfectly in keeping with international trade theory. I explore more specifically what this means in detail in Chapter 6 below.

In examining the economic literature, I draw out several debates that economists engage in. First, there is a normative versus positivist debate latent in economic models of trade. Classical political economists used normative assumptions about the way that trade should function and what it could do for countries. These classical theories, especially the Ricardian theory of comparative advantage, have traditionally been used to explain and justify free trade. The empirical facts, however, do not always match up to the classical models. Thus, the trend in contemporary trade theories, conversely, has largely been positivist. These modern theories either aim largely to observe phenomena in the world and

devise a model that tries to replicate and subsequently explain why these phenomena occur, or to model trading relations and predict what might occur. We might initially think that this positivist turn is detrimental to theories of justice, because it may seem that economists have given up on trying to better the world. That said, these positive theories *are* useful insofar as they can show us, in conjunction with a normative theory, what is wrong with international trade. When trading nations do not benefit from trade as expected, or when the models do not predict the outcomes we want, we can look at positive models to try and identify the underlying root of the problem, and then revert to normative economics to correct it. This is in keeping with the functionalist methodology, which maintains that theorists must simultaneously have descriptive and normative theories of institutions that form a reflexive relationship. (This is discussed in depth in Section I below.)

Second, there seems to be a political versus economic debate latent in the economic policy trade literature, which I discussed briefly in the introduction.¹ This debate is over the purpose that trade is meant to serve. If one subscribes to what I call an ‘economic conception of trade,’ then the realm of trade should be limited to market access and exchanges. This follows a more positivist view of economics where economists are ‘neutral among ends’ meaning that they do not evaluate or compare between outcomes of economic exchange; these conceptions do not tell us what we *should* do, and thus often overlap with the positivist models. The second version is what I label the ‘political conception of trade,’ which links issues of international trade to non-trade initiatives (NTIs), such as environmental standards, labor standards, human rights, or liberal values, and often overlaps with a normative view of economics. This debate over economic versus political depictions of trade often manifests itself in debates over trade agreements, and particularly in the contention over free trade versus protectionism, which I also explore below. I ultimately show in Chapter 6 that my conception of trade transcends this political/economic divide.

In this chapter, I endeavor to establish a functionalist picture of international trade. Essentially, it is not sufficient to know what current international trade looks like. Rather, for the purposes of this thesis, it is necessary to know what features are essential to or constitutive of international trade, so that we know which features of international trade are contingent and which ones are integral to the practice. In Section I, I turn first to the sociological field of institutional theory to establish what a functionalist or teleological theory of

¹ C.f. Neil Foster and Robert Stehrer, “Preferential Trade Agreements and the Structure of International Trade,” *Review of World Economics* 147, no. 3 (2011): 385–409; Henrik Horn, Petros C. Mavroidis, and André Sapir, “Beyond the WTO? An Anatomy of EU and US Preferential Trade Agreements,” *World Economy* 33, no. 11 (2010): 1565–1588.

institutions looks like. This theory of institutions says that they are established for the sake of producing some social good. In the introduction, I quoted David Miller saying that trade occurs for some mutual benefit, so the question then becomes what exactly this benefit is. In Section II, I look at classical economic theory to make a case for the idea that the social good that international trade produces is growth and also the eventual development that growth can produce. It might also be the case that, because of the way that this thesis has defined development, growth is not a prerequisite for development and that trade can lead directly to some types of development without an intervening factor of growth. (This is discussed more in-depth in Section IV below.) So, for now, until I propose the reimagining of the ends of trade in terms of capabilities in Part III, suffice to say that the function of trade can be temporarily summed up as ‘growth and/or development’ two distinct things, at least one of which needs to happen for trade to be said to be fulfilling its function. This argument is foundational for the rest of the thesis, so in this chapter, I show why there is at least good reason to think that growth is the telos of trade. In Section III, I then examine modern economic theories, and the ‘positivist’ turn away from normativity of what trade *should* be doing to the trend of examining what trade *is* doing. Here, we find competing claims about the relationship between trade and growth. It is not whether or not trade is linked to growth, but what kind of growth that trade causes. Most economists, especially modern economists, imagine the ends of trade in terms of GDP growth, but this chapter shows that this is not necessarily the best depiction of the ends of trade. Yet, despite the modern economists’ take on trade and GDP growth, I argue that this is not a problem for a teleological theory of trade and move on in the next chapter to explanations as to why these models come out so differently than classical ones. In Section IV, I discuss some objections to the theories laid out in this chapter.

I take orthodox trade theory as roughly correct in its theoretical form. Essentially, from an institutional perspective, I am using the economic theory of international trade to provide a normative description of the institution. The descriptive version comes next. It is interesting to note that institutional theory does not have that much to say about descriptive theories, and indeed there seem to be two approaches we can take in formulating a descriptive depiction of international trade. The first, which I address in this chapter, relates to the positivist turn in economics that occurred around the turn of the 20th century. Here, economists began trying to devise theories that explain how economies do behave. The second, which I address in the next chapter looks at purely empirical evidence to show that neither of the theoretical versions, normative or positivist, fully capture the descriptive reality. The two versions of descriptive theory can be

taken together to provide a descriptive theory of the institution of international trade.

We see that on classical theories of international trade, both countries should and will mutually benefit. However, newer, descriptive theories show us that this is empirically not correct, and if left to itself, trade can increase economic inequality, which will have further problematic consequences for political power, even if both parties are, to some degree, becoming better off. When countries were first industrializing, trade theory showed that, give or take, equal trading partners *should* both benefit from trading relationships. Yet years of colonialism, unfair trade deals, and bad economic policy that accompanied the positivist turn in economics have demonstrated how trade has become problematic, and not been the mutually beneficial undertaking that it could be. There is a further problem that these new trade models do not adequately take developing countries' economies and structural imbalances into account, meaning that current trade theory is doubly unhelpful for developing countries.

Section I – Institutional Theory and Moral Concerns

Teleological theories of institutions examine the underlying rationale for the formation of the institution and use that to justify its existence. In this section, I am not attempting to justify the moral need for the institution. For example, we could say that there is a moral need for growth or development and thus countries have a moral duty to trade since it produces growth. That may be the case, but I take an agnostic stance on this moral claim. Instead, I am looking to why the institution was formed, which in this case, I argue is the production of growth, and in producing growth, which is a moral good, the international trading system is morally justified.

Before we can move on to exploring *how* institutions (specifically international trade) can be sites of justice, it is worth briefly exploring the potential of institutions to be moral in the first place. Seamus Miller writes: “Philosophers, such as John Rawls...have developed elaborate normative theories concerning the principles of justice that ought to govern social institutions. Yet they have done so in the absence of a developed theory of the nature and point of the very entities (social institutions) to which the principles of justice in question are supposed to apply.”²

Miller theorizes that institutions are formed to bring about the production of some collective social ends. Often, these are not just amoral ends, but rather

² Miller, “Social Institutions.”

institutions tend to lead purposefully to the production of a social or collective *good*, which then gives rise to moral considerations of justice. Miller argues that a collective social good can be understood as a good that is:

- (1) produced, maintained and/or renewed by means of the joint activity of members of organisations (e.g. schools, hospitals, governments, business firms) i.e. by institutional role occupants;
- (2) made available to the whole community (e.g. food, security, banking services); and
- (3) one which ought to be produced (or maintained or renewed) and made available to the whole community because they are desirable (as opposed to merely desired) and such that the members of the community have an (institutional) joint moral right to them.³

In other words, goods are jointly and collectively produced by the participants in the institution. These goods are then publicly available to the members of the institution (i.e. the ‘community’ which is defined by participation in the institution),⁴ and because of this joint production in the social goods, the participants have a moral right to them.

As I argue below, in this case, the social end produced by international trade is economic growth, and by some accounts, also human development. This is also a social *good* because development is a desirable feature for both individuals and countries (both developed and developing countries—albeit in slightly different ways). Because growth or development is a good, we must then be concerned with the moral features surrounding the production, distribution, and nature of this good. The ways in which this good is moral in nature is explored in terms of a modified capabilities approach, detailed below. But for now, suffice to say that the joint or social production of this social good of growth (and/or development) is enough to trigger moral considerations, and therefore leads us to look at considerations of justice and the distribution of burdens and benefits.

Objections to Functionalist Theories of Institutions

Here, it is worth raising four objections to a teleological theory of institutions. First, a number of camps of positivists or descriptivists might object that institutions are not concerned with the production of social goods, at least (or especially not) in terms of actors’ intentions. Instead, institutions might be thought to be a collection of loosely coordinated actions. My response here is that this appears to be descriptively false. “...[I]t seems quite clear that participants in many institutions do as a matter of fact seek to realise collective ends that are believed to be moral goods, and are in fact moral goods, and that these collective

³ Miller, *The Moral Foundations of Social Institutions*, 56.

⁴ Miller, 56, 58.

ends are sufficiently fundamental to be regarded as definitive.”⁵ Miller first gives the example of the English language, whose end is communication. “If the relevant speakers and hearers ceased to have as a collective end the successful communication of their beliefs, intentions, and the like, then the English language would go out of use.”⁶ He also gives us the example of educational institutions:

Teachers and students typically have as a collective end the attainment by the students of intellectual skills and knowledge. That the students come to possess these skills and knowledge is an end that teachers and students not only jointly pursue, but explicitly claim that they are pursuing in school mottos, discussions with students, and so on. Indeed, often the most powerful criticism that students or teachers believe they can make of a particular class is that the students do not learn anything.⁷

The point here is that communication in the case of the institution of the English language and learning in the case of educational institutions are *not* unintended consequences. The same then applies to trade. International trade is undertaken with the specific expectation that both countries will collectively benefit. It is additionally worth distinguishing between individual transactions and the regime as a whole. Just as two individuals in an English language conversation might not consciously reflect a specific commitment to communication, we might say that two individual trading nations might not reflect a specific commitment to growth. This, however, does not undermine the purpose of the regime as a whole.

It is also worth noting, that these collective ends are not necessarily fixed nor are they given externally. It is perfectly reasonable to expect that the ends of institutions shift in some ways over time, and our normative and descriptive theories of these institutions must keep up with this. One way to think of this might be as a kind of reflective equilibrium where we judge the nature of institutions against how they normatively should be functioning.

A second, related, objection to be raised here is that this might be true of some institutions like governmental or educational institutions, but this is not the way *economic* or *market* institutions like international trade work. Economists often tend to reject the idea of collective ends, just as they reject ideas such as national welfare, because they are ultimately focused on individual decisions. Here, Miller argues that it does not have to be one or the other and that we can view economic institutions in light of both individual and collective ends. “There is a collective end, for example the production of cars, but there is also an

⁵ Seumas Miller, *Social Action: A Teleological Account* (Cambridge University Press, 2001), 194.

⁶ Miller, 194.

⁷ Miller, 194.

individual end, which is securing a wage. Now while the collective end of producing cars is not simply a means to the individual end of securing a wage, nevertheless the collective end would not be pursued unless workers were simultaneously able to realise the individual end.”⁸

The third objection related to teleological or functionalist depictions of institutions asks what to make of unintended consequences of institutions. In other words, we may grant that institutions have purposeful ends, but they also have additional consequences that may not be related at all to the collective ends that they are trying to bring about. Indeed, these unintended consequences may even be more significant. For example, the increased globalization brought about largely by international trade has increased the demand for cheap goods and hence cheap labor. Thus, we might want to argue that although the institution of international trade’s end goal is development, more significantly, its *consequences* are negative issues like exploitation, and this instead is definitive of the international trading order. The response here is that this does nothing to detract from the teleological interpretation of institutions: “sometimes the most important consequences of social institutions are consequences that are not also collective ends of the kind that I have described. But this does not show that these collective ends are not definitive of social institutions, and that the social consequences in question are definitive of institutions.”⁹ Miller gives the example of taxis in New Delhi. Their most important social consequence might be contributing to air pollution. This does not mean that taxis are then defined as a pollutant. They remain classified by their purpose, which is a method of transport. Further, it is perfectly in keeping with a teleological view of institutions that we recommend that taxis are built to limit pollution. This once again demonstrates the difference between normative and descriptive theories of institutions. Indeed, exploitation is not a necessary feature of the international trading system, just as pollution is not a defining feature of taxis. Instead, it seems to be a negative externality, or an unintended negative byproduct of an economic transaction. A normative theory of international trade need not (and indeed should not) include exploitation as a feature of the international trading regime.

The final objection is related to the last and about the motivations for participation in the institution. Especially in relation to international trade, someone might want to argue that there are countries in the world, dictatorships namely, who do not participate in the international trading regime with the expectation of producing growth for their country. The response is two-fold. One, it matters little for institutional theory the motivations for which certain actors participate, as long as the institution can still fulfill its purpose. Just as we might

⁸ Miller, 195–96.

⁹ Miller, 195.

say that many school-aged children go to school not to participate in the social good of education but because they have to, we can also say that international trade is undertaken to produce growth, even if not everyone has the same motivation. Here, the failings lie with the people who do not understand the system, not with the system itself. Secondly, it might be true that trade in these dictatorships does not produce growth *for the country*, but this is largely because the domestic infrastructure and support are not there to help it along. It is still true that imports will increase the welfare of those who get to use them, and exports benefit those who sell them. In order for a country as a whole to reap the benefits of trade, a holistic system needs to be in place; I propose a framework for this system in Chapters 5 and 6.

This section has argued that institutions often have a social purpose of producing collective ends, and it has defended this argument against several objections. In the case of international trade this institution does not just bring about a collective end, but a social good, which is growth. I go on to set out why it is plausible to think this below.

Determining the Function of Trade

The question now becomes how we can determine the function of institutions in general, and international trade in particular. The answer that institutionalists give is that we must look at the joint actions of the agents and to what collective end the actions are directed: “the teleological account holds that joint actions can be analysed in terms of individualist notions.”¹⁰ In other words, the ends of individuals’ actions jointly indicate the function of the institution. Yet ends can and should be separated from intentions. Collective ends do not have to be consciously pursued, i.e. intended, nor do they ever have even had to have been explicitly planned in the minds of the individuals participating in the institution. Collective ends can be implicit, and indeed Miller argues can even be latent for long periods of time over the course of the existence of an institution.¹¹ This becomes important in Chapter 2, where I look at ways in which the institution of international trade is not fulfilling its collective ends. It is also worth clarifying here that collective ends are not what generates the moral duties and obligations; collective ends can be morally neutral, or even morally bad. It is rather the collective *goods* that the institutions bring about that invoke moral considerations of fairness and justice. This becomes important in Section IV below where I address criticisms of the thesis that trade is functional.

¹⁰ Miller, “Social Institutions.”

¹¹ Miller.

The overall idea of the institutionalist argument is broadly grounded in Aristotelian logic: we can explain the existence of international trade as a function of its end or purpose, and we know its end or purpose because of what it does (Aristotle sometimes added best or well to his arguments about things' telos).¹² The arguments below in Sections II and III are meant to show that international trade produces both growth and development well, and therefore give good reason to believe that this is a function of international trade. Recall from institutionalist theory, that this outcome does not have to be the *only* function of international trade. But as we conceptualize growth and its subsequent impacts on development as a social good, these are the functions of trade that bear moral considerations. That is, when these functions of trade do not occur, we have a moral obligation to rectify it. I discuss this below in Chapter 2.

Another way of looking at the teleology of trade is to work backward. This thesis is concerned with reimagining the ends of international trade so that they fulfill a social good of capability development. Aristotle argued that every potential, in our case growth/development, needed an operative efficient cause to bring it to realization or 'actuality.'¹³ Thus, we look at what operative cause there is to growth/development in countries, and the answer is international trade (because of all of the theory below).

The rest of this chapter is meant to give credence to this argument and draw out the connections between the causal connections between trade, growth, and development. That said, if my readers do not find the functionalist argument to be plausible, the rest of the thesis from Chapter 2 onwards can be read conditionally. There is a further discussion of the function of international trade and objections to the argument found in Section IV in this chapter below.

Finally, before moving on, it is worth distinguishing between the function of what we might call 'trade in general' or any type of trade, and international trade specifically. The fundamental act of trading involves two parties voluntarily exchanging goods. This then leads us to the question of whether the central claims in this thesis apply to all forms of trade, or if there is something distinctive about the function of the institution of *international* trade. In keeping with the broadly Aristotelian themes in this thesis, the function of trade in general for Aristotle seems to be human development (this comes out particularly in Section II below). Here, however, I am concerned specifically with the case of international trade.

I now turn to economic theory in order to establish why there is good reason to assume that the function of international trade is growth (or even more

¹² For Aristotle, this tends to be an argument about natural things, rather than institutions, but he later makes the same argument for medicine: the telos of medicine is healthcare, because "the cause for the sake of which" is health (Aristotle and Aeterna Press, *Eudemian Ethics* (Aeterna Press, 2015), vii 15, 1249b9–16).

¹³ Aristotle, *Physics* (Hackett Publishing, 2018), 198b32–199a8.

broadly development on some accounts). In Part III of the thesis, I go on to establish why my normative interpretation of the ends of trade in terms of capabilities development is a useful and meaningful depiction of the essence of what social good(s) trade should be bringing about.

Section II – Classical Trade Theories

Now that I have laid out the methodological approach for this chapter, I turn to some of the most important historical theorists of trade in order to establish the connection between trade and growth.

Aristotle and the Art of Acquisition

Aristotle begins his discussion of commodity exchange with a brief history of trade, citing how people used to exchange goods by bartering. Trade of this kind is not ‘against nature’ he says, as the purpose of this type of exchange is simply to satisfy sufficiency requirements.¹⁴ Aristotle asserts that this type of exchange is proper and natural because it has ‘definite bounds’¹⁵ and is concerned with trade for the purposes or ends of ‘household management’ and ‘subsistence.’¹⁶

However, Aristotle becomes more cynical about the purpose and effects of trade as he continues to trace its history. He writes about how currency developed as the sphere of exchange grew as men began to import things not available domestically and export goods they had in abundance. The result was a second type of trade—retail trade—which is no longer in line with nature. “The result has been the emergence of the view that the art of acquisition is specially concerned with currency, and that its function consists in an ability to discover the sources from which a fund of money can be derived.”¹⁷ This type of the art of acquisition is concerned specifically with acquiring wealth or money. This second type of acquisition has no limit, it is solely about acquiring currency for currency sake, and thus, Aristotle argues, it is against nature.¹⁸

Trade of this kind no longer has a specific purpose. Aristotle writes, “the fundamental cause of this state of mind is concern *about living, rather than living well...*” (emphasis added).¹⁹ As we can see here, Aristotle had, latent in his theory of trade, a concern with how trade could supplement or contribute to a good life; trade of the first, natural kind, was specifically for the purpose of *living well*.

¹⁴ Aristotle, *The Politics* (OUP Oxford, 1998), bk. I.8.

¹⁵ Aristotle, 1256b26.

¹⁶ Aristotle, 1256b37.

¹⁷ Aristotle, 1257b41.

¹⁸ It is in this same vein that I will be arguing for a theory of trade and development, not specifically in terms of GDP, but rather in terms of overall country welfare.

¹⁹ Aristotle, *The Politics*, 1257b35.

But when trade no longer serves its fundamental purpose and becomes a bastardized version of itself, it gives rise to moral concerns “because the gain in which it results is not naturally made, but is made at the expense of other men.”²⁰ By this, Aristotle means that once men begin to acquire things for their own sake, they cannot be satiated. “Because enjoyment depends on superfluity, men address themselves to the art which produces the superfluity necessary to enjoyment; and if they cannot get what they want by the art of acquisition, they attempt to do so by other means, using each and every capacity in a way not consonant with its nature.”²¹ Here, Aristotle seems to have an implicit theory of exploitation, where he believes that trade for the sake of unlimited monetary gain means taking advantage of others. This is presumably because, for Aristotle, without natural limits set by the acquirement of physical commodities for the purposes of fulfilling needs and wants, the retailer (or worse, usurer) capitalizes on the use of money as a medium of exchange for commodities, and this money is unchecked in his pursuit of wealth.²² Thus, currency, Aristotle argues, is part of the problem of this distorted version of trade. For Aristotle, things must serve a purpose, and currency was simply meant to serve as a mediating factor in exchange.

While his theory of exploitation is never fully fleshed out and his idea of exchange is somewhat crude and simplistic, there are still several important takeaways from Aristotle’s theory of trade, which serves as the basis of the model for my own theory. First, normatively speaking, Aristotle thought that trade must serve a specific function, and that function was related to the type of life one lived. Specifically, trade should contribute to the development of living a good life. Second, Aristotle thought that trade must be, at least in some sense, mutually beneficial, or at the very least must not take advantage of others. Finally, it seems reasonable to read Aristotle as a proto-critic of capitalism, since unlimited acquisition, especially in the form of currency is rejected under this moralized version of trade. This will also be relevant to modern critiques of GDP measurements of growth through trade, as I show below.

Adam Smith and Absolute Advantage

When discussing Adam Smith and international trade, the concept of ‘absolute advantage’ will arise. The oversimplified version of the idea of absolute

²⁰ Aristotle, 1258a35.

²¹ Aristotle, 1257b53.

²² It is worth noting that in *Nicomachean Ethics* Aristotle makes it reasonably clear that one cannot possess virtue without a reasonable amount of wealth (c.f. Aristotle and Irwin, *Nicomachean Ethics (Second Edition)*, bk. IV, chaps. 1-3).

advantage, which often appears in international trade textbooks,²³ says that Smith theorized that countries should trade because they produce different goods better, in absolute terms, than their trading partner in order to garner better overall results. For example, if Argentina can produce 10 apples and 7 bananas, and Brazil can produce 4 apples and 5 bananas, then Argentina will specialize in apple production and Brazil will specialize in bananas. Argentina will export apples to and import bananas from Brazil. There are a few points to note here about this version of Smith's theory of trade. First of all, this version of absolute advantage, though the one often presented in textbooks, is an oversimplified version of Smith's position. The intricacies of absolute advantage are detailed below. Second, despite the fact that absolute advantage is a more sophisticated theory than often depicted, the concept of absolute advantage was nevertheless superseded by David Ricardo's theory of comparative advantage, which is discussed below. Finally, although absolute advantage is the descriptive part of Smith's theory of trade, some normative elements can be gleaned from the examination of this theory.

For Smith, the idea of absolute advantage is that trade is not based on differences in production capabilities that pre-exist international exchange, but rather that trade is what causes specialization through a comparison of the costs of production of certain goods. International trade is intimately connected with the idea of an expanded division of labor,²⁴ or the idea that through trade countries can focus their labor capacities into producing one good which they can produce well and therefore become more efficient in their production through a more efficient allocation of resources. Thus, although descriptively, Smith thinks this is how trade works, he also normatively thinks that this is how trade *should* work as well. Unlike other classical economists, such as Ricardo and Mill, whose theories assumed that factor endowments, such as natural resources or the amount of arable land or labor available, were pre-determined, Smith recognized that production capabilities were *affected by* trade, and thus it could contribute to a country's growth. As a country extends its markets overseas, it can benefit in monetary terms, and by extension, quality of life.

Smith writes:

The importation of gold and silver is not the principal, much less the sole benefit which a nation derives from its foreign trade. Between whatever places foreign trade is carried on, they all of them derive two distinct benefits from it. It carries out that

²³ Reinhard Schumacher, "Adam Smith's Theory of Absolute Advantage and the Use of Doxography in the History of Economics," *Erasmus Journal for Philosophy and Economics* 5, no. 2 (2012): 54–55.

²⁴ C.f. Schumacher, "Adam Smith's Theory of Absolute Advantage and the Use of Doxography in the History of Economics."

surplus part of the produce of their land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyments. By means of it the narrowness of the home market does not hinder the division of labour in any particular branch of art or manufacture from being carried to the highest perfection. By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society. These great and important services foreign trade is continually occupied in performing to all the different countries between which it is carried on.²⁵

In this passage, Smith describes two distinct benefits that arise from trade. The first is the importation of gold and silver, by which Smith refers to the increased circulation of currency within a country's borders, which, was at the time, the most direct way of measuring wealth.

That wealth consists in money, or in gold and silver, is a popular notion which naturally arises from the double function of money, as the instrument of commerce and as the measure of value. In consequence of its being the instrument of commerce, when we have money we can more readily obtain whatever else we have occasion for than by means of any other commodity....A rich country, in the same manner as a rich man, is supposed to be a country abounding in money; and to heap up gold and silver in any country is supposed to be the readiest way to enrich it.²⁶

But, as we see, for Smith this was by no means the greatest or most important benefit of trade. The second major benefit from trade is about the '*increase of their [the citizens of the country] enjoyments*' and an increase in '*the real revenue and wealth of the society*.'²⁷ In a sense, this increase in wealth for Smith was even more important than the first, because while an increase in real currency within a country's borders technically would make a country richer, there was no guarantee that this flow of currency could contribute to growth, by which Smith, at least partially, means an improvement to quality of life. Because of its unique ability essentially to expand the domestic market, trade can also contribute to real growth. "By opening a more extensive market for whatever part of the produce of their labour may exceed the home consumption, it encourages them to improve its productive powers, and to augment its annual produce to the utmost, and thereby to increase the real revenue and wealth of the society."²⁸

²⁵ Adam Smith, *The Wealth of Nations* (Bantam Classic, 2003), 561 (bk. IV.i).

²⁶ Smith, 539 (bk. IV.i).

²⁷ Smith, 561 (bk. IV.i).

²⁸ Smith, 561–562 (bk. IV.i).

Additionally, Smith recognizes that trade can be beneficial to widespread country development through the way in which it spreads knowledge and technology between nations. Sometimes, countries already have quite a large domestic market, and so the gain from expanding the domestic market will not be as great as it would for countries with smaller markets. That said, trade can still benefit these larger countries through the transfer of technology. Here, Smith uses the example of China as a country with a considerable domestic market that can still benefit from international trade.

...[M]ore extensive foreign trade, however, which to this great home market added the foreign market of all the rest of the world; especially if any considerable part of this trade was carried on in Chinese ships; could scarce fail to increase very much the manufactures of China, and to improve very much the productive powers of its manufacturing industry. By a more extensive navigation, the Chinese would naturally learn the art of using and constructing themselves all the different machines made use of in other countries, as well as the other improvements of art and industry which are practised in all the different parts of the world.²⁹

Smith therefore thought it would be more advantageous to trade with more developed countries because they would 1) have a bigger domestic market, which then equates to a bigger expanded market for exports and 2) they would be more technologically advanced and the potential for transfer of knowledge that could occur would be greater. While many economists treat Smith's theory of growth as static, it seems to be a more plausible reading of *The Wealth of Nations* that Smith recognized that technological progress was a dynamic process, as well. In addition to importing advanced goods, Smith recognized that this also entailed knowledge transfer about how to improve production of the goods, as well.³⁰

While descriptively, this is merely a fact that economists still maintain,³¹ philosophically, it might cause some moral concerns due to the worries that 1) not every (developing) country will be able to trade with developed countries and thus many countries might not have access to the markets that could allow them these potential growth benefits and 2) if a developing country exports mostly raw materials, they have a tendency to become locked in to this export sector and cannot break into another sector, for example manufacturing, which means they

²⁹ Smith, 866 (bk. IV.ix).

³⁰ C.f. Prue Kerr, "Adam Smith's Theory of Growth and Technological Change Revisited," *Contributions to Political Economy* 12, no. 1 (January 1, 1993): 1–27.

³¹ C.f. Susan Stone and Ben Shepherd, "Dynamic Gains from Trade: The Role of Intermediate Inputs and Equipment Imports," *IDEAS Working Paper Series from RePEc*, January 1, 2011.

do not benefit from knowledge transfer from the developed country and will remain dependent on raw materials exports.³²

Thus here, the nature of trade becomes important. For Aristotle trade arose out of necessity. Adam Smith, on the other hand, cites the origins of trade as man's "propensity to truck, barter, and exchange one thing for another."³³ Though it is worth noting that neither of them believed that trade arose from altruism or should serve altruistic purposes, they also both believed that trade must be beneficial, or else we would not pursue it.³⁴ Smith is clear to note that while he believed trade to be beneficial to all countries involved, trade will not necessarily be *equally* beneficial to the trading partners: "trade which, without force or constraint, is naturally and regularly carried on between any two places is always advantageous, though not always equally so, to both."³⁵

The takeaway from Smith is that he was optimistic about the potential benefits of trade, especially in terms of growth, which for Smith, was boundless. While trade is certainly beneficial to individual countries, it is also beneficial to the world in Smith's view. Growth, then for Smith, was dynamic and multidimensional. It could indeed mean an increase in gold and silver, or to put it in today's terms, an increase in real GDP. But growth could also mean increased production capacity or people having a greater quality of life, or in other words both individual and country capability development.

David Ricardo and Comparative Advantage

While Ricardo did indeed improve upon our understanding from Smith of why countries trade, which I discuss in a moment, he was less enthusiastic than Smith about the immediate benefits of trade. In fact, Ricardo believed that eventually, economic growth (especially through trade) would lead to a universal stationary state where growth was no longer possible.³⁶ A constant increase in returns to scale was impossible under Ricardo's theory of growth. Despite Ricardo being most famous for his theory of comparative advantage that underlies most theories of international trade, Darity and Davis argue that both Ricardo and Smith were actually theorists of growth first and trade second, so that trade played an integral part in their theorizing growth.³⁷ Although Ricardo's stationary end state has

³² C.f. Paul Collier, *The Bottom Billion: Why the Poorest Countries Are Failing and What Can Be Done About It* (OUP Oxford, 2008), chap. 3.

³³ Smith, *The Wealth of Nations*, 22 (bk. I.ii).

³⁴ Schumacher, "Adam Smith's Theory of Absolute Advantage and the Use of Doxography in the History of Economics," 60–61.

³⁵ Smith, *The Wealth of Nations*, 615 (bk. IV.iii.ii).

³⁶ John M. Letiche, "Adam Smith and David Ricardo on Economic Growth," *The Punjab University Economist* 1, no. 2 (1960): 19–20.

³⁷ William Darity Jr and Lewis S. Davis, "Growth, Trade and Uneven Development," *Cambridge Journal of Economics* 29, no. 1 (2005): 146.

largely been discredited, and certainly has not come to pass, there are still important elements of his theory of trade and growth that are still relevant today.³⁸

Smith theorized that countries traded because of an absolute advantage in production capabilities, Ricardo recognized that very rarely will countries actually have an absolute advantage in the production of a good, and so he instead suggested that trade was based upon countries' comparative advantages in the production of a good. For example, Ricardo writes:

England may be so circumstanced, that to produce the cloth may require the labour of 100 men for one year and if she attempted to make the wine, it might require the labour of 120 men for the same time. England would therefore find it her interest to import wine, and to purchase it by the exportation of cloth. To produce the wine in Portugal, might require only the labour of 80 men for one year, and to produce the cloth in the same country, might require the labour of 90 men for the same time. It would therefore be advantageous for her to export wine in exchange for cloth.³⁹

The point here is that even if Portugal can produce both goods more efficiently than England, it is still worth initiating trade between the two countries. (Ricardo's theory of comparative advantage assumes full employment, or else the theory does not work.) Firstly then, comparative advantage seems to be superior to absolute advantage in terms of sheer empirical explanatory power as to why countries trade.⁴⁰ However, it also shows us the importance of the productive capacity of the *people* or *laborers* in the country—an aspect of the economy certainly not neglected by Smith, the wealth of a nation is its labor after all—but Ricardo demonstrated the importance of labor specifically for trade relations.

While Smith thought trade would always be beneficial, Ricardo thought that trade *could be* beneficial to countries overall. “No extension of foreign trade will immediately increase the amount of value in a country, although it will very powerfully contribute to increase the mass of commodities, and therefore the sum of enjoyments.”⁴¹ The real growth (‘increase in the amount of value in a country’) and development (‘sum of enjoyments’) comes if money gained from imports positively affected the wages of laborers in the export sector.

Foreign trade, then, though highly beneficial to a country, as it increases the amount and variety of the objects on which revenue may be expended, and affords, by the abundance and cheapness

³⁸ Darity Jr and Davis, 148–50.

³⁹ David Ricardo, *Principles of Political Economy and Taxation* (New York, NY: Cosimo, Inc., 2006), 94.

⁴⁰ C.f. Arnaud Costinot and Dave Donaldson, “Ricardo’s Theory of Comparative Advantage: Old Idea, New Evidence,” Working Paper (National Bureau of Economic Research, April 2012).

⁴¹ Ricardo, *Principles of Political Economy and Taxation*, 89.

of commodities, incentives to saving, and to the accumulation of capital, has no tendency to raise the profits of stock, unless the commodities imported be of that description on which the wages of labour are expended.⁴²

Smith was more concerned with production costs affecting the direction of trade, whereas for Ricardo, labor was the main consideration. To be sure, Ricardo was very interested in the role of wages in the economy, and especially their application to Britain's working poor.⁴³ Growth, for Ricardo, relies on capital accumulation and reinvestment, which is tied inextricably to labor.⁴⁴ This will be important in Chapter 5 below because although we tend to think of growth as a country-level feature, it is important not to overlook the productive labor that makes growth through trade possible in the first place.

Like Smith's famous 'invisible hand' where individuals pursue their own ends and it ends up benefitting the greater good,⁴⁵ Ricardo had a similar proposal about how pursuit of individual countries' own goods would end up contributing to 'the universal good of the whole.' He writes:

Under a system of perfectly free commerce, each country naturally devotes its capital and labour to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole. By stimulating industry, by regarding ingenuity, and by using most efficaciously the peculiar powers bestowed by nature, it distributes labour most effectively and most economically: while, by increasing the general mass of productions, it diffuses general benefit, and binds together by one common tie of interest and intercourse, the universal society of nations throughout the civilized world.⁴⁶

Thus, we can see how trade, for Ricardo, is beneficial to growth both domestically and internationally through the mechanisms by which it is able to help economies

⁴² Ricardo, 92–93.

⁴³ It should be noted here that Ricardo believed that wages should be 'fair' insofar as they provided for the necessities of life. And although he was concerned about wages falling below market rate (their 'natural price'), at which point the laborer would lead a 'wretched' and impoverished life, it would be a misnomer to claim that Ricardo believed that wages were important for any kind of meaningful development of the worker. In other words, for Ricardo, wage rates were a descriptive part of the economy, not a prescriptive factor for individual growth (C.f. Ricardo, chap. 5).

⁴⁴ Letiche, "Adam Smith and David Ricardo on Economic Growth," 20.

⁴⁵ Smith writes on the invisible hand: "And by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good" (Smith, *The Wealth of Nations*, 572 (bk. IV.ii)).

⁴⁶ Ricardo, *Principles of Political Economy and Taxation*, 93.

use their productive capacities most efficiently. Further, then “it appears, that the improvement of a manufacture in any country tends to alter the distribution of the precious metals amongst the nations of the world: it tends to increase the quantity of commodities, at the same time that it raises general prices in the country where the improvement takes place.”⁴⁷ Through free trade, wages in poorer countries will rise to match those in richer countries. Essentially, Ricardo thought that trade would eventually be a great redistributor and equalizer,⁴⁸ despite the initial differences in productive capabilities. I look below in Chapter 2 at the disconnect between this theoretical growth promotion and equalization potential that trade has, and the reality of the situation in which trade is not fulfilling its potential.

John Stuart Mill and the Ends of Trade

John Stuart Mill largely followed a Ricardian model of trade. He espoused the idea of comparative advantage and argued that trade could be a more efficient means of utilizing domestic production capabilities, especially in terms of labor productivity. While he supplemented Ricardo’s theory of trade with the idea that demand is responsive to price changes (which later became known as ‘price elasticity of demand’), one of Mill’s most important contributions to international trade theory for the purposes of this thesis is about his theory of the extra-economic benefits of trade. Mill, like Smith and Ricardo, recognized the economic gains of trade: being able to obtain commodities that would not normally have been available domestically, increased efficiency of productive resources, and an outlet for a countries’ domestic surpluses, all of which lead to growth in some form or another.⁴⁹

Mill, however, wanted to emphasize a second economic benefit of trade, that had largely gone undiscussed before. For Mill, trade was able to spur on an industrial revolution, which has benefits for both the country as a whole and the individual denizens.

There is another consideration, principally applicable to an early stage of industrial advancement. A people may be in a quiescent, indolent, uncultivated state, with all their tastes either fully satisfied or entirely undeveloped, and they may fail to put forth the whole of their productive energies for want of any sufficient object of desire. The opening of a foreign trade, by making them acquainted with new objects, or tempting them by the easier acquisition of things which they had not previously thought attainable, sometimes works a sort of industrial revolution in a

⁴⁷ Steven G. Medema and Warren J. Samuels, *The History of Economic Thought: A Reader; Second Edition* (Routledge, 2013), 299.

⁴⁸ C.f. Timothy Davis, *Ricardo’s Macroeconomics: Money, Trade Cycles, and Growth* (Cambridge University Press, 2010), 28–32.

⁴⁹ C.f. Mill, *Principles of Political Economy*, III.xvii.4-III.xvii.10.

country whose resources were previously undeveloped for want of energy and ambition in the people: inducing those who were satisfied with scanty comforts and little work, to work harder for the gratification of their new tastes, and even to save, and accumulate capital, for the still more complete satisfaction of those tastes at a future time.⁵⁰

This is similar to Smith's point above that trade can help promote technological transfers, but for Mill, the point was more important than a mere transfer of knowledge. Mill argues that by opening their borders up to trade, countries can get a taste for new products, gain cultural knowledge, and put their productive capabilities to use, and these factors can cause a fundamental shift in the makeup of their economy. Here, Mill is in effect saying that trade can help a country go from a primary, or agricultural, to a secondary, or industrial, sector economy. In other words, in addition to helping with economic growth, trade can cause economic progress, or what we now refer to as economic development, as well. This point still applies today to the benefits of trade between developed and developing countries: the potential for trade to spur industrialization is still there.

Mill was also keen to emphasize the extra-economic benefits of trade. He, like Smith, rejects the idea that "money alone is [equivalent to] wealth."⁵¹ And while financial gain is one benefit of trade, Mill writes that "the economical advantages of commerce are surpassed in importance by those of its effects which are intellectual and moral."⁵² Mill argued that by putting humans in contact with one another in a peaceable way through trade, humans were made more civilized towards one another.

It is hardly possible to overrate the value, in the present low state of human improvement, of placing human beings in contact with persons dissimilar to themselves, and with modes of thought and action unlike those with which they are familiar. Commerce is now what war once was, the principal source of this contact.... And commerce is the purpose of the far greater part of the communication which takes place between civilized nations.... To human beings, who, as hitherto educated, can scarcely cultivate even a good quality without running it into a fault, it is indispensable to be perpetually comparing their own notions and customs with the experience and example of persons in different circumstances from themselves: and there is no nation which does not need to borrow from others, not merely particular arts or practices, but essential points of character in which its own type is inferior.⁵³

⁵⁰ Mill, III.xvii.4.

⁵¹ Mill, III.xvii.11.

⁵² Mill, III.xvii.5.

⁵³ Mill, III.xvii.5.

It is incredibly important to note that in a treatise about economics, Mill maintained that trade was, first and foremost, important due to the international peace that it could promote.

...[C]ommerce first taught nations to see with good will the wealth and prosperity of one another. Before, the patriot, unless sufficiently advanced in culture to feel the world his country, wished all countries weak, poor, and ill-governed, but his own: he now sees in their wealth and progress a direct source of wealth and progress to his own country. It is commerce which is rapidly rendering war obsolete, by strengthening and multiplying the personal interests which are in natural opposition to it. And it may be said without exaggeration that the great extent and rapid increase of international trade, in being the principal guarantee of the peace of the world, is the great permanent security for the uninterrupted progress of the ideas, the institutions, and the character of the human race.⁵⁴

Mill thought trade could and would actually impact general characters of nations, by positing an alternative view on the nature of competition. Because we now know, he thought, that trade is beneficial for all parties involved and foreign markets can be used as an extension of the domestic market, we no longer need to be in competition with other countries.

There are two things of note here. First, there is a substantial body of evidence that in modern times, bilateral trading relationships serve as a deterrent of war,⁵⁵ so it seems empirically corroborated that trade can be peace-promoting. Second, however, Mill, although being descriptive about the way in which trade can create good-will between countries, seems to have over-estimated the diminution of competition and consequently animosity between countries. That said, it is once again important to note that the theoretical foundations are there in order to be able to build a theory of growth through cooperation from trade.

From the classical political economists (and Aristotle), we can see that in theory trade, growth, and even development are inextricably linked. These theorists suggested that trade can contribute to the good life, expansion of enjoyments, a more efficient domestic market, and a more peaceful international order. And while it is true that money can be used as a measurement of growth, it is very clear that none of the above thinkers would recommend using it as the only measure of value. That said, international economics has moved on substantially since Mill's time and it is possible that these theories may no longer be relevant (though I maintain that this is not the case). Thus, it is worth turning to more

⁵⁴ Mill, III.xvii.5.

⁵⁵ C.f. Philippe Martin, Thierry Mayer, and Mathias Thoenig, "Make Trade Not War?," *Review of Economic Studies* 75, no. 3 (2008): 865–900.

modern theories of international trade to assess the extent to which trade now can be said to have a different function or purpose.

Section III – Contemporary Models of Trade

Historically the concept of comparative advantage, when one country can produce a good with a lower opportunity cost in terms of other goods than another country, has been used to justify free trade. Countries, therefore, should specialize in goods in which they have a comparative advantage. They will each benefit from free trade because they can specialize in a certain good, which they export, and import another good. The total aggregate number of goods rises, resulting in an increase in national welfare. Empirically, however, this is sometimes not the case. Trade frequently occurs between similar countries that trade similar products, thus this section examines ways in which trade theory has moved on since Ricardo. That said, it is not true that comparative advantage does not apply at all to trade today; as Jones and Neary put it, a Ricardian model of trade is best understood as ‘basic,’ as in fundamental, rather than ‘primitive,’ as in outdated.⁵⁶ The idea of comparative advantage makes assumptions about differences in countries rather than trying to explain them. The problem comes once we look at international trade that concerns factors of production additional to labor and resources, or in anything that is not finished products that go straight to consumers. Thus, modern trade theories are largely attempts at building more complex models, or finding the sources for differences in countries, rather than assuming them. Essentially, “positive trade theory uses a variety of models, each one suited to a limited but still important range of questions.”⁵⁷ Thus, modern economists often need a variety of models to explain or predict phenomena in international trade.

There are two points to this section. The first is to show how trade theory has improved upon and moved on from classical models. This will help to explain trading relations between modern countries, as comparative advantage does not always do that. Yet despite this, we can still see that trade occurs because of the broad benefits that it brings to the trading nations. The second point is to show how non-monetary notions of growth have been lost throughout the 20th Century, and how trade theory has largely split into two camps, which, as discussed above, I label political and economic.

It should also be noted that, for the most part, modern trade models are positivist, unlike classical models which tended to have normative elements. These modern theories aim to observe phenomena in the world and devise a model that

⁵⁶ Ronald W. Jones and J. Peter Neary, “Chapter 1: The Positive Theory of International Trade,” in *Handbook of International Economics*, vol. 1 (Elsevier, 1984), 3.

⁵⁷ Jones and Neary, 2.

tries to replicate and subsequently explain why these phenomena occur, or to build a model that predicts what will happen when countries trade based on different factors. Thus, in many ways, they are not as helpful to a normative project on trade. That said, they can be useful in that several of these models predict outcomes that we do not see in real life, for instance, one of the models below suggests that wages between skilled and unskilled labor will eventually converge, which is typically not the case. We may deem this convergence desirable, and thus the model is helpful insofar as it points out desirable or undesirable outcomes. In other words, we can use descriptive or positive trade theories to help adjust policy to be more in line with our broader goals.

Heckscher-Ohlin Models

First, I introduce the Heckscher-Ohlin (H-O) model of international trade, which was developed in the first half of the 20th century by Swedish economists Eli Heckscher and Bertil Ohlin. Also known as the ‘factor productions model,’ this model of international trade builds on the Ricardian one-factor model of trade, where labor is the only factor of production. Some goods require proportionally more financial capital than labor and others require more labor than capital. Different goods will have different capital to labor ratios. The H-O model adds capital into consideration of the factors that go into the production of goods, and thus the factors that account for the reasons behind trade relations. The model assumes that different countries have different amounts of each of the production factors, i.e. Canada might be well-endowed with capital, relative to Denmark, and Denmark might be well-endowed in terms of labor, relative to Canada. Canada then should produce the good that is capital-intensive, and Denmark should produce the good that is labor-intensive. Furthermore, though the H-O model builds on the Ricardian model in that it takes into consideration not only labor as a factor of production but also capital, there are important differences between the models, as well. In the Ricardian model production technologies are assumed to be different between the two countries; the H-O model assumes that they are the same. This assumption is made because “it enables us to see precisely how differences in resource endowments is [sic] sufficient to cause trade.”⁵⁸

Like the Ricardian model, the H-O model predicts that trade causes economic growth, as it shows that free trade will cause an increased efficiency for both countries as countries will produce greater amounts of their exported goods and less of their imported goods. It is important to note that in this model, unlike in the Ricardian model, complete specialization does not necessarily occur, because of the opportunity costs entailed in giving up the production of the other

⁵⁸ Suranovic, *International Trade*, 60.o.

good completely. “Nevertheless, the production shifts will improve productive efficiency in each country. Also, due to the changes in prices, consumers, in the aggregate, will experience an improvement in consumption efficiency. In other words, *national welfare will rise for both countries when they move to free trade*” (emphasis added).⁵⁹ The H-O model shows that economic growth is better sustained in an open economy, because, like in the Ricardian model, otherwise all the goods that they produce would have to be sold internally. Here, I should note that growth is still given exogenously through trade in this model.

This model might be relevant to theorists of global justice, because it can be used to model North-South trading relations,⁶⁰ which usually consist of a capital-intensive good, being exported from a country in the global North, and a labor-intensive good, being exported from a global South country. That said, the model also predicts a convergence of wages between skilled and unskilled laborers that we do not actually observe in practice. Wages are supposed to converge because of what is known as the ‘factor-price equalization (FPE) theorem’ which states that when countries enter into completely free trade the marginal values of the products begin to equalize, and thus so too must the inputs of production, such as wages. On this model, unskilled workers’ wages should increase in countries where unskilled labor is abundant, relative to the wages of their skilled counterparts. That said, it is often the case that the reverse occurs. Skilled labor wages are currently increasing more rapidly than unskilled wages in countries such as Mexico, which would be, according to the model, a labor-rich country.⁶¹

There are a few takeaways from the H-O model and the discrepancies here between theory and empirics. First, comparative advantage is often an oversimplified theory and cannot explain all trading relations, thus other trading models are needed. It makes sense to include additional factors of production, such as technology and skilled labor into economic models, since empirically, trading nations will often have different levels of these factors. That said, the problem with the H-O model is that it predicts factor-price equalization under free trade, and while, normatively, that may be a desirable outcome, descriptively, the theory does not match reality, especially when it comes to North-South trade. Thus, other models might offer more explanatory power.

⁵⁹ Suranovic, 60.0.

⁶⁰ There are other models that focus *specifically* on North-South trade, but the H-O model is useful for my purposes because of its focus on the relationship between wages and labor.

⁶¹ Reyna Elizabeth Rodríguez Pérez and Christian Joel González Cuatianquis, “Skilled-Unskilled Workers Wage Gap in Mexico: A Regional Approach of the Exposure to Trade Openness,” *Journal of Economics* 3, no. 4 (2015): 41–50.

North-South Trade Models

Trade, especially North-South trade does not always occur the way that the H-O models would predict. Thus, “In the 1970s and 1980s, dissatisfaction with the ability of neoclassical theory adequately to address the related phenomena of uneven development and persistent international inequality led to work on North-South models of growth and trade.”⁶² These theories tried to address structural and institutional aspects of countries that were at different levels of development, and in doing so they “produced decidedly non-orthodox outcomes regarding the effects of foreign trade.”⁶³ These non-orthodox outcomes included a lack of factor price equalization and the fact that North-South trade is indeed not always advantageous for the global South, especially relative to the North, where the South continues to grow at a slower rate than the North indefinitely. These models point to problems of endogenous growth, or factors from within the country that can lead to growth, because the less developed country in this trading model is assumed to be trading in traditional goods, where there will not be as much additional technological advancement to be made.⁶⁴ Instead, the country will require outside help.

We can see from this positivist model that there are morally undesirable consequences that might be produced from North-South trade, specifically, the global South might permanently lag behind the global North in terms of growth and development. That said, the model also shows us where the problem is: the less developed country needs to export goods other than primary goods in order for growth to occur. This then points us to normative theories where diversification of a developing economy is key. It is worth noting here that North-South trade models are not widely accepted economic models and are not frequently used in mainstream economic analysis. This is problematic for policy because it means that structural injustices due to power are often overlooked in economics. I address this further in the next chapter.

New Trade and New Growth Theory

New trade theory is a collection of several new models of international trade developed from the 1970s onwards that aim to produce better predictive models of trade. These models also do not predict the convergence that many of the other models do. In other words, classical and neoclassical models posited that unequal growth was a temporary disequilibrium and that eventually, things would even

⁶² Darity and Davis, “Growth, Trade and Uneven Development,” 142.

⁶³ Darity and Davis, 142.

⁶⁴ Ngo Van Long and Kar-Yiu Wong, “Endogenous Growth and International Trade: A Survey” (University of Konstanz, Collaborative Research Centre SFB 178 “Internationalization of the Economy, 1997), 36.

out. New Growth Theory, however, predicts that this inequality is the permanent state of affairs, because though each side of the trading relationship can continue to grow, endogenous factors—those already in the country—impact the rate of growth significantly in this model, so fewer resources equate to less growth.

This shift is largely due to a focus on ways in which endogenous factors, such as human and knowledge capital (as opposed to physical capital), can lead to growth, while simultaneously attempting to capture exactly how they do so.⁶⁵ Indeed, these new models are helping us to examine the nature and causes of unequal development and growth, as well as international inequality. With these models, gains from trade are no longer certain or predictable. Mutual benefit is not a given, and rather, it depends on internal factors. “The central contention of the new growth theory is that growth is generated within the economy. It is the result of particular economic activities. Exposure to international prices may increase or decrease the resources devoted to growth producing activities.”⁶⁶ Thus, new trade and growth theory have emphasized the idea of *underdevelopment*, or the idea that countries are not developing to the level that they should be given the economic predictions. “The new growth and trade theory has also served to vindicate traditional development thinking, which held as a central tenet that an appreciation of market failure is integral to understanding the related phenomena of growth, industrialisation, and uneven development.”⁶⁷ That said, these models might not be as appropriate for modeling underdeveloped countries. New trade and new growth models often ignore the role of primary (agricultural) sectors, which is important for North-South trade.⁶⁸ This once again demonstrates that descriptive models of trade do not appropriately take into account structures and factors of developing economies.

Intra-Industry Competition Model: Trade without Comparative Advantage

The last model I shall discuss is the intra-industry or monopolistic competition model, which is part of New Trade Theory. This model accounts for and helps to explain trade between similar countries, whereas the Ricardian, H-O, and North-South models all depend on country differences for the models to work.⁶⁹ The monopolistic competition model also accounts for intra-industry trade or the fact that countries will import and export products that are very similar to each other.

⁶⁵ Darity and Davis, “Growth, Trade and Uneven Development,” 159.

⁶⁶ Darity and Davis, 156.

⁶⁷ Darity and Davis, 163–64.

⁶⁸ Darity and Davis, 164.

⁶⁹ Suranovic, *International Trade*, 80.0.

It shows that even trade between similar countries can be beneficial to each country. Benefits gained from this model include increased overall welfare because industries can produce more due to economies of scale and can therefore make a greater profit by producing more goods more cheaply. On the intra-industry competition model, features of the production process make trade beneficial or advantageous, rather than the actual exchange of goods across countries, meaning that these models care more about endogenous growth factors than exogenous ones. “[G]ains from trade arise because of an improvement in productive efficiency. By reallocating resources between industries within countries it is possible to produce more output with the same amount of resources. This remains the prime motivation in support of free trade.”⁷⁰

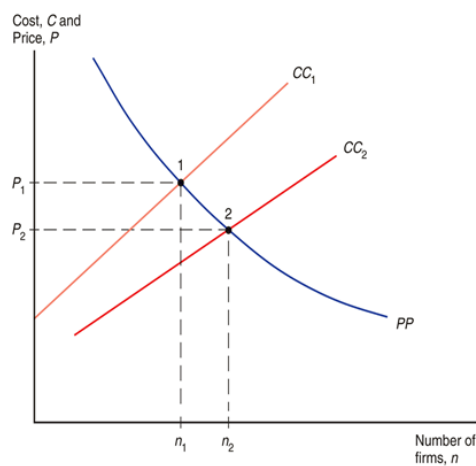


FIGURE 1

Free trade, even when similar products are being traded, can be shown to be beneficial to both countries because of economies of scale in production. In this model, two countries each produce equal amounts of two goods using equal production factors. Across the countries, the goods are similar, but not identical. On this model, product differentiation is important because firms can make use of even minor differences in consumer taste, and benefit by producing very similar products. Trade is advantageous, then, because both countries can make use of economies of scale, which raises production efficiency and ultimately produces growth.⁷¹ This is demonstrated in Figure 1. A larger market will allow a firm to produce more which will in turn lower the cost of production. Initially, equilibrium is reached at P_1 , yet if the total number of firms decreases (as shown by the shift from CC_1 to CC_2), then the price will decrease. As the number of total firms in the market increases, or in the case of international trade—as the foreign market is

⁷⁰ Suranovic, 80.4.

⁷¹ Suranovic, 80.3.

added to the current domestic one. This model demonstrates that the connection between trade causing growth and hopefully sustained development is not just relevant to developed and developing country relationships, and so this has the additional benefit of demonstrating that trade between two developed countries will not have to be excluded from my theory of just trade.

Section IV – Some clarifications and the ends of trade

Functionalist arguments for institutions are not always easy to make. Purposes and functions are usually seen to be intentional things, and objects (or institutions) are designed with these purposes or functions in mind. Taxis and schools both have specifically and carefully designed functions. Even if a school is not functioning to fulfill its function of education, it is still clear what its main intended social good-producing function is. The case for international trade is not so clear, despite the connections in the economic literature between trade, growth, and development. Consequently, there are several objections worth addressing here, and I deal with each in turn.

First, it is worth noting that some economists theorize about a hypothetical ‘end’ or ‘stationary state’ where there is no more economic growth. Indeed economists from Smith and Ricardo to Keynes hypothesized about this potentiality (though it has largely gone out of fashion in mainstream economic theory since the 1970s, but has recently been revived in environmentalists’ theories). Although the possibility of a stationary state may, in this day and age, seem fantastical or at the very least a long way off, it is still worth addressing it, as it would seem to have a serious detrimental impact on my thesis that trade’s function is to produce growth and/or development. There are several potential ways to address this criticism. There are two separate ways to think about a stationary state. The first is the one referenced above, where economists envisioned a theoretical situation where the market naturally reached saturation and no more growth could occur; I call this the ‘economic stationary state’. The second type of stationary state might occur through international agreement, where for the sake of mitigating the effects of climate change for example, we might want to limit or even artificially halt growth; I label this ‘stationary state by international agreement’. The response to each criticism differs depending on the type of stationary state we are envisioning, so I address each in turn. First, in the economic stationary state, if there is no longer any growth through international trade because the international markets are all in perfect stability, then there is no longer a need to worry about trade fulfilling its function. That

said, there is still likely to be trade because countries will still have different resources; the trade just hypothetically will not produce economic growth. The response here is that this is why we need a reconceptualization of the ends of trade and a reimagining of the concept of growth to encompass a more holistic vision (similar to capability development). A stationary state will no longer produce GDP growth, but that does not mean that economies cannot change and expand and that countries cannot continue to develop capabilities. For example, education can continue to expand through shared ideas spread by international trade. Second, in response to a stationary state by international agreement, the idea here is that countries are sacrificing a specific type of economic growth for a more holistic version of development and the ability to provide better capabilities for their citizens in the future. Trade is not serving to produce economic growth, but rather development in a broader scale. The question then becomes: what if we have developed our *capabilities* as fully as possible? In this case, we can look at trade as a means of consolidating the gains of trade that we have achieved, and if trade falls off or stops, we might indeed see regression in the progress that has been made. For example, isolationism could hinder peaceful international relations or knowledge consolidation.

Next, the above economic arguments might lead us to believe that it makes more sense to think of the function of trade in the broader terms of preference satisfaction, rather than in the more specific sense of welfare that I am proposing. Here, I want to clarify, as above, that there does not only have to be one purpose of an institution. That said, as discussed above and again below in detail in Chapter VI, trade can and does demonstrably help development which I take to be a social good with moral significance that ‘preference satisfaction’ does not have.

Second, there are cases of trade, especially international trade, where the institution actively goes against the promotion of growth and/or development. It is then not satisfying the normative function of international trade. To bring back the school analogy, children can be educated in things that are bad for them. My argument concerns the rules of trade and the larger parameters, not the specific cases, which do not defeat the overall purpose.

Section V – Political versus Economic

Depictions of the Purpose of Trade: Case Studies of Free Trade and Trade Agreements

There has long been a debate over what exactly economics as a discipline *is* or should be. There are those who think that economics is purely a descriptive or positive discipline. As Lord Lionel Robbins wrote in 1932,

it is important to recognise that the propositions of economics, as it has developed as a science, are positive rather than normative. They deal *inter alia*, with values; but they deal with them as individual or social *facts*. The generalisations which emerge are statements of existence or possibility. They use the words *is* or *may be*, not *ought* or *should be*. There can be events or institutions having an economic aspect which we ourselves regard as ethically acceptable or unacceptable. But, in so far as the explanations of their causes or consequences are scientific, they are neutral in this respect.⁷²

Robbins then goes on to critique the development of the field of welfare economics, arguing that judgements made therein are ‘ours’ and are not scientific or objective.⁷³ Essentially, Robbins is suggesting that welfare or normative economics is not a scientific pursuit, because in making prescriptions, people are using moral judgments, which Robbins does not think belongs in a descriptive or predictive science.⁷⁴ This idea has been extremely influential in modern economics, and has led many to argue that politics and ethics do not mix with economics. Here, I look at two prominent examples of this debate: the first in arguments over free trade, protectionism, and redistribution, and the second over the role of trade agreements.

Free Trade, Protectionism, and Redistribution

One of the arguments most commonly used by economists in favor of free trade, known as the ‘efficiency case for free trade,’ argues that free trade is simply more efficient than protectionism. This is a purely economic argument, as it is concerned solely with the functioning of the economy. The argument goes that a tariff on goods distorts the original incentives for both producers and consumers,

⁷² Lionel Robbins, *An Essay on the Nature & Significance of Economic Science*, 3rd ed. (New York, NY: New York University Press, 1984), xviii.

⁷³ Robbins, xix–xxi.

⁷⁴ It should be noted that he also rejects the idea of Pareto efficiency, or the idea that, preferences remaining constant, an individual or group can be made better off.

which ultimately will cause a net loss to the economy.⁷⁵ Figure 2 demonstrates this. The areas of loss to world trade are represented by the darkened triangles. The tariff raises the price of the good domestically, meaning the cost of producing the good rises, and the demand for the good will decrease, as well. Eliminating the tariff removes these distortions and there will no longer be a loss to the economy which will ultimately increase national welfare. Thus, free trade is overall more efficient.

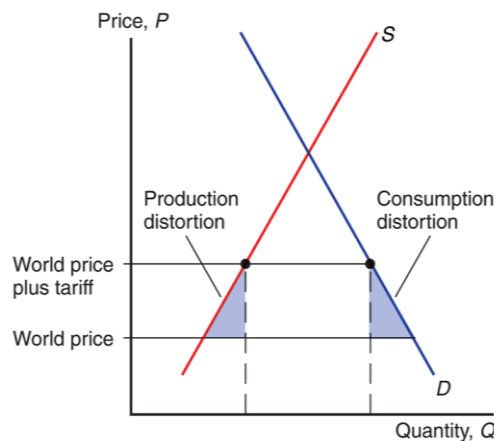


FIGURE 2

One potential problem with this argument is that while aggregate national welfare will be increased, it does not consider the individual members of society.⁷⁶ Free trade usually causes redistributions within the economy because resources will be shifted between areas of production, causing some areas to grow and earn a larger profit, while others shrink thus producing fewer goods and are consequently forced to lay off workers. Thus, although some individuals will indeed gain from free trade, others will be hurt by it.

There are three common responses to this criticism: one economic and two political. The economic argument holds that economics is solely concerned with efficiency, specifically the efficient allocation of resources. “Economics describes an allocation as ‘optimal’ when it achieves the maximum level of aggregate economic efficiency.”⁷⁷ If a market is efficient, certain inequalities simply descriptively occur as side effects. Next, the first political argument would encourage the instigation of a tariff or subsidy to protect the workers in the sector that is suffering. The problem here is that we have essentially completed a circle,

⁷⁵ Krugman and Obstfeld, *International Economics*, 219.

⁷⁶ Suranovic, *International Trade*, 120.2.

⁷⁷ Suranovic, 120.2.

and now face distorted economic effects due to political motivations.⁷⁸ The second political response, then, entails a compensation principle, by which inequalities caused by free trade can be compensated by redistribution. That is, the increased efficiency gained by free trade will cause a greater aggregate gain than a greater aggregate loss, meaning that redistribution can still occur to the benefit of everyone.⁷⁹ Thus, we might want to argue that it is necessary to use political tools in the economic realm to ensure that some levels of fairness or equality are maintained despite economic activity. I show below how a Capabilities Approach to Trade can help mitigate against this problem and undercut this debate by providing a more holistic schema for development, which includes helping protect individuals against harms of trade and also develops a stronger social safety net.

Trade Agreements

The General Agreement on Trade and Tariffs (GATT), which the World Trade Organization (WTO) later superseded, was established as an international institution to help open up international trade by providing a framework in which international trade would operate on a world stage. Both the GATT, ratified in 1947, and the WTO, put into effect in 1995, were primarily concerned with economic principles of trade (though the WTO did establish a committee for sustainability through trade, suggesting a slight shift away from pure economics and a recognition of other values).

In recent years, however, there has been a shift away from trading against the backdrop of the WTO rules, and instead, countries are signing bi- and plurilateral Preferential Trade Agreements (PTAs) or Regional Trade Agreements (RTAs). “This preference for PTAs over the WTO suggests that we are moving inexorably away from established multilateral rules. It is often argued that one important advantage of PTAs is that the parties can agree on specific obligations that go beyond WTO rules, thereby establishing selective rules for PTA partners that suit their interests.”⁸⁰ These PTAs and RTAs often include clauses on non-trade (sometimes *non-tariff*) issues (sometimes *initiatives*), or NTIs, which Milewicz et al. define as “provisions that go beyond GATT/WTO obligations.”⁸¹ In

⁷⁸ Much of the debate on whether to instigate tariffs or not feeds into a larger debate about the nature and purpose of trade economics. Often reasons to implement a tariff are seen as political, and not based on economic arguments about the benefits of trade, such as protection of domestic jobs, sanctions against other countries, or to even out balance of payments.

⁷⁹ Suranovic, *International Trade*, 120.2.

⁸⁰ Todd Allee, Manfred Elsig, and Andrew Lugg, “The Presence of the World Trade Organization within Preferential Trade Agreements,” in *Annual Conference on the Political Economy of International Organizations (PEIO)*, Salt Lake City, Utah, January, 2016, 1.

⁸¹ Milewicz et al., “Beyond Trade,” 2018, 750.

many cases, NTIs may be related to the purposes of the trade agreement, involving production standards or harmonization clauses, but often they are completely unrelated to the purposes of the agreement and might be riders such as environmental standards or security, such as arms control.⁸² Often, NTIs are ‘soft’ clauses, meaning that they do not entail compliance mechanisms and instead have reputational costs for violation,⁸³ such as Article 2 of the EC-Lebanon Euro-Mediterranean Agreement 2002, which stipulates that the agreement is “based on the respect of...human rights”⁸⁴ or Article 10.1 of the Canada-Jordan Free Trade Agreement 2009, which says “that each Party has sovereign rights and responsibilities to conserve and protect its environment.”⁸⁵ That said as PTAs are ‘deepening,’ or becoming more substantial, so too are the issue-linkage clauses.

The GATT and WTO, however, have shied away from discussing NTIs at all, as they are not central to the economic world trade agenda. “At most, the GATT/WTO provisions refer only indirectly to issues such as human rights, labor rights, and the environment – typically through exception clauses specified in Articles XX and XXI of GATT 1994,”⁸⁶ which are about ‘general’ and ‘security’ exceptions respectively to free trade.⁸⁷ Essentially, the WTO has not equipped itself to deal with non-tariff issues, and is subsequently facing competition from

⁸² Milewicz et al., 744–45.

⁸³ Milewicz et al., 748.

⁸⁴ Qtd. in Milewicz et al., 750.

⁸⁵ Qtd. in Milewicz et al., 750.

⁸⁶ Milewicz et al., 750.

⁸⁷ The WTO has begun to include certain ‘trade-related’ issues into the remit of its jurisdiction. These, Horn, Mavroidis, and Sapir call ‘WTO+ areas.’ Areas outside the WTO’s jurisdiction that are considered NTIs, they label ‘WTO-extra’ or ‘WTO-X’ (Horn, Mavroidis, and Sapir, “Beyond the WTO?,” 1567). Hartman gives a rather comprehensive list of both; under WTO+ areas, he identifies “PTA industrial goods, PTA agricultural goods, customs administration, export taxes, sanitary and phytosanitary (SPS) measures, state trading enterprises, technical barriers to trade, countervailing measures, anti-dumping, state aid, public procurement, the Agreement on Trade-Related Investment Measures (TRIMS), the General Agreement on trade in Services (GATS), and the Agreement on Trade-Related Aspects of Intellectual Property Rights.” WTO-X areas, Hartman divides into two broad categories of anti-corruption and general public health. These areas are: “competition policy, environmental laws, intellectual property rights (IPR), investment measures, labour market regulation, movement of capital, consumer protection, data protection, agriculture, approximation of legislation, audio visual, civil protection, innovation policies, cultural cooperation, economic policy dialogue, education and training, energy, financial assistance, human rights, illegal immigration, illicit drugs, industrial cooperation, information society, mining, money laundering, nuclear safety, political dialogue, public administration, regional cooperation, research and technology, small- and medium-size enterprises (SMEs), social matters, statistics, taxation, terrorism, visa and asylum” Stephen W. Hartman, “The WTO, the Doha Round Impasse, PTAs, and FTAs/RTAs,” *The International Trade Journal* 27, no. 5 (2013): 425.

PTAs, the instances of which have grown substantially since the 1990s, so much so that they have been labelled part of the new ‘21st Century Trade Agenda.’⁸⁸

There are many who find this trend away from the economic rules of the WTO and towards PTAs, which frequently include NTIs, damaging to the international trade system and agenda. Bhagwati even claims that PTAs are like ‘termites’ that “are eating away at the multilateral trading system relentlessly and progressively.”⁸⁹ However, adding NTIs to trade agreements tends to be strategic. In linking issues in trade agreements, we are witnessing the changing nature of international trade. Countries now seem more concerned with regulation rather than tariffs; as Baldwin puts it “the basic bargain is ‘foreign factories for domestic reforms’ – not ‘exchange for market access.’”⁹⁰ In other words, PTAs allow developing countries to benefit from foreign direct investment (FDI) in exchange for implementing domestic reforms, instead of working against the backdrop of the WTO where the only means of reform is pressure through exposure to liberal countries’ markets, which is not an effective tool of reform. The concern seems to be that PTAs present a threat to the WTO, especially in terms of legal regulations, which “in turn may create a set of fragmented rules in international trade that are difficult to reconcile.”⁹¹ Thus, although the debate has been framed in terms of ‘pure’ trade economics versus trade agreements sullied with political riders, the real root of the debate seems to be a worry about the lack of regulation, and in what ways PTAs might serve to undermine the WTO’s role as writer of international trade rules.

Messerlin points out a ‘paradox’ in modern trade economics where we have seen a vast proliferation of PTAs over the same period that the WTO was coming into its own. As he puts it, “Why, at a time of flourishing multilateralism, did bilateralism and regionalism re-emerge as an alternative trade policy instrument?”⁹² In his paper, Messerlin considers many factors related to the proliferation of PTAs, but ultimately concludes that while countries are pursuing economic growth, they must undertake numerous domestic reforms in order to achieve it, and trade is usually only part of this agenda. Thus, PTAs that include NTIs help to encourage these domestic reforms in ways that the WTO, at the

⁸⁸ Patrick A. Messerlin, “The Domestic Political Economy of Preferential Trade Agreements,” *European Centre for International Political Economy*, 26, http://ecipe.org/app/uploads/2014/12/Messerlin_-PTA.pdf.

⁸⁹ Jagdish Bhagwati, *Termites in the Trading System: How Preferential Agreements Undermine Free Trade* (Oxford University Press, 2008), xii.

⁹⁰ Richard E. Baldwin, “21st Century Regionalism: Filling the Gap between 21st Century Trade and 20th Century Trade Rules,” SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, April 1, 2011), 3.

⁹¹ Allee, Elsig, and Lugg, “The Presence of the World Trade Organization within Preferential Trade Agreements,” 1.

⁹² Messerlin, “The Domestic Political Economy of Preferential Trade Agreements,” 25.

moment at least, cannot. Thus, while the problem may seem like a debate over the nature and content of international trade, the point is actually that trade can contribute to a broader debate on countries' growth as a whole.

Conclusion – A Functionalist Definition of Trade

In this chapter, I have explored the theoretical relationship between international trade and growth, with some discussion of development. To sum up, I propose the following features of a functionalist understanding of international trade.

First, trade is always about exchange to the end of some sort of mutual benefit. This exchange can be direct or indirect, such as through the medium of currency, which is the case for almost all trading interactions today. In theory, there is no reason to (*freely* – this becomes important in Chapters 2 and 4 below) undertake an exchange if there is not mutual benefit. By this, I mean that trade requires both parties to aim at their own benefit and mutual benefit arises as a consequence. This is an international application of Smith's invisible hand principle. It is simply a descriptive feature of trade, and it is not necessary for my theory that countries must normatively aim to enrich each other. Though it is mutually beneficial for them to do so, as more advanced markets provide for better trading partners, as Smith told us. Additionally, it is worth noting that trade, as an international activity, naturally has political and economic elements and the debate over which realm to include trade in is misplaced.

Second, the social good that the institution of international trade produces is economic growth. That said, given the arguments presented in classical economic theory, it also seems reasonable to include human development as a social good that trade can produce, through the promotion of peace (Mill), individual virtue (Aristotle), or quality of life (Smith). Thus, it is more accurate to say that the social good that trade produces can be best understood as growth and/or development. In Part III, I continue to develop the idea that growth in economic terms does not sufficiently capture the idea of the social good that trade can bring about, and instead propose that we reconceptualize the ends of trade from 'growth and/or development' to a two-tiered capabilities approach.

Third, most contemporary theories of international trade, that are descriptive rather than normative, still theorize about the relationship between trade and growth, but do not see the relationship as always being as positive as the classical economists did. The question then becomes why this is the case, and it is to this issue that I now turn in Chapter 2. Finally, to reiterate, if the arguments for a functionalist understanding of international trade in this chapter are not

plausible to my readers, the rest of the thesis can be read conditionally: if trade does have a function, which we understand to be growth and/or development, it is a concern of justice when these ends are not fulfilled.

2

Harms of Trade

“The rules which govern world trade affect the livelihoods of the whole planet, and influence the economic development of all nations from Azerbaijan to Zambia.”

–Stiglitz and Charlton, *Fair Trade for All*

As discussed in the previous chapter, in economic theory, the connection between trade and economic growth is relatively straightforward: by specializing in the production of a good or service that the country can produce comparatively better than its trading partner, the country can dedicate more of its resources to that good or service which drives up productivity. This, in turn, means that they have more of that good or service to sell abroad, which increases rents, which then become reinvested in even better production, and this process of growth continues and leads to country-wide development. Economic theory (depending on the model) predicts numerous benefits from trade, from wage convergence across countries to economic growth. Classical trade theories were particularly optimistic about the normative benefits of trade. Yet more recent, positivist models do not always predict these benefits. Further, even despite their positivist nature, they often get their predictions wrong (like the H-O model predicting wage convergence against empirical evidence). One explanation might be that they do not pay sufficient attention to the structural problems that prevent developing countries from realizing the normative benefits that trade should bring about.

Building on these benefits of trade, in the last chapter, I proposed a functionalist view of international trade that may or may not have been wholly plausible to my readers. The reason that it may not have been wholly plausible is that, often, trade observably does not always function in the way it was depicted by the economic theory laid out in Chapter 1. This is because, in the real world, there are countless contravening factors that affect the international trading regime itself, countries’ individual trade policies, and the ways in which corporations respond to these policies.

This chapter serves several purposes. First, it is intended to give empirical evidence to demonstrate why we should be concerned with fairness in the international trading regime in the first place. Relatedly, it demonstrates why the following two parts of the thesis (Part II – Proposals for Just Trade and my own solution Part III – A Capabilities Approach to Trade) are significant. Second, this

chapter also serves as part of the empirical aspect of a functionalist approach to international trade. In this way, it looks at how and why the economic theory presented in Chapter 1 does not always match reality. Finally, this chapter grounds trade as a site of justice by demonstrating that trade is not fulfilling its function, which is the production of the social good of growth or development.

A myriad of issues from the sectors in which trade is occurring, to a country's initial factor endowments, from poor corporate investment strategy to bad macroeconomic policy can interfere in the process.⁹³ To ask, then, why trade is not producing growth or development is not a straightforward question.⁹⁴ Growth, moreover, is a macroeconomic issue that will involve almost every facet of the economy, not just import and export sectors. Thus, in this chapter, I seek to look at some of the factors that make trade unfair in order to illuminate some of the reasons why trade is prevented from fulfilling its function. Additionally, in this chapter, I do not seek to proffer a comprehensive account of why international trade, as it currently stands, is unfair. Instead, this chapter offers a series of evidence and case studies that provide us with a starting point for understanding ways in which the international trading system might be thought to be unfair to certain countries, and subsequently why countries cannot realize the benefits of trade.

Internationally, trading interactions can be said to be the root cause of the vast inequalities between countries (*à la* Beitz), to be a perpetuating factor in poverty and underdevelopment, and to have created over hundreds of years dependency of poor countries on rich countries. Domestically, trade can also cause harms through means such as competition, a possible consequential downward pressure on wages, and potentially unemployment. All of that said, as shown above in Chapter 1, trade need not theoretically, and in many cases should not, be this harmful. Indeed, international trade is actually one of our most powerful tools of

⁹³ It is also worth remembering that economic theory of international trade, like political theory, includes assumptions and abstractions, so it is unlikely that trade will ever function *exactly* as predicted in the theory. In this chapter I identify structural issues that prevent the realization of the benefits of trade that go beyond problems with abstractions.

⁹⁴ It is possible that these disconnects between theory and practice could be methodological issues with insufficient or problematic econometric measurements (c.f. Muhammad Tahir, Dk Hajah Norulazidah Binti Pg Haji, and Omar Ali, "Trade Openness and Economic Growth: A Review of the Literature," *Asian Social Science* 10, no. 9 (2014): 137; Francisco Rodriguez and Dani Rodrik, "Trade Policy and Economic Growth: A Skeptic's Guide to the Cross-National Evidence," *NBER Macroeconomics Annual* 15 (2000): 261–325). Worse, we might have cause to think that economists are bad theoreticians and even worse policy makers. This is the problem with 'economism,' or an over-reliance on economics in guiding public policy (C.f. Haubrich and Wolff "Economism and Its Limits" in Robert E. Goodin, ed., *The Oxford Handbook of Public Policy*, *The Oxford Handbook of Public Policy* (Oxford University Press, 2008)). Let us, though, give economists the benefit of the doubt when it comes to theory.

development through growth. Thus, one reason we might think of international trade as unfair is because certain countries are worse off due to international trade (both worse off compared to other countries and worse off than the baseline of predicted economic benefits). In this chapter, I also do not offer a comprehensive theory of fairness or morality in trade. Rather, I rely on various notions of fairness and harm that all tie back to trade not being able to fulfill its function.

I should note that trade alone cannot *fix* poverty, but it can and should be aiding in its alleviation. My concern in this chapter is not with uneven development, but rather with a concept that economists call ‘underdevelopment’ which is a state of a national economy in which living standards are extremely low and per capita income is below the poverty line due to low levels of economic growth but high population growth rates. The question here is how some countries have been able to raise their living standards through increasing globalization and others have not. It seems reasonable to assume that since trade has aided in development for some countries, it should also be able to do so in others, specifically in the Global South.

The overarching goal of this chapter is to address some of the issues that are leading to trade not fulfilling its function, namely the structural injustices that are preventing the benefits of trade from being realized.⁹⁵ Before discussing these, however, I return to institutional theory to examine institutions that are out of line with their normative purpose.⁹⁶ I argued in the Introduction that it was a matter of justice when social-good-producing institutions do not fulfill their functions, so I take a deeper look at this problem in Section I. Next, I turn to ways in which the international trading system is failing in general, and especially failing its worst-off members. I have divided my analysis of the harms of trade into two broad categories: external, which occur because of contingent factors due to trade and internal, those which are part of the nature of international trade. I divide my analysis of external harms of trade up into two further categories: harms due to the precarious nature of developing economies and harms due to the rules of trade. The former stems from individual trading interactions that together add up to a structural issue with the global economy. The latter is a problem with the rules

⁹⁵ It is worth noting that although this chapter largely focuses on trade between unequal trading partners (usually North-South trade), many of the issues addressed here, especially bad trade policy, can impact the growth and development rates of more equal trading partners, as well.

⁹⁶ Albert Hirschman uses this term to signify institutions that no longer live up to their potential or fulfill their purposes. The word itself might not evoke the precise connotation that we are looking for in describing the international trading regime, as it seems not so much to be in decline, *per se*, but rather just very messed up. That said, Hirschman’s theory is useful to my purposes (Albert O. Hirschman, *Exit, Voice, and Loyalty: Responses to Decline in Firms, Organizations, and States* (Harvard University Press, 1970)).

that govern trade itself. Both are structural harms that my Two-Tiered Capabilities Approach seeks to remedy.⁹⁷ In Section III, I examine ways in which countries have successfully used trade as a development tool to demonstrate that my theory about the benefits of trade has empirical backing. Finally, in Section IV, I examine internal harms of trade, as these become relevant in discussing theories of redistribution in trade in Chapter 4.

Section I – On Institutions not Fulfilling their Functions

As outlined above in the Methodology section of the Introduction, within the functionalist approach to institutions, there are normative and descriptive theories of institutions, where the normative theories tell us what the institutions should look like. Chapter 1 explored the normative theory of the institution of international trade (i.e. the institution of international trade *as it should be*) and concluded that its function was growth or development, broadly defined. I offer a way to more fully conceptualize these normative ends of trade in Part III below.

It is now useful to point to a body of work in social theory that explores institutions that do not fulfill their function or their normative potential. Albert Hirschman notes that institutions can be subject to movement away or ‘decline’ from their ‘proper functioning,’ by which he means institutions can face corruption or ‘loss of rationality.’⁹⁸ He writes: “No matter how well a society's basic institutions are devised, failures of some actors to live up to the behavior which is

⁹⁷ While this thesis does not propose a concrete solution for fixing the international rules of trade, I discuss them at length here to 1) highlight the ways in which the international trading system is failing many of its members and 2) show below how a Two-Tiered Capabilities Approach poses a more holistic and cooperative schema for countries, and how development defined in this way necessitates the need for these international rules to be fixed. That said, my Two-Tiered Capabilities Approach does directly address problems with domestic policy environments. The literature that examines this disconnect between trade and growth points to domestic policies that prevent the benefits of trade from being fully realized. Economists dating all the way back to Adam Smith recognize the importance of the domestic policy environment in order to reap the full benefits of international trade, especially in terms of providing security and incentives for investments (C.f. Smith, *The Wealth of Nations*, bk. I.11 and II.1.). Relatedly, much of the literature focuses on the relationship between open trade and growth, so tariff-related issues would fall into the category of domestic policy. Any issues that restrict economic activity, like barriers to trade such as tariffs essentially limit the market, and thus economic growth (Darity and Davis, “Growth, Trade and Uneven Development,” 147). Non-economic barriers, like a simple lack of infrastructure can also limit trade and growth through not being able to transport goods to a port or not take full advantage of new technologies. Both are addressed in this chapter in Sections II and III, and the remedy for this is proposed in Part III.

⁹⁸ Hirschman, *Exit, Voice, and Loyalty*, 15.

expected of them are bound to occur, if only for all kinds of accidental reasons.”⁹⁹ He goes on to say that “While moralists and political scientists have been much concerned with rescuing individuals from immoral behavior, societies from corruption, and governments from decay, economists have paid little attention to repairable lapses of economic actors.”¹⁰⁰ In other words, economic institutions warrant moral concern, just as individuals and social institutions do.

Hirschman is concerned primarily with how microeconomic institutions, namely firms or corporations, can be in ‘decline’. Neither the macroeconomics, nor the temporal implications of the idea of decline are particularly relevant to the thesis, so Hirschman’s ultimate solution¹⁰¹ is of little help to us here. That said, the idea that economic institutions might not always fulfill their function or normative potential to the full or expected benefit, but that this is a repairable issue, is useful to our purposes.

Before I move on, however, it is worth bringing up an economic objection to my project inspired by one that Hirschman brings up against his own proposal. The idea is that market competition is what economists care about, so it is not necessary to ensure that an economic institution recovers from these problems with its functioning.

As one firm loses out in the competitive struggle, its market share is taken up and its factors are hired by others, including newcomers; in the upshot, total resources may well be better allocated.... At this point, it will be interjected that such a mechanism of recuperation is readily available through competition itself. Is not competition supposed to keep a firm “on its toes”? And if the firm has already slipped, isn't it the experience of declining revenue and the threat of extinction through competition that will cause its managers to make a major effort to bring performance back up to where it should be? There can be no doubt that competition is one major mechanism of recuperation. It will here be argued, however (1) that the implications of this particular function of competition have not been adequately spelled out and (2) that a major alternative mechanism can come into play either when the competitive mechanism is unavailable or as a complement to it.¹⁰²

Some people then might want to extend this case to apply to international trade. If a country, or other agents, are losing out from trade, it is not (or should not be) of moral concern. The fact of the matter is that capitalism encourages, and is indeed fundamentally defined by, competition and so international trade, being a

⁹⁹ Hirschman, 1.

¹⁰⁰ Hirschman, 1.

¹⁰¹ Hirschman proposes that we can either employ ‘exit,’ where people leave or no longer support the firm, or ‘voice,’ where stakeholders attempt to vocalize potential changes to save the firm from decline (c.f. Hirschman, chaps. 2 & 3.).

¹⁰² Hirschman, 3.

part of the capitalist system, should be as well. If countries are underperforming in terms of growth or development due to trade, then it is simply a matter of inefficiency, and it is up to the countries themselves to improve their situations.

The problem with this objection made from analogizing firms and countries is that Hirschman's idea of decline applies to institutions that are subject to market forces, whereas the failings of the international trading regime are due to problems with markets themselves or at least the rules that govern them, and the impoverishment of countries cannot be put solely down to market forces. Further, a country cannot just disappear in the same way that a failed business might. Thus, my response to this objection is that it is misplaced. The 'failing' institutions in question are not countries but the international trading regime itself that is failing these countries. Further, my claim here is that the international trading regime is the appropriate place of institutional examination, not the countries themselves.

These same critics might come back and argue that markets themselves cannot fail to live up to their normative potential, because markets are, by nature, free, so any means of free functioning has to be acceptable. Alternatively, critics might suggest that, as noted previously, social institutions change, as do their purposes. Therefore, one might argue that it might be that we should not see these institutions as not fulfilling the full potential of their functioning *per se*, but rather simply changing form. My response to this objection is that these international markets are clearly not changing because they are still meant to be producing some form of mutually beneficial exchange. And, yes, markets largely do promote freedom, but the problem is that the rules that are governing these markets are becoming so constrictive that the institution of international trade is having trouble bringing about these collective ends (because the results are certainly not collective), much less the social good of growth. Even staunch libertarians are clear that even though they may not care about resulting distributions, the rules of markets and the frameworks in which exchanges take place do matter.¹⁰³ So, the institution of international trade can be said not to be fulfilling its normative potential, because of the way in which it is being used. This point is validated with empirical evidence below.

What we will require then, is a theory of justice in international trade that can help us to understand what trade that does fulfill its function looks like, which I argued in the previous chapter is best understood as growth or development, broadly construed. I offer one such theory in Part III of this thesis. For now, in this

¹⁰³ C.f. Friedrich A. von Hayek, *Law, Legislation and Liberty: A New Statement of the Liberal Principles of Justice and Political Economy*, Routledge Classics (Abingdon: Routledge, 2013); Frank H. Knight, "The Ethics of Competition," *The Quarterly Journal of Economics* 37, no. 4 (August 1, 1923): 579–624.

chapter, I go on to discuss in what ways and why the international trading system can be said to be moving away from its normative potential. This then offers a second means by which to examine the descriptive part of the institutional theory of international trade, in conjunction with the positivist economic theory discussed in Chapter 1 above.

Section II – External Harms of Trade

In this section, I explore ways in which the international trading system may be thought to be unfair. I break my analysis down into two rough categories. First, I look at unfairness in the international trading regime due to the precarious nature of developing countries' economies. This section is largely about the outcomes or consequences of individual trade interactions, and how individual trading interactions prevent countries from realizing the benefits of trade. Though these individual trading acts combined end up creating a structural problem within the system, they are not problems with the system itself. The unfairness in this section might be motivated by moral concerns such as sufficientarianism or a deontological commitment to the poor. Second, I look at the rules of the international trading system and how they are not set up to promote mutual benefit through trade. This section is about procedural fairness, or rather lack thereof, within the international trading system, and therefore addresses problems with the regime itself. The idea of unfairness here is motivated by concerns of procedural or structural fairness. To tie these two categories of harms of trade together, I also look at how developing countries' lack of bargaining power underpins both of these problems.

Before moving on to discuss these two categories of harms in depth, it is worth mentioning additional factors that might be said to impair countries from realizing the benefits of trade: geography and colonialism. First, there are several authors who would include geographic factors on this list of potential problems with trade. For example, Jared Diamond's *Guns Germs and Steel* argues that environmental factors from arability of land, to topography, to navigable waterways have impacted the long-term development of civilizations—especially in terms of agriculture—both for local consumption and export.¹⁰⁴ Additionally, Paul Collier classifies developing African nations into three geographical categories: landlocked and resource-scarce, resource-rich, and resource-scarce and coastal. Collier finds that these three categories of countries have wildly divergent growth patterns. Despite the lack of natural resources, countries that are resource-scarce and coastal have found themselves with the best growth

¹⁰⁴ C.f. Jared M. Diamond, *Guns, Germs and Steel: A Short History of Everybody for the Last 13,000 Years* (Random House, 1998).

trajectories, due largely to their geography.¹⁰⁵ The problem with these geographical explanations for me here is that, while they may very well have substantial explanatory power, they imply a certain inevitable trajectory and therefore trade itself can do little to remedy them.¹⁰⁶ My interest here is ways in which trade can help spur growth, so I leave the geographic considerations aside.

Second, it would also be remiss not to acknowledge colonialism as a factor that affects the development of countries, and indeed their potential to trade.¹⁰⁷ As Mbeki notes, “The colonial system was not designed to develop the productive capabilities of the colonies.”¹⁰⁸ Colonial powers stripped the land of its resources, meaning that there were fewer raw materials to export once decolonization occurred. Further, after independence, the concerns of the new rising powers were to consolidate power, establish peace, and secure a future of economic prosperity by moving beyond primary sector production and export. Instead, political turmoil pursued, due largely to the artificial national lines drawn by Western states. Local political elites sought to grab power and perpetuate “the neo-colonial state and its attendant socio-economic systems of exploitation, devised by the colonialists.”¹⁰⁹ This then set these countries, some of the world’s poorest today, on this trajectory towards underdevelopment. Colonialism is a grave and continuous injustice, that this thesis cannot possibly do justice to, so I leave it too aside for now.

The Precarious Nature of Developing Economies

One reason that international trade is unfair is because developing economies are incredibly fragile and the people in them are objectively worse off than people in developed countries. Therefore, the opportunity to realize growth and development through trade is imperative for these economies. As Darity and Davis note, these differences in levels of development across nations would not be as concerning if we could show that this inequality is ‘transitory’ rather than an ‘enduring characteristic’ of the global economic order. The empirical data, however, seems to suggest that these inequalities are going to persist in the long run.¹¹⁰ Despite the fact that many trade models suggest that we will see an eventual

¹⁰⁵ Paul Collier, “Africa: Geography and Growth,” 2006, 3–5.

¹⁰⁶ I realize that this claim is not without controversy. Both Aaron James and Leif Wenar might argue that building certain redistributive or rights-protecting mechanisms into trade would mean that trade can actually deal with these geographical disadvantages. While this is most likely true, for now, I want to keep considerations external to trade separate.

¹⁰⁷ Moyo, *Dead Aid*, 31.

¹⁰⁸ Moeletsi Mbeki, *Architects of Poverty: Why African Capitalism Needs Changing* (Picador Africa, 2009), 6.

¹⁰⁹ Mbeki, 16.

¹¹⁰ Darity Jr and Davis, “Growth, Trade and Uneven Development,” 144.

convergence in the level of development amongst countries, empirical evidence suggests the opposite. As I argued above, and the economic literature firmly supports, there is a case to establish a firm theoretical relationship between trade and growth. Empirical economists, however, have begun to express skepticism about making strong conclusions from international trade theory.¹¹¹ I here discuss reasons how and why the international trading regime is preventing this predicted convergence from occurring.

Dependency Theory

One factor of concern is how trade has made developing countries dependent on developed countries, therefore harming them by restricting their economic and subsequently political independence. In the 1940s and 50s, economists began to witness the fact that economic growth in developed countries did not lead to growth in developing countries, as models predicted they would. Instead, they began to witness economic activity leading to serious economic problems in developing countries. In order to explain this, Raúl Prebisch and Hans Singer suggested that poor countries export primary goods to rich countries who add value to them by manufacturing these goods and then selling them back to the poor countries. The value that the rich countries add to the good through the manufacturing process costs more than the initial primary good. Consequently, poor countries will never gain enough through exports to pay for their imports. This theory, called the Prebisch-Singer Hypothesis (also Thesis) forms the basis for a group of economic theories called ‘dependency theory,’ which posits that developing countries will persistently remain dependent on developed countries.¹¹²

An additional explanation for this asymmetry is that it is not about value-added but rather about technological advancement. This explanation says that in a trading relationship, the more economically advanced country also has the advantage of technological advancement. Therefore, innovation and technological progress take place in the more developed country (MDC), and the less developed country (LDC) is left to imitating techniques. Further, the rate of growth in the LDC depends on the cost of copying these techniques. If the developing country can manage to imitate the new technology cheaper than the developed country can innovate, then we will see convergence.¹¹³ The problem is that this is often not the

¹¹¹ Darity and Davis, 145.

¹¹² Vincent Ferraro, “Dependency Theory: An Introduction,” *The Development Economics Reader* 12, no. 2 (2008): 58–64.

¹¹³ Sebastian Edwards, “Openness, Productivity and Growth: What Do We Really Know?,” *Economic Journal* 108, no. 447 (1998): 383.

case and developing countries are persistently left imitating expensive new technologies and lagging behind in terms of development.

The harms that we see within dependency theory mean that developing countries will never be able to reach the same levels of development as richer countries. This might not necessarily be a problem if developing countries could develop, in absolute terms, to a sufficient level, where none of its people are living in poverty, for example.¹¹⁴ However, the additional harms of trade that I discuss below mean that this is unlikely to happen, given international trade as it is now.

Domestic Economic Policy

A country's domestic trade policy, both in developed and developing countries, can also heavily impact the gains from trade that a country experiences. Stiglitz and Charlton note that to-date no country has successfully developed pursuing a completely open-market policy. Usually, successful development stories involve countries that have pursued 'inventive and idiosyncratic' economic policy. Indeed, it is often quite difficult to know what the *right* economic policy is. The problem is that developed countries are harming developing countries with their individual trade policies, and developing countries often shoot themselves in the foot, so to speak, with economic policy that does not allow them to reap the full benefits of international trade. It is not true that all barriers to trade are bad. Sometimes they are necessary to protect domestic markets. That said, barriers to trade are bad when putting them in place ends up doing more harm than good.

Barriers to Trade

TARIFF BARRIERS

The most important barrier to trade is tariffs and domestic subsidies, which are essentially two sides of the same coin. These are most harmful when larger countries implement them to protect domestic sectors where developing countries could be making use of trade in these sectors. Agriculture is one of the most prominent sectors where developed countries implement high tariffs to protect their domestic workers when statistically less than 5% of the workforce in developed countries is employed in the agricultural sector.¹¹⁵ Contrastingly, agriculture makes up, on average, a quarter of least developed countries' GDPs.¹¹⁶

¹¹⁴ Some people might argue that dependency of any sort is a moral problem, because of the power imbalances entailed therein. I remain ambivalent on this point for the purposes of this thesis.

¹¹⁵ Max Roser, "Employment in Agriculture," *Our World in Data*, 2017, <https://ourworldindata.org/employment-in-agriculture>.

¹¹⁶ "Agriculture, Forestry, and Fishing, Value Added (% of GDP) | Data," accessed July 18, 2018,

This means that LDCs could benefit substantially from agricultural exports, but protectionist policies in many developed countries prevent them from benefitting.¹¹⁷

Moyo argues that tariffs, especially on agricultural goods, are often more political than economic. Western countries might be fearful about being net importers of food (importing more food than they grow at home) in case there is another world war. Additionally, politicians in countries with powerful agricultural lobbies like the United States and France vote to protect their domestic agricultural markets to win the backing of the farming communities. For example, UK Prime Minister Theresa May vowed to impose agricultural tariffs in the event of no-deal Brexit in order to protect domestic farmers and ensure continued support.¹¹⁸ The result is that developing nations whose primary exports are agricultural, face severe barriers to exporting their goods. At the same time, access to these developed markets is crucial to developing countries both in terms of purchasing power and size.¹¹⁹

Further, tariffs tend to be higher on processed materials than unprocessed (resources in their natural, extracted state, which have to be processed in some way or another to make them usable). This means that poor countries have difficulty diversifying into manufacturing because they can cheaply export raw materials, but if they wanted to turn them into manufactured goods, they would face high tariffs,¹²⁰ which 1) they cannot afford and 2) distorts the balance of trading relationships.

On the flip side of powerful countries' tariffs and subsidies, we have protectionism on the part of developing countries, as well. Poorer countries

https://data.worldbank.org/indicator/NV.AGR.TOTL.ZS?locations=XL&name_desc=true&view=map.

¹¹⁷ Western countries who subsidize their own agricultural industries “get to sell their produce to a captive consumer at home above world market prices, and they can also afford to dump their excess production at lower prices abroad, thus undercutting the struggling African farmer, upon whose meagre livelihood the export income crucially depends. With the millions of tons of subsidized exports flooding the market so cheaply, African farmers cannot possibly compete” (Moyo, *Dead Aid*, 115–16). Collier reiterates this sentiment: “As everyone knows, there are some indefensible aspects of OECD trade policy. The least defensible, from the perspective of both OECD citizens and people in developing countries, is probably the protection of agriculture. We waste our own money subsidizing the production of crops that then close off opportunities for people who have few alternatives” (Paul Collier, *The Bottom Billion*, 159–60).

¹¹⁸ Alan Beattie, James Blitz, and Jim Pickard, “Theresa May to Impose Agricultural Tariffs in No-Deal Brexit,” *Financial Times*, February 26, 2019, <https://www.ft.com/content/7bc687cc-3922-11e9-b856-5404d3811663>.

¹¹⁹ Moyo, *Dead Aid*, 115.

¹²⁰ Jean-François Arvis, “Why Is Trade More Costly For Poor Countries? A New Database Gives Us Some Answers,” *The Trade Post*, February 6, 2013, <https://blogs.worldbank.org/trade/why-is-trade-more-costly-for-poor-countries-a-new-database-gives-us-some-answers>.

traditionally pursue protectionist measures ostensibly because they are attempting to protect their fledgling firms from international competition. This might not be seen as unfair, because these are measures that developing countries are implementing, theoretically, to help themselves. That said, as Collier argues, protectionism often fuels corruption in poor countries.

On the grand scale, governments confer protection on the businesses owned by their friends and relations, or ones that pay for the privilege. At the petty level, actually running the system of protection day to day can be lucrative. Becoming a customs officer is about the best job you can possibly get in these countries. For example, in Madagascar, to become a customs officer you have to go to the school that trains them. So getting into the school is a passport to prosperity. The bribe to get a place is fifty times the country's per capita annual income.¹²¹

Thus, barriers to trade, even when erected to protect developing markets, have the potential to do more harm than good politically.

Even economically, as Collier points out, focusing on the domestic market ("which is all that protection can achieve"¹²²) helps no one in the long run. Domestic markets are small and stagnant because the customer base does not develop or change much. So, while protectionism may be good in the short term for domestic firms in poor countries, it will likely hurt them in the long run. Under protectionist policy, firms in developing countries have been protected both from international competition and also from domestic competition, because these economies are often too small to support more than a few firms in any given sector. Further, under protectionist policies, individuals end up suffering because they have to pay above-world-market prices for goods domestically.¹²³

A 2018 UNCTAD report, cites that tariffs in developing countries, especially in South Asia and sub-Saharan Africa remain relatively high, as do tariffs on specifically South-South trade. The 2008 financial crash seemed to stall many liberalization efforts by developing countries: "despite a continuing declining trend, the tariff liberalization process has largely stalled since 2008. In 2017, tariff restrictiveness was still substantially higher in developing countries than in developed countries."¹²⁴ The problem is that when these poor countries are pressured into liberalizing, their domestic firms cannot compete with cheap imports, and these firms end up closing, further hindering that country's chance of breaking into that global sector (usually manufacturing). This is why Collier proposes a gradual liberalization policy, where tariffs are slowly lowered in the

¹²¹ Collier, *The Bottom Billion*, 2008, 160–61.

¹²² Collier, 160.

¹²³ Collier, 160–61.

¹²⁴ "Unctad.org | Key Statistics and Trends in Trade Policy 2018," 7, accessed May 1, 2019, <https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=2345>.

hopes that these firms can grow more competitive and be introduced to new technologies over time leading to growth and development through reaping the benefits of trade.

NON-TARIFF BARRIERS

In addition to tariff barriers to trade, Stiglitz and Charlton identify four categories of technical non-tariff barriers (NTBs) that end up harming developing countries:

1. dumping duties, which are fines imposed when a country sells products internationally at a cheaper price than they would sell them domestically;
2. countervailing duties, which a country might impose in retaliation to its trading partner subsidizing a good;
3. safeguards, which countries might impose to protect domestic industries if they suddenly face a surge of imports; and
4. safety restrictions, which a country might impose to encourage health and safety standards, food hygiene, or to avoid pest infestations.¹²⁵

Despite all of these measures being legitimate responses to concerns raised by international trade, they can often be abused. “The advanced industrial countries have used all of these at times to restrict imports from developing countries when the latter have achieved a degree of competitiveness which allows them to enter the markets of the developed countries.”¹²⁶ Many of these measures are often introduced by developed countries, theoretically to ensure fairer trade. The problem is that insofar as they prohibit developing countries from making use of international trade markets for development, these barriers are most certainly unfair in this way. These are all issues of market access, preventing goods and services from developing countries from entering into the developed markets.

The 2018 UNCTAD report on Key Statistics and Trends in Trade Policy highlights how developed countries apply these technical non-tariff barriers with varying intensity. Figure 3 demonstrates this.¹²⁷ The entirety of Western Europe applies these types of technical non-tariff barriers more than average, as well as applying them more than average to specific products rather than across the board. While this is most likely due to the EU’s strict health and safety regulations and is not necessarily indicative of abuse of technical non-tariff measures, it does show the potentially highly restrictive nature of trade with these developed countries. Conversely, the developing countries of the Association of Southeast Asian Nations (ASEAN) region, including Thailand, Vietnam, Indonesia,

¹²⁵ Stiglitz and Charlton, *Fair Trade For All*, 127.

¹²⁶ Stiglitz and Charlton, 124.

¹²⁷ “Unctad.org | Key Statistics and Trends in Trade Policy 2018,” 21.

Malaysia, and the Philippines apply them less than average (as seen in Figure 3), and have indeed called for an overall reduction in NTBs in the area.¹²⁸

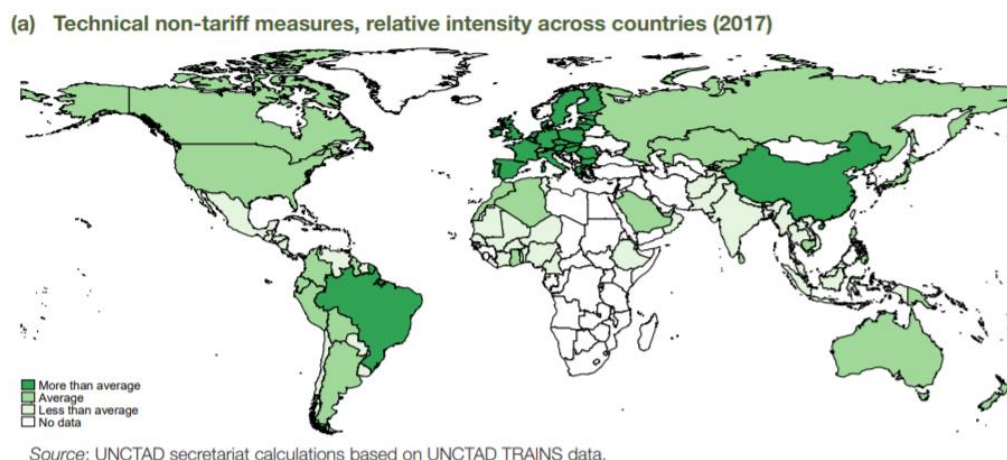


FIGURE 3

Intellectual property (IP) laws, introduced by larger countries, have also caused a problem for developing countries. While they protect the ideas of people in the developed countries, they also mean that the new technologies invented there often do not make it to the developing countries. Moyo further notes that at this stage, because of strict IP controls, even if the world opened itself up to completely free trade, Africa is so far behind that it no longer has the technology or knowledge base to compete in many sectors where previously many African nations would have had a comparative advantage.¹²⁹ For example, Southeast Asia long overtook Africa as the hub for world textile production, leaving Africa to export the raw materials involved in the textile production. In 1995, the WTO passed the Agreement on Trade-Related Aspects of Intellectual Property Rights or TRIPS. A 2010 UNCTAD report states that “while the TRIPS Agreement should, ideally, promote transfer of technology, in practice the situation is different: TRIPS has been cited as leading to situations where there may well be an adverse impact on transfer of technology.”¹³⁰ Further, as discussed above in Chapter 1 the many bi- and plurilateral trade agreements that are being formed often also include IP regulations, leading to what scholars call ‘TRIPS-plus,’ which refers to the fragmented system of international trade IP rules. Ruse-Khan argues that this increasingly fragmented system serves as a major barrier to international

¹²⁸ “Non-Tariff Barriers,” ASEAN | ONE VISION ONE IDENTITY ONE COMMUNITY, accessed May 1, 2019, https://asean.org/?static_post=non-tariff-barriers.

¹²⁹ Moyo, *Dead Aid*, 118–19.

¹³⁰ UNCTAD, “Intellectual Property in the World Trade Organization: Turing It into Developing Countries’ Real Property” (United Nations Conference on Trade and Development, October 1, 2010), https://unctad.org/en/Docs/ditctncd20068_en.pdf, 65.

trade,¹³¹ and in particular developing countries, who do not have as much control over the IP regulations being proposed and adopted. So although in principle intellectual property rights (IPR) seem important for the transfer of global knowledge, we have to be careful that they are applied in such a way that does not unfairly disadvantage already disadvantaged countries.

Capital Flows and Aid

Collier identifies 3 processes of globalization that affect the economies of the world's worst-off: 1) trade in goods, 2) capital flows, and 3) migration.¹³² While this thesis mainly concerns itself with trade in goods (and services), the second globalization process of capital flows is intimately connected. Indeed, part of international capital flows is the actual monetary transfer paid for the goods and services. It can also include overseas investments, loans, and cash transfers like aid. These occurrences are all part of the financialization of the global economy that affects a country's ability to trade, and it is worth discussing them briefly here.

Countless authors have written about the problems with aid. It creates dependency on the West. It can fuel corruption because once the cash is transferred there are not reliable ways to make sure that it is going to help the people. Additionally, if aid comes with strings attached in the form of anti-corruption campaigns, these can sometimes weaken the authority of an already-weak state that needs a certain degree of authority to implement effective development policies.¹³³ Stiglitz and Charlton further note, "We are in the bizarre position of giving the developing world some \$100billion in aid every year, but costing them three times as much in protectionist trade policies."¹³⁴ (Since the publication of *Fair Trade for All* in 2007, the total amount of global aid has increased to \$162.8billion in 2017.¹³⁵)

But in terms of trade, the biggest problem with aid, as Collier notes is that it is most effectively used on imports, and not education or infrastructure, as most people assume. Because aid comes in the form of foreign currency, if countries wanted to use it domestically, they would have to exchange it into their local currencies, which is a problem in itself discussed in the next paragraph. If developing countries have high protectionist measures in place, as they tend to,

¹³¹ Henning Grosse Ruse-Khan, "IP and Trade in a Post-TRIPS Environment," in *TRIPS plus 20: From Trade Rules to Market Principles*, ed. Hanns Ullrich et al., MPI Studies on Intellectual Property and Competition Law (Berlin, Heidelberg: Springer Berlin Heidelberg, 2016), 163–83.

¹³² Collier, *The Bottom Billion*, 80.

¹³³ Gruber, "Trade, Growth, Poverty, and Politics," 739.

¹³⁴ Stiglitz and Charlton, *Fair Trade For All*, v.

¹³⁵ "Net Official Development Assistance and Official Aid Received (Current US\$) | Data," <https://data.worldbank.org/indicator/dt.oda.alld.cd>.

these make imports very costly or even prohibit them, and there is not much local demand for foreign currency. Consequently, aid will not buy much in terms of domestic services. Further, countries pay for imports using the export sectors. Exporters earn foreign currency and can then sell it to importers. So, either importers can acquire their foreign exchange through exporters or they can acquire it through aid money; in this way, aid is essentially competition for exporters. The aid often wins out. The more aid money that a country receives, the less need they have for exporters, and so this means that exporters earn less due to the exchange rate. Aid makes the exchange rate appreciate, meaning that any dollars exporters earn are worth less in the domestic currency, which disadvantages the exporters.¹³⁶ As Moyo emphatically puts it, “If the West wants to be moralistic about Africa’s lack of development, trade is the issue it ought to address, not aid.”¹³⁷

There is now the additional problem of exchange rates. In addition to purchasing power, different currencies also seem to have what we might call ‘soft power.’ Currencies might be said to function internationally in a similar way that social capital might be seen to function domestically. Certain currencies are simply less desirable, by virtue of where they come from, and what that area might have to offer, both in terms of resources and in terms of geopolitical power. This is the problem with unstable exchange rates and for poorer countries, a lack of global purchasing power, which can translate into a perpetually poor state. On the flipside, reserve currencies like the US dollar, the euro, and the yen, mean that nations are doubly dependent on the US, Europe, and Japan—not just for goods and services, or aid, but also for their literal method of exchange. Currencies, then, seem to have more than just economic and political significance, but also a meta-function that serves to perpetuate the global capitalist system of power and dependency.

Unfair Trading Rules

A second way in which we might view the international trading system as unfair is that the rules that govern the international trading system are themselves unfair. In other words, not only are the consequences of trade problematic, the procedures that allow them to happen are not growth-promoting or mutually beneficial to all parties involved. In this section, ‘unfair’ largely refers to the rules applying unnecessarily unequally. Further, as I discuss below, even the established rules are not always followed, leading to further injustices and harms of international trade.

¹³⁶ Collier, *The Bottom Billion*, 162.

¹³⁷ Moyo, *Dead Aid*, 117.

The 'Rules' are Stacked Against Poor Countries

The general rules of international trade are established by the World Trade Organization (WTO) founded in 1994, which inherited its rules and largely its structure from the General Agreement on Trade and Tariffs (GATT), established in 1947. As noted in the previous chapter, countries can and do supplement these international rules by signing their own bilateral and regional trade agreements, and indeed these types of agreements are becoming more and more common than multilateral trading against the backdrop of the WTO.¹³⁸ Both of these ways of establishing the rules of trade will be examined in turn here.

WTO Rules

Before examining the precise rules of the WTO that impact development through trade, it is worth looking at its history, as well as the history of its predecessor, the GATT, to establish just how the power structures arose that allowed for these rules, which I go on to show are unfair. Rodrik notes that the influx of international economic organizations post-World War II¹³⁹ reflected a commitment to multilateralism, or “rule-setting through international organizations, based on the cornerstone principle of non-discrimination,”¹⁴⁰ in addition to a thin global ideology “compatible with different nations doing their own thing.”¹⁴¹ So despite the GATT being founded with American influence, it was never fully dependent on it. And the GATT’s commitment to multilateralism allowed it independence and legitimacy outside of the American power that helped to found it.¹⁴²

While the GATT provided a breakthrough in global trading relations, its lack of comprehensiveness set the global trading regime up to allow for massive inequalities. First of all, the GATT only covered some areas of trade. Agriculture, for example, remained outside of GATT negotiations, meaning that there was no fundamental agreement for reciprocity in a sector that developing countries tend to heavily rely on.¹⁴³ Thus, national interests were still primary. This was good in some respects for developing countries, including the fact that they were able to set many of their own trade policies. However, it was also problematic for

¹³⁸ C.f. T. N. Srinivasan, “Developing Countries and the Multilateral Trading System after Doha,” SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, February 1, 2002); Richard E. Baldwin, “21st Century Regionalism: Filling the Gap between 21st Century Trade and 20th Century Trade Rules,” SSRN Scholarly Paper (Rochester, NY: Social Science Research Network, April 1, 2011).

¹³⁹ The World Bank was founded in July 1945, and the International Monetary Fund (IMF) was founded in December of the same year.

¹⁴⁰ Rodrik, *The Globalization Paradox*, 70.

¹⁴¹ Rodrik, 75.

¹⁴² Rodrik, 70.

¹⁴³ Rodrik, 74.

developing countries because it also meant others could do the same—often to the detriment of the developing countries. Secondly, the GATT was full of loopholes and unenforceable rules that meant that even if it was established on a principle of multilateralism, it was not able to follow through on that promise.¹⁴⁴ For example, intellectual property rights loopholes have in some cases meant that potentially life-saving pharmaceuticals had remained in their country of development.¹⁴⁵ For example, roughly 20 years ago, South Africa had to undertake an international lawsuit in order to access generic HIV/Aids to treat its growing epidemic. (Since then, developing countries have increasingly taken stands against the current IP regime, especially in terms of healthcare, which is perhaps the one area where we can see the most progress in terms of allowances for developing countries. The WTO recently extended a clause to 2033 that states that IP rights do not apply to pharmaceuticals in LDCs.¹⁴⁶)

The formation of the WTO reflected a change in global attitudes towards trading, whereas the multilateral ideology of the GATT reflected the importance of individual countries, under the WTO, “Economic globalization, the international integration of markets for goods and capital (but not labor), became an end in itself, overshadowing domestic agendas.”¹⁴⁷ This was perpetuated largely by multinational corporations (MNCs) demanding international rules that would aid in their international operations.¹⁴⁸ This means, of course, that powerful corporations from powerful countries lobby their governments to advocate rules that benefit their goals, which are usually about turning a profit. In addition to not having much say in the formation of the rules, the attitude of globalization as an end in itself forced developing countries to accept new rules and responsibilities that were not necessarily conducive to their development. Stiglitz and Charlton write:

New trade rules and domestic disciplines were introduced, but they too reflected the priorities and needs of developed countries more than developing countries (e.g. subsidies were permitted for agriculture, but not industrial products). Many of the rules acted to constrain the policy options (such as industrial policies) of developing countries, in some cases prohibiting the use of instruments that had been used by developed countries at comparable stages of their development. Many of the new obligations imposed significant burdens on developing countries. In return the least developed countries were promised financial

¹⁴⁴ Rodrik, 73–74.

¹⁴⁵ C.f. Timothy Ackermann, “Dis’ordre’ly Loopholes: TRIPS Patent Protection, GATT, and the ECJ,” *Texas International Law Journal* 32, no. 3 (July 1, 1997): 489–510.

¹⁴⁶ “WTO | 2015 News Items - WTO Members Agree to Extend Drug Patent Exemption for Poorest Members,”

https://www.wto.org/english/news_e/news15_e/trip_06nov15_e.htm.

¹⁴⁷ Rodrik, *The Globalization Paradox*, 76.

¹⁴⁸ Rodrik, 77.

assistance with implementation costs and extensions of preferential market access schemes. The common feature of these commitments is that they were non-binding on developed countries. As a consequence developing countries found themselves at the mercy of the good will of developed countries.¹⁴⁹

Finally, a recent round of WTO trade talks, the Doha Round, known colloquially as the ‘Development Round’ was supposed to focus on ways in which trade can be based more on consensus principles, rather than the current ethos of ‘might makes right.’ On the agenda were issues of opening up the agricultural sector around the world allowing developing countries to expand their exports in this sector, trade facilitation meaning that countries would aim to “ease trade flows and customs procedures and to facilitate the movement, release and clearance of goods,”¹⁵⁰ and reviewing the current trade rules of e-commerce to make technology more accessible to developing countries. The Doha Round of negotiations began in November 2001, but after almost fifteen years of not being able to reach an agreement, the negotiations were declared dead by the WTO in December 2015. The failure of the Doha Round is an indicator of just how little the needs of developing countries matter to the international trading regime.

Special and Differential Treatment

It is not true that the WTO unequivocally ignores the needs of developing countries. Indeed, the WTO Agreements include provisions that give developing countries special rights or exclusions to help spur development. These are known as Special and Differential Treatment (SDT or S&D) provisions. These provisions include:

- Exemptions from international trade agreements so that developing countries can decide whether or not they want to implement reforms entailed in certain agreements;
- Increased time periods for implementing rules and commitments agreed to in trade agreements;
- Provisions that require WTO members to protect the interests of developing countries, including allowing developed countries to give preferential treatment to developing countries;
- Financial support to help cover the costs of participating in the WTO (this might include the costs of dispute settlements or implementing trade standards);

¹⁴⁹ Stiglitz and Charlton, *Fair Trade For All*, 48.

¹⁵⁰ “WTO | Doha Development Agenda | Briefing Notes - Other Doha Issues,” https://www.wto.org/english/tratop_e/dda_e/status_e/tradfa_e.htm.

- Financial support to help developing countries build capacity to utilize new trading opportunities, as well as measures to increase these trading opportunities;
- More scope to implement higher or longer tariff policies to protect domestic interests.¹⁵¹

Proponents of these provisions argue that because of their special circumstances, developing nations must be given more flexibility in order to tailor their trade policies to match their development needs—even if it causes problems, like negative externalities, for their trading partners.¹⁵² As noted above, we have seen recent progress in the realm of healthcare, but other IP regulations and NTBs more generally still persist.

SDT is not without controversy.¹⁵³ Critics from developed countries resent these policies and argue that SDT is against the fundamental idea of reciprocity upon which the WTO was founded.¹⁵⁴ Others argue that SDT is merely a code for protectionism which leads to inefficient allocation of resources, and therefore is an unhelpful tool for development. SDT continues to exclude developing countries from participation in the global economy by allowing them to play by different rules.¹⁵⁵ Indeed, by not integrating developing countries fully into the world trading system, developed countries continue to ensure that developing countries do not benefit from all that trade can offer.¹⁵⁶

This is not, of course, an easy issue, nor do I intend here to take a side on SDT within the WTO. This discussion simply goes to show how years of ignoring the needs of developing countries have led to this position, where it seems that neither giving developing countries special rules nor holding them to the same trading rules will fix the problem of lagging development and uneven trade. That

¹⁵¹ Stiglitz and Charlton, *Fair Trade For All*, 88; “WTO | Development - Special and Differential Treatment Provisions,” accessed July 18, 2018, https://www.wto.org/english/tratop_e/devel_e/dev_special_differential_provisions_e.htm.

¹⁵² Stiglitz and Charlton, *Fair Trade For All*, 88.

¹⁵³ For a comprehensive economic analysis of some of the potential problems SDT, see Emanuel Ornelas, “Special and Differential Treatment for Developing Countries,” Discussion Paper (Centre for Economic Policy Research (Great Britain)) Development Economics (London, UK: Centre for Economic Policy Research, 2016), <http://cep.lse.ac.uk/pubs/download/dp1415.pdf>.

¹⁵⁴ C.f. Ornelas; Paola Conconi and Carlo Perroni, “Special and Differential Treatment of Developing Countries in the WTO,” *World Trade Review* 14, no. 1 (2015): pp67–86; Maria Luiza Kurban Jobim, “Drawing on the Legal and Economic Arguments in Favour and against Reciprocity and Special and Differential Treatment for Developing Countries within the WTO System,” *Journal of Politics and Law* 6 (2013): 55.

¹⁵⁵ Stiglitz and Charlton, *Fair Trade For All*, 88.

¹⁵⁶ Collier, *The Bottom Billion*, 187.

said, allowing developing countries market access to developed countries' markets (whether by special rules or not) seems a good place to start.¹⁵⁷

Individual Trade Agreements

In addition to WTO rules being stacked against developing countries through the problem of negotiation and a lack of bargaining power, Regional Trade Agreements (RTAs) and Preferential Trade Agreements (PTAs) can often also be detrimental to developing countries. Because these deals usually involve at least one developed country, the majority of the bargaining power lies in their hands, leaving the developing country or countries to sign deals that are not wholly beneficial to them. For example, developing countries might agree to “stop their countries’ production of inexpensive generic drugs, for instance, or to scale back their agricultural subsidies long before their economies have reached the levels of development that the already-developed countries had attained when they began scaling back on their own subsidies.”¹⁵⁸ Developing countries are usually the ones with high tariffs; larger economies tend to have fewer tariffs, but those tariffs might still be large enough to influence trade with small, developing economies.¹⁵⁹

In 1990, there were around 90 PTAs worldwide,¹⁶⁰ whereas as of 2018, there are over 300.¹⁶¹ One possible explanation for this is that in light of the deadlock and subsequent failure of the Doha Round, countries, especially developing countries, have tried to move towards more straightforward, and potentially even fairer trading rules.¹⁶² In this sense, PTAs might be more beneficial for developing countries. They tend to be quicker to negotiate than WTO talks and could work more easily in favor of all parties because there are fewer parties involved in the negotiations.

Yet this is not always the case. Messerlin divides the motivations for PTAs into two categories: the ones of the smaller (usually poorer) country and those of the larger (richer) country. He notes that smaller countries’ motivations for signing PTAs are fairly consistent and usually entail a desire for increased market access.¹⁶³ The larger countries, on the other hand, seem to have a variety of motivations ranging from obtaining international allies to soft power issues, like

¹⁵⁷ C.f. Stiglitz and Charlton, *Fair Trade For All*, 40; Collier, *The Bottom Billion*, 170–73.

¹⁵⁸ Gruber, “Trade, Growth, Poverty, and Politics,” 738–39.

¹⁵⁹ Messerlin in David Kleimann, ed., *EU Preferential Trade Agreements Commerce, Foreign Policy, and Development Aspects*. (Luxembourg: Publications Office, 2013), 32, <http://dx.publications.europa.eu/10.2870/78908>.

¹⁶⁰ Hartman, “The WTO, the Doha Round Impasse, PTAs, and FTAs/RTAs,” 422.

¹⁶¹ “WTO | Regional Trade Agreements and Preferential Trade Arrangements,” accessed July 23, 2018, https://www.wto.org/english/tratop_e/region_e/rta_pta_e.htm.

¹⁶² Hartman, “The WTO, the Doha Round Impasse, PTAs, and FTAs/RTAs,” 411–12.

¹⁶³ Messerlin in Kleimann, ed. *EU Preferential Trade Agreements Commerce, Foreign Policy, and Development Aspects*, 41.

promoting their own economic approaches internationally, meaning that they can spread their influence in developing countries around the world.¹⁶⁴ Further, these PTAs can then promote dissatisfaction domestically in the developing countries, because the people see their governments being strong-armed by more powerful nations. This can then create anti-free trade sentiments within the developing nations.¹⁶⁵

An additional problem with PTAs is that only some countries beneficiaries from them. Kaubab analyses Pakistan's trade and concludes that relative to both countries in the same region and at similar stages of development, Pakistan is not benefitting from trade in the same way as its peers. It has signed fewer RTAs than other countries in the south Asia region, and the trade agreements it has signed are mostly partial in scope, rather than comprehensive trade agreements.¹⁶⁶ While trading against the backdrop of the WTO, all nations are theoretically treated equally. With PTAs, however, there are no guarantees that countries will even be able to benefit from trade.

Additionally, the presence of a PTA does not necessarily mean that trade will occur between the countries, just that there will be agreed upon conditions about how should trade occur. A study by economist Vincent Vicard demonstrated that while the number of countries who sign an RTA does not have a significant effect on trade, the size of the economies involved in the agreements matters greatly. His analysis showed that if RTAs include at least two (relatively) large economies, bilateral trade actually ends up declining, because "it reduces the competitive advantage granted by tariff reduction."¹⁶⁷ Vicard goes on to write that:

Everything else equal, an RTA between more asymmetric countries increases bilateral trade by more. Indeed, asymmetric countries trade less with each other, reducing the potential competition from third RTA members. Together, these results show that bilateral trade creation between any two members of an RTA will be larger when the potential trade creation among other partners is lower. Moreover, an RTA created by contiguous countries increases intra-regional trade by more. It suggests that RTAs between contiguous countries allow dealing with transnational infrastructure issues, which are difficult to deal with without international coordination. Finally, RTAs between GATT/WTO members are less trade creating. The initial level of tariffs of non-GATT/ WTO members is indeed likely to be higher.¹⁶⁸

¹⁶⁴ Messerlin in Kleimann, ed. 37.

¹⁶⁵ Messerlin in Kleimann, ed. 41.

¹⁶⁶ Rashid Kaukab, "The Changing Landscape of RTAs and PTAs: Analysis and Implications," *The Lahore Journal of Economics* 19 (September 1, 2014): 431.

¹⁶⁷ Vincent Vicard, "Determinants of Successful Regional Trade Agreements," *Economics Letters* 111, no. 3 (2011): 189–90.

¹⁶⁸ Vincent Vicard, "Determinants of Successful Regional Trade Agreements," *Economics Letters* 111, no. 3 (2011): 189–90.

In other words, the countries that are in the RTA actually matter greatly to the volume of trade that occurs. It also demonstrates that just because a trade agreement is in place, there is no guarantee that countries can or will benefit from trade.

It is not necessary that every clause in the agreement must be equal. Trade agreements are often designed to give one party more concessions. Indeed, for developing countries, it is often important that the provisions are not exactly equal—such as allowing them to continue to protect some of their infant industries for a period of time. The point is that overall, the trade agreement should be viewed as fair.¹⁶⁹ Or if there is not a PTA in place, the WTO rules must be fairer overall.

Broken Trading Rules

In addition to the problematic rule structures with the international trading system discussed above, developed countries can be shown often not even to follow the rules of the international trading system that they helped to establish. In other words, trade has become a perverted version of itself and is no longer about mutual gains but rather about corporate and investor rights. One common practice called ‘trade misinvoicing’ where developed countries report false numbers on their trade invoices to avoid taxes costs developing, commodity-exporting countries dearly. UNCTAD reports that from 1995-2005, almost \$29billion worth of trade in copper between Zambia (where copper is its primary export) and Switzerland (Zambia’s primary market for copper) went missing through trade misinvoicing on Switzerland’s books.¹⁷⁰ In those same 20 years, Netherlands failed to record \$5billion worth of cocoa exports from Côte d’Ivoire.¹⁷¹ The newspaper The Guardian estimates that this practice cost developing countries a total of \$700billion in 2012 alone.¹⁷² This can happen because the WTO’s enforcement mechanisms are weak, and are heavily influenced by the countries perpetuating the illegal or barely legal trading practices.

The WTO receives dozens of complaints every year about potential broken trade rules. The United States, China, and the European Union have the highest rates of cases brought against them. One of the key problems is that developing

¹⁶⁹ Stiglitz and Charlton, *Fair Trade For All*, 77–78.

¹⁷⁰ Léonce Ndikumana, “Trade Misinvoicing in Primary Commodities in Developing Countries: The Cases of Chile, Côte d’Ivoire, Nigeria, South Africa and Zambia,” in *New York, United Nations Conference on Trade and Development Special Unit on Commodities*, July, 2016, 15.

¹⁷¹ Ndikumana, 21.

¹⁷² Jason Hickel, “Aid in Reverse: How Poor Countries Develop Rich Countries | Jason Hickel,” *The Guardian*, January 14, 2017, sec. Working in development, <http://www.theguardian.com/global-development-professionals-network/2017/jan/14/aid-in-reverse-how-poor-countries-develop-rich-countries>.

countries, especially LDCs, often do not have the resources or power to bring complaints to the WTO. Updated in 2019, the three maps below, Figures 4 to 6, show how many complaints have been made against the US, China, and the EU respectively, and what countries are making the complaints.¹⁷³ In each of the maps, however, few of the countries are developing countries, and none of the complainants are LDCs (represented by green on the maps). While this could be indicative of the fact that developing countries have no complaints against these three powerful trading blocs, given the volume of complaints, however, development reports tend to agree that the lack of cases is rather down to a lack of power and ability on the part of developing countries.¹⁷⁴

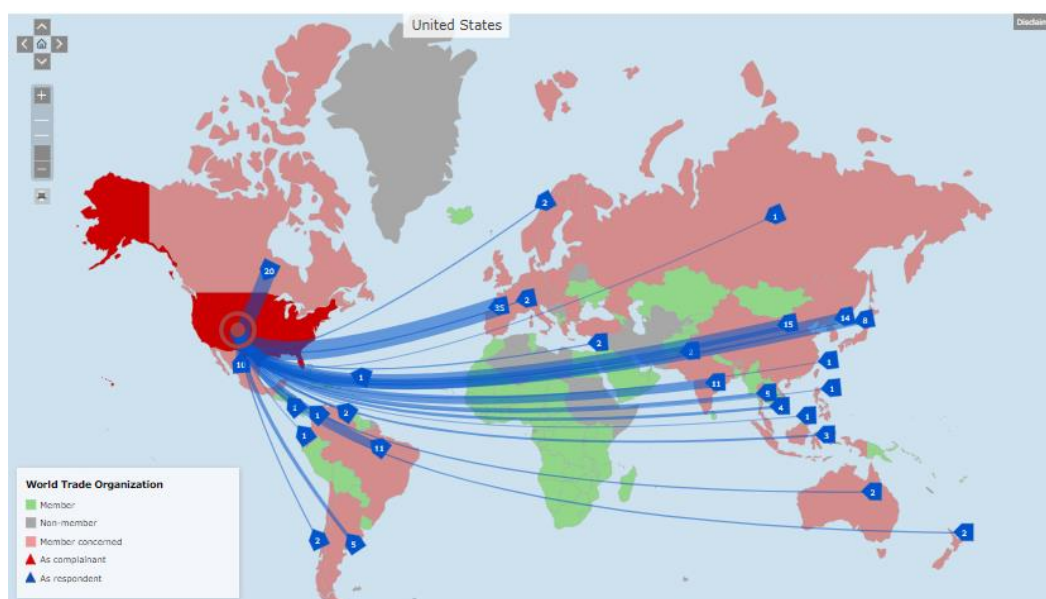


FIGURE 4 – TRADE COMPLAINTS MADE AGAINST THE US¹⁷⁵

¹⁷³ “WTO | Dispute Settlement - Map of Disputes between WTO Members,”

https://www.wto.org/english/tratop_e/dispu_e/dispu_maps_e.htm.

¹⁷⁴ C.f. Chad P. Brown and Bernard M. Hoekman, “WTO Dispute Settlement and the Missing Developing Country Cases: Engaging the Private Sector” (Brookings Institute, May 1, 2005), <https://www.brookings.edu/research/wto-dispute-settlement-and-the-missing-developing-country-cases-engaging-the-private-sector/>; “Eight Broken Promises: Why the WTO Isn’t Working for the World’s Poor,” Oxfam Briefing Paper (Oxfam International, 2001),

[https://oxfamilibrary.openrepository.com/bitstream/handle/10546/114480/bp09-eight-broken-promises-011001-](https://oxfamilibrary.openrepository.com/bitstream/handle/10546/114480/bp09-eight-broken-promises-011001-en.pdf;jsessionid=3BFB4680F34F254EE913BA1651F329A9?sequence=1)

[en.pdf;jsessionid=3BFB4680F34F254EE913BA1651F329A9?sequence=1](https://oxfamilibrary.openrepository.com/bitstream/handle/10546/114480/bp09-eight-broken-promises-011001-en.pdf;jsessionid=3BFB4680F34F254EE913BA1651F329A9?sequence=1); Shelia Page, “Developing Countries in GATT/WTO Negotiations,” Working Paper (The Overseas Development Institute, February 2002); International Centre for Trade and Sustainable Development, “Dispute Settlement at the WTO: The Developing Country Experience,” ICTSD International Trade Law Programme, Information Note (ICTSD, April 2012), <https://www.ictsd.org/sites/default/files/downloads/2012/05/developing-country-experiences-information-note.pdf>.

¹⁷⁵ Source: “WTO | Dispute Settlement - Map of Disputes between WTO Members.”

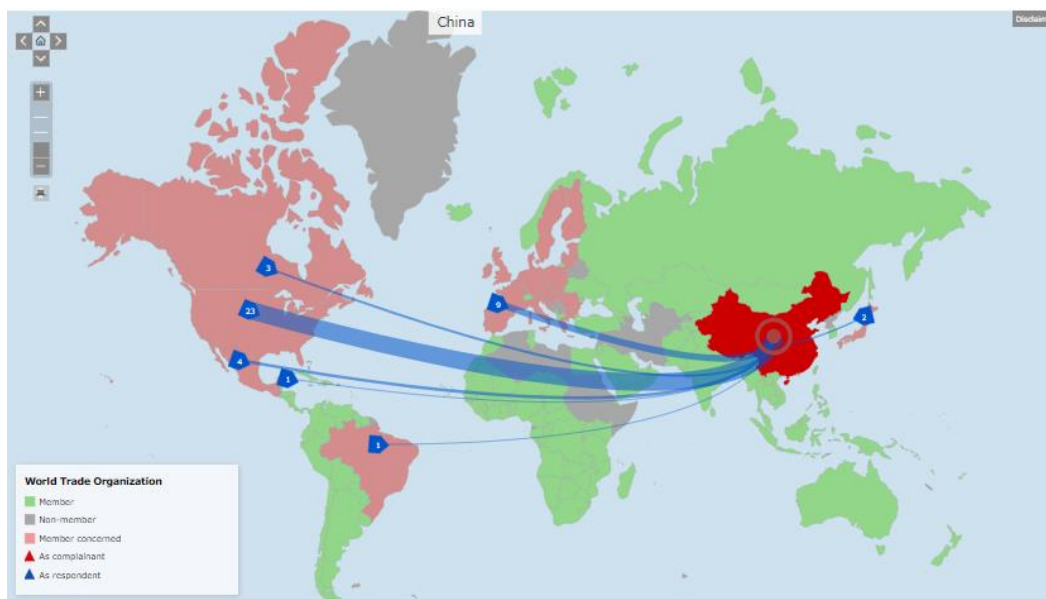


FIGURE 5 - TRADE COMPLAINTS MADE AGAINST CHINA¹⁷⁶

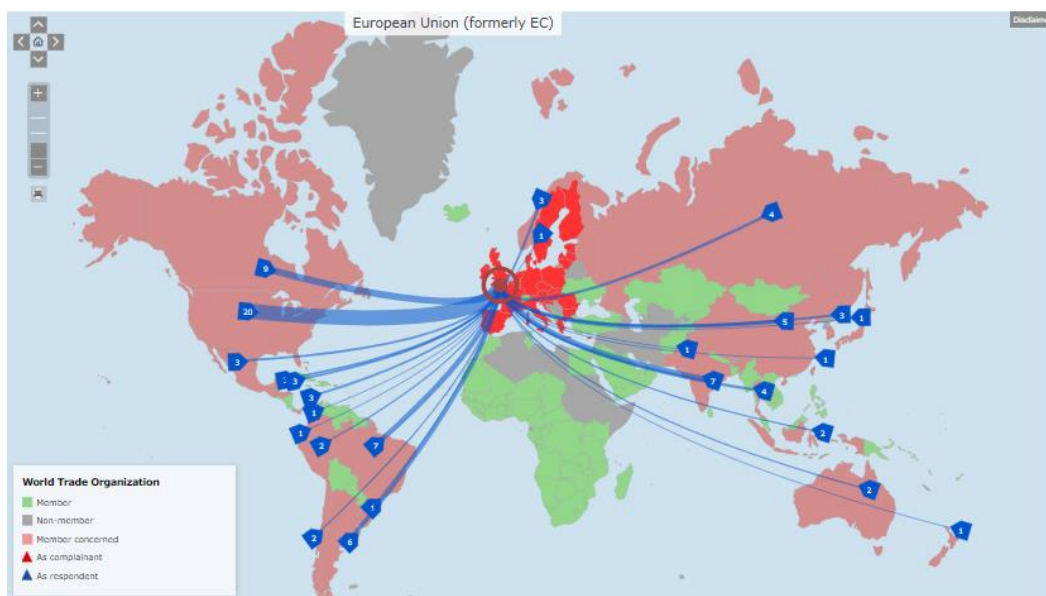


FIGURE 6 - TRADE COMPLAINTS MADE AGAINST THE EU¹⁷⁷

Poor Countries Have No (Bargaining) Power

To tie the topics of precarious developing economies and unfair international trading rules together, my final point is about how, in addition to the rules being stacked against poor countries, they have no power to fight these international trade rules and regulations that do not benefit them. The idea behind the

¹⁷⁶ Source: "WTO | Dispute Settlement - Map of Disputes between WTO Members."

¹⁷⁷ Source: "WTO | Dispute Settlement - Map of Disputes between WTO Members."

formation of the WTO increased reciprocity: countries open their markets if others do the same.¹⁷⁸ The WTO, however, acts simply as a forum for bargaining. The rules are determined purely by the outcomes of debating countries. Indeed, Stiglitz and Charlton argue that the Uruguay Round of negotiations, which led to the formation of the WTO, reflected the priorities of larger and more powerful economies. “The result of this regressive asymmetry was that after the implementation of Uruguay Round commitments, the average OECD [Organization for Economic Co-operation and Development] tariff on imports from developing countries is four times higher than on imports originating in the OECD.”¹⁷⁹

A further problem with the bargaining aspect of the WTO is that trade negotiators tend to see their role as trying to secure the best deal for their country, rather than negotiating a fair deal for all countries involved. Thus, the ethos of the bargaining procedures in the WTO unnecessarily makes the problem worse.¹⁸⁰ Some emerging economies, like the BRICS countries (Brazil, Russia, India, China, and South Africa) have seen increased bargaining power against the backdrop of the WTO in the past 25 years, because the rest of the world wants access to their markets and products. At the same time, however, the worst-off countries are so small that they have very little to bargain with, even if these countries were prepared to reduce their barriers to trade and open up their markets to the rest of the world.¹⁸¹ Further, as Moerland notes, the processes surrounding trade negotiations are often kept secret, meaning that developing countries cannot benefit from potential private sector or NGO suggestions that might help strengthen their case.¹⁸²

The reason that these problems occur is that negotiation is central to trade policy. As Collier writes:

The essence of the World Trade Organization (and of its predecessor organization, the General Agreement on Tariffs and Trade, or GATT) is that the reduction in our trade restrictions is something that we concede only in return for others doing likewise. The countries at the bottom played no part in GATT—mostly they were not even members. But when the WTO was formed in 1995 they all joined, for being in this club meant belonging to the modern world. However, they have virtually no role in an organization that is designed for bargaining. The countries at the bottom have no markets of any interest to the rest

¹⁷⁸ Collier, *The Bottom Billion*, 170.

¹⁷⁹ Stiglitz and Charlton, *Fair Trade For All*, 47.

¹⁸⁰ Collier, *The Bottom Billion*, 187.

¹⁸¹ Collier, 170.

¹⁸² Anke Moerland, “Do Developing Countries Have a Say? Bilateral and Regional Intellectual Property Negotiations with the EU,” *IIC - International Review of Intellectual Property and Competition Law* 48, no. 7 (November 1, 2017): 766.

of the world, and so their high trade restrictions are also of no interest.¹⁸³

Thus, equitable bargaining power is key to ensuring the success of the international trading regime and guaranteeing that trade can fulfill its function. Little has changed in this sense in the WTO since its formation, and the same holds true for uni- and plurilateral trade agreements, as well—the terms and conditions are set out through bargaining.¹⁸⁴

It is here worth noting that opponents of ‘fairness’ in the international trading regime might argue that equal bargaining power is unnecessary because trade agreements are signed voluntarily. So, any country that does not think that they will benefit from signing one does not have to. Further, countries can withdraw from the WTO, so by remaining members, they are tacitly implying that they believe they are ‘net beneficiaries’ from the WTO.¹⁸⁵ Yet, as Stiglitz and Charlton note, these critics do not seem to understand the power dynamic between developed and developing countries. Countries may benefit from the legal structure provided by the WTO, while not benefitting from the trading relations themselves. For example, the WTO may prevent the U.S. from dumping millions of dollars’ worth of goods into developing economies, but it does not at the same time mean that the WTO rules are *fair*. Benefits may still go disproportionately towards developed countries. Further, developed countries can pressure developing countries into trade by extra-WTO means, such as the threat of withholding aid.

Then there is the additional structural problem which is entailed by the difference between individual trading interactions and group actions. Because other developing nations sign trade agreements or join the WTO, any developing nations that do not, cannot participate in the global economy. That said, it might still be true that developing countries as a group would have been better off as non-members. Stiglitz and Charlton describe this as a manifestation of the prisoners’ dilemma, where developing countries either all have to participate or none at all. The idea of developing countries bargaining as a block is not a new idea, and several scholars are still proponents of the idea. However, this tactic faces trust, coordination, and communication issues amongst the countries.¹⁸⁶ Further, as noted above, development is not a one-size-fits-all process, and it might be the case that what is best for some developing countries in terms of trade

¹⁸³ Collier, *The Bottom Billion*, 2008, 159–60.

¹⁸⁴ Moerland, “Do Developing Countries Have a Say?,” 762.

¹⁸⁵ Stiglitz and Charlton, *Fair Trade For All*, 74–75.

¹⁸⁶ C.f. Emily Jones, Carolyn Deere-Birkbeck, and Ngaire Woods, *Manoeuvring at the Margins: Constraints Faced by Small States in International Trade Negotiations* (Commonwealth Secretariat, 2010).

is not good for others (e.g. regulations around agriculture or extracted goods – depending on what the country produces and plans to export). Thus bargaining is central to international trade, and a lack of bargaining power is detrimental to developing countries' economies.

This section has discussed several of the harms of trade that prevent developing countries from realizing the benefits of trade. Because developing countries' economies are fragile, they are in desperate need of being able to realize the growth and development benefits from trade. Yet, they are often prevented from doing so because of the rules of trade and their lack of bargaining power to fight these unfair rules.

Section III – Success Stories or the ‘Economic Miracles’

Here, I want to briefly discuss some success stories of trade and development to give empirical evidence to demonstrate that the arguments made in this thesis are not completely unfounded, and that trade can be good for development if accompanied by the right policies and a conducive international system.

There are three case studies I look at here. The first is Latin American, with particular attention paid to the successful case of Chile. Several Latin American countries have pursued more open trade policies since the 1960s, and even more decided to liberalize in the 1980s. Since then, GDP growth in the region has averaged 4% since the 1990s, and its share of global GDP almost doubled from 2004 to 2011. The region has diversified its exports and in addition to exporting agricultural and extracted goods, they now produce manufactured goods including electronics and airplanes. Their share of service exports has increased since the 1980s, as well. This diversification has led to increased FDI, and the region attracted “some \$170 billion in foreign direct investment in 2012 alone (roughly 12 percent of global flows).”¹⁸⁷ Although Latin American still lags behind the US, Europe, and Asia in terms of development, the region has transformed economically and politically in the past 50 years. Poverty rates fell from roughly 40% to 25% in just a decade, and a growing middle class means that the majority of Latin American countries are now classified as ‘upper middle income’ by the World Bank.¹⁸⁸

¹⁸⁷ Shannon K. O’Neil, “Latin America’s Secret Success Story,” *The Daily Beast*, July 16, 2013, sec. world, <https://www.thedailybeast.com/articles/2013/07/16/latin-america-s-secret-success-story>.

¹⁸⁸ O’Neil.

Chile is now classified as 'high income' by the World Bank. During the years 1985-1997, Chile pushed open trade policies,¹⁸⁹ with trade representing about 55% of its GDP, and it managed to average 6-7% annual growth over those 12 years.¹⁹⁰ In addition to benefitting from diversification of exports, they have also managed to diversify their export destinations to countries around the world while managing to keep transport costs at a minimum. By many accounts, this success is largely due to its open trade policies and reducing its maximum tariffs to 6%, though there are lobbies to open up these sectors, as well.¹⁹¹ Of course, the entire success story cannot be ascribed to trade, but it does show that trade can indeed lead to development.

The second case study here is what is often known as the 'Asian Miracle,' when several East Asian economies experienced rapid growth through industrialization and trade from the 1960s to the 1990s. From 1965 to 1990 the eight high-performing Asian economies (HPAEs), Hong Kong, Indonesia, Japan, Malaysia, Singapore, South Korea, Taiwan, and Thailand, had GDPs that grew twice as quickly as any other region in the world. This quick economic growth was coupled with swift poverty reduction and rising income equality. Singapore and Hong Kong pursued completely open trade policies,¹⁹² while others used a combination of protectionist measures in some sectors and more liberalized policies in others, especially manufacturing, to bring about this growth. Korea and Taiwan incentivized exports while simultaneously slowly lowering barriers to trade. Korea did allow protectionism, but when they did, it was tied to export performance to ensure that the barriers to trade were not disproportionately high.

¹⁸⁹ "...with maximum tariffs of 6% (excluding sugar, wheat and oil imports) and average duties of less than 3%, given all the Free Trade Agreements signed by the country" (Ronald Fischer, "Trade Liberalization in Latin America: The Case of Chile" (Centro de Economía Aplicada, Universidad de Chile, 2004), 2).

¹⁹⁰ Fischer, 2.

¹⁹¹ Fischer, 14.

¹⁹² "In contrast, Japan, Korea, and Taiwan maintained significant trade barriers during their periods of rapid growth (which ended in the early 1970s in Japan). Japan lowered its tariffs in successive rounds of multilateral trade negotiations under GATT, so that they were in line with those of other OECD countries by the early 1970s. The decline in Korea's and Taiwan's tariff rates was more gradual than in Japan. Korea's nominal tariff rates averaged nearly 40 percent in the mid-60s, 21 percent at the beginning of the 1980s, and around 12 percent at the beginning of the 1990s. The corresponding levels for Taiwan were 35 percent, 31 percent, and 10 percent (Chen and Hou, 1993). Significant nontariff barriers also were maintained, although they too were later reduced. For example, in Korea, 40 percent of import items were either prohibited or restricted in 1973. By 1981, this ratio had fallen, but to a still high 25 percent. Further declines in the 1980s lowered the ratio to 3 percent by 1991 (Nam, 1995). In Taiwan, commodities subject to varying kinds of import restrictions fell from about half of all importables in the mid-1960s to less than 3 percent by the early 1980s" (Richard R. Nelson and Howard Pack, "The Asian Miracle and Modern Growth Theory," *Economic Journal* 109, no. 457 (1999): 417.).

They also granted loans to businesses but made them contingent upon these firms meeting export targets.¹⁹³

The success of this region cannot be put down to international trade alone, and smart political policies accompanied the development that allowed them to reap the benefits of globalization. As these countries pursued manufacturing exports, they coupled these policies with investment in physical and human capital. These countries placed a large focus on education and many provided universal primary and secondary education.¹⁹⁴ This holistic development model of trade mirrors much of what I go on to propose in terms of capabilities in Part III.

Finally, one of the most successful stories of growth through trade liberalization is China. In the late 1970s/early 1980s, China began a program of economic reforms, including reducing its central planning and opening up to trade. It is now the world's biggest export market and one of the three largest trading nations in the world.¹⁹⁵ Direct trade controls, where a few state-owned companies carried out import and export planning, were slowly phased out and replaced by a regime of tariff and non-tariff barriers to regulate trade flows. Imports remained under central control longer than exports, but by 2001, when China joined the WTO, China had authorized thousands of private companies to import goods and reduced licensing requirements to only 4% of goods (down from 46% in the late 1980s).¹⁹⁶ China preceded many of these reforms with relaxing its rules on foreign firms entering the country, meaning that there was international knowledge and technological learning that were deeply rooted in the Chinese economy before its economic boom, which is often credited with the continued sustainability of China's growth.¹⁹⁷

The unfortunate problem with the success of these Asian economies is the fact that it ended up crowding out manufacturing in poorer countries, especially Africa. "...[T]he process of breaking in [to international markets] is now harder than before Asia managed to establish itself on the scene.... So the growth of agglomerations in Asia has made the export diversification route more difficult for the bottom billion."¹⁹⁸ China, for example, has crowded out FDI to other similar

¹⁹³ Richard R. Nelson and Howard Pack, "The Asian Miracle and Modern Growth Theory," *Economic Journal* 109, no. 457 (1999): 417.

¹⁹⁴ Nelson and Pack, 419.

¹⁹⁵ "WTO | Trade Statistics - World Trade Statistical Review 2018," https://www.wto.org/english/res_e/statis_e/wts2018_e/wts18_toc_e.htm.

¹⁹⁶ Nicholas R. Lardy, "Trade Liberalization and Its Role in Chinese Economic Growth," in *India's and China's Recent Experience with Reform and Growth*, ed. Wanda Tseng and David Cowen, Procyclicality of Financial Systems in Asia (London: Palgrave Macmillan UK, 2005), 5–6.

¹⁹⁷ Loren Brandt et al., "Trade Liberalization and the Performance of China's Manufacturing Sector," *American Economic Review* 107, no. 9 (September 2017): 2784–2820.

¹⁹⁸ Collier, *The Bottom Billion*, 84–87.

countries, receiving 20% of all FDI to emerging economies in from 2006 to 2016.¹⁹⁹ A secondary effect is that these Asian economies need natural resources as inputs for their manufacturing, which they are buying from African nations. While this may initially look promising, it has actually ended up further locking these countries into natural resource exportation because these countries have no incentive to diversify.²⁰⁰ UNCTAD reports that since 2010, the percentage of LCDs who are commodity-dependent has grown. In 2014-2015, seven additional LCDs entered UNCTAD's list of Commodity Dependent Developing Countries (CDDCs), a 20% increase in a single year.²⁰¹

This, and the problems with trade addressed above, have led to what Robert Wade has labeled 'a shrinking of development space' as well as a shrinking of 'self-determination space' for developing countries.²⁰² In other words, the rules of trade are now preventing developing countries from pursuing the same kinds of policies that East Asian countries and established developed countries used to develop. These rules of trade make developed countries 'forever' dependent on developed countries, and also subject them to the global North's vision of an international trade agenda.²⁰³

A 2016 WTO report on Developing economies' participation in world trade has also cited a disappointing outlook for developing countries since 2015, largely due to decreases in world fuel and extracted goods markets.²⁰⁴ Still, despite these problems, the WTO and economists alike maintain a positive outlook for developing nations, *if* certain things change. The exporting of primary goods, as noted above, tends to hurt the country as a whole, and only benefit those who own the land from which these primary goods are farmed or extracted. Because manufacturing and services are less dependent than primary commodities on pre-given factor endowments ("They use labor rather than land"²⁰⁵), trade in these sectors provides a better chance for rapid and more equal development. The same 2016 WTO report cited that manufactured goods in African developing nations continued to grow from 2013 to 2014, unlike their primary and extractive goods

¹⁹⁹ "Foreign Direct Investment – the China Story," Text/HTML, World Bank, 2016, <http://www.worldbank.org/en/news/feature/2010/07/16/foreign-direct-investment-china-story>.

²⁰⁰ Collier, *The Bottom Billion*, 2008, 84–87.

²⁰¹ "Unctad.org | The State of Commodity Dependence 2016," <https://unctad.org/en/pages/PublicationWebflyer.aspx?publicationid=1883>.

²⁰² Robert Hunter Wade, "What Strategies Are Viable for Developing Countries Today? The World Trade Organization and the Shrinking of 'development Space,'" *Review of International Political Economy* 10, no. 4 (November 1, 2003): 622.

²⁰³ Wade, 622.

²⁰⁴ "WTO | Trade Statistics - World Trade Statistical Review 2016," https://www.wto.org/english/res_e/statis_e/wts2016_e/wts16_toc_e.htm, 54.

²⁰⁵ Collier, *The Bottom Billion*, 2008, 81.

counterparts.²⁰⁶ Developing economies currently have an abundance of unproductive labor, so exporting in these sectors means that the benefits of development can be shared more widely throughout the country.²⁰⁷

The lesson here is that we still have reason to be optimistic that trade can produce growth and development for these countries that need it most. The problem is that the current picture of international trading will have to be drastically restructured so as to facilitate this.

Section IV – Internal Harms of Trade

To this point, I have been discussing reasons why the international trading system has prevented many developing countries from more fully realizing the benefits of international trade. The onus falls on the international trading regime and in particular its individual countries to facilitate a system that is conducive to the production of the social good of growth in each of the trading countries.

Yet, it is also worth briefly discussing some of the harms of trade that international trade theory does actually tend to predict. These are problems that may not be caused by the precarious nature of developing economies or the rules of the international trading regime. Instead, these are harms that might be necessarily entailed with real-world international trade. Trade, in a world with full employment, should make a country better off on its own. The problem is that full employment is a theoretical fiction that economists assume to make their theories work. Consequently, trading relations can have massive redistributive effects on domestic economies. In terms of wages, for example, trade positively affects wages in export sectors but can shift resources away from other sectors causing a depreciation of wages elsewhere. Thus, shifts to more open trade are often accompanied by calls for a stronger social safety net or redistributive mechanisms within the economy. Additionally, this is one of the major concerns of both philosophical theories of just trade, as well as that of the Fair Trade movement. Both external and internal harms of trade raise important concerns about fairness in trade. But internal harms give us insight into why fairness advocates tend to care about redistribution in trade. This becomes important in Parts II and III below.

Wages

According to many trade theories, in addition to inter-country development convergence, we should also expect to see an overall increase in the average level

²⁰⁶ “WTO | Trade Statistics - World Trade Statistical Review 2016,” 56.

²⁰⁷ Collier, *The Bottom Billion*, 2008, 81.

of wages within a country, starting first in the exporting industry. As discussed in Chapter 1, trade increases the overall amount of goods that an economy can produce due to expansion of their markets through economies of scale and comparative advantage. Assuming that spending is reinvested in productive capital, as firms produce more, their demand for labor will rise, as demand rises, the price of labor (wages) goes up, and we should expect to see an overall increase in wages.²⁰⁸ Because of an overall average increase in wages, we should then observe growth for two reasons: first, an increase in wages translates to an increase in spending potential, which means more revenue for firms; second, and relatedly, in order to *continue* to experience growth, firms need to see their revenue rising in order to obtain investment and growth in productivity.

It is worth noting, however, that trade models also do predict that there will be winners and losers from trade in terms of wages. While the average wages in the country should increase, it is true that workers in exporting sectors will see their wages increase the most, and workers in sectors where there is now competition from imports will see their wages drop, due to a decrease in demand for their labor. So even though the *average* level of wages should increase, wages in some sectors will still decrease. This is why progressive economists and indeed theorists of global trade justice usually propose policies of redistribution along with trade liberalization.

Specifically, in relation to wages, there are several explanations for either a lack of increase in wages in general, or the wage increase not leading to growth for the country. First, wages do not increase by themselves. The increased capital gained from trade has to be reinvested into the workers, and although it should be seen as a necessary investment in order for growth to occur, sometimes when poorer countries get favorable trading terms, they no longer have as much incentive to accumulate capital, i.e. to save and reinvest that saving. In other words, when these countries begin trading they no longer have as much incentive to reinvest capital because many of their costs of production, especially property and capital rents, stay the same, yet they gain more. Second, even if the model was correct, trade is sometimes only a small portion of a country's economy, and so its effects on wages might not be noticeable.²⁰⁹ Further, changes in wage distribution can occur due to several non-trade factors, such as a change in technologies and shifts in consumer preferences.

Yet, in terms of wage inequality, "The majority view of trade economists is that the villain is not trade but rather new production technologies that put a greater emphasis on worker skills (such as the widespread introduction of

²⁰⁸ Marc J. Melitz, "The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity," *Econometrica* 71, no. 6 (2003): 1695–1725.

²⁰⁹ Darity Jr and Davis, "Growth, Trade and Uneven Development," 148.

computers and other advanced technologies in the workplace). Trade likely has been an indirect contributor to increases in wage inequality, by accelerating the process of technological change.”²¹⁰ The point here is that it is often not trade itself causing the harms, but trade coupled with domestic issues can lead to real problems.

Though the moral, economic, and political problems with income inequality are well-established, it is worth reiterating them here to reiterate why inequality is a problem. First, philosophically, we might think that this inequality is undeserved. Especially if trade in one sector of the economy ends up hurting another sector and driving down wages through no fault of anyone in particular. Politically speaking, higher levels of income inequality lead to more instances of political unrest. And economically, income inequality can hurt country-wide growth, because it often equates to less spending power and social mobility for the lower classes.

Conclusion

This chapter has examined two types of harms of trade. Harms that I have labeled ‘external’ are those not predicted by international trade theory and are rather contingent factors of international trade caused by international power imbalances, fragile domestic economies, and the structure of the international trading system. These harms from trade are the reason that I argue that international trade as an institution can be said to be out of line with its normative potential or its telos, which is the production of growth or development. My proposal for justice in trade, explored in Part III below, attempts to provide a way to correct for this. In Section III of this chapter, I also gave empirical evidence to help demonstrate that trade does indeed contribute to growth.

‘Internal’ harms, however, are predicted by international trade theory and are the reason that advocates of fair or just trade often call for redistribution to accompany trade liberalization. In other words, while economic theory maintains that trade is good for the country as a *whole*, it is not necessarily good for every individual in the country. Further, as Ehrlich notes, “The winners *can* compensate the losers for their losses and still come out ahead, but there is no automatic compensation mechanism inherent within free trade.”²¹¹ Thus, in order to preempt calls for redistribution, my capabilities approach to trade essentially builds a type

²¹⁰ Paul R. Krugman, Maurice Obstfeld, and Marc Melitz, *International Economics: Theory and Policy* (Pearson Education, 2017), Chap. 5: “Resources and Trade: The Heckscher-Ohlin Model” Online Supplement, available at: http://www.econ.boun.edu.tr/content/2017/fall/EC-36101/Lecture%20Note-CO5_Krugman425789_10e-11-13-2016.pdf.

²¹¹ Ehrlich, *The Politics of Fair Trade*, 45.

of 'compensation mechanism' into the understanding of the purpose of international trade.

Before moving on to my proposal for a Capabilities Approach to Trade, I now turn in Part II to examining other proposals to bring about justice in international trade. The harms addressed in this chapter must be corrected for or at least protected against by the following proposals for justice in trade. While each of the proposals helps to address at least one of the harms of trade addressed here, they all raise further concerns. I argue that my Capabilities Approach to Trade helps to mitigate the concerns raised by each of the proposals for fairness in trade below.

PART II – THEORIES OF JUST TRADE

3

We have to do Better than Fair Trade¹

“Trade policy is the area of economics least well understood by the NGO world.”

–Paul Collier, *The Bottom Billion*

A large part of the motivation for this project stems from the problem that the Fair Trade movement is the current standard for ethical international trade. As Andrew Walton notes, by labelling itself ‘Fair Trade,’ the movement is contrasting itself with non-fair trade, which we are to understand is the current system of international trade as it exists today.² The Fair Trade movement is problematic in itself, for reasons discussed below, but the mere fact that international trade in its current state is not considered to be even broadly fair as is, is even more fundamentally problematic. I discussed in the previous chapter several of the ways in which the international trading regime might be said to be unfair. The Fair Trade movement attempts to correct for several of those factors.

In this chapter, I critique and respond to the Fair Trade movement. Philosophical theories of justice often have much to learn from the activism that mirrors these movements in the ‘real world.’ Yet as a whole, theorists in the field of trade justice have paid far too little attention to the philosophical underpinnings of the Fair Trade movement, which is one of, if not the, leading global movement for fairness in international trade. This chapter seeks to remedy this and explore what ethical lessons we can garner from the Fair Trade movement. I ultimately reject the idea that the Fair Trade model is a long-term, viable corrective for the international trading system, and then go further by rejecting the idea that Fair Trade is trade that is comprehensively fair.

As a preliminary definition of ‘Fair Trade,’ I refer to the social movement where international organizations partner with producers, usually in developing countries, to produce goods at a ‘fairer’ (above-market) price. These producers must meet certain standards in terms of wages for employees and environmental

¹ A note on terminology: ‘Fair Trade’ is a blanket term, defined in detail below, for a movement seeking to promote greater global equality through trade. ‘Fairtrade,’ or more formally the Fairtrade Labelling Organization (FLO – now Fairtrade International), is the term one most often sees on one’s bananas and coffee, and is a subsidiary of the Fair Trade partnership that certifies and brands Fair Trade products. I use ‘fair trade’ to denote international trade that is, in a broad sense, fair.

² Andrew Walton, “What Is Fair Trade?,” *Third World Quarterly* 31, no. 3 (2010): 432.

impact in order to get the Fair Trade label stamp of approval. I expand on this definition below.³

Here, many moral philosophers and political theorists may question whether or not trade even gives rise to moral considerations or questions of fairness in the first place. If the answer is ‘no,’ they might argue that Fair Trade is, at best supererogatory, and at worst meaningless. As I noted in the Introduction, I reject both of these notions and do think trade gives rise to moral concerns. The question then becomes in what way(s) and how well Fair Trade addresses these concerns.

Before we begin, it is worth taking a brief detour on the subject of fairness/unfairness or justice/injustice to ward off potential objections. Political theorists in a certain tradition may here accuse me of putting the proverbial cart before the horse: how can we possibly declare that something is unfair without a comprehensive theory of fairness? Here, I defer to Amartya Sen who divides theories of justice into two camps: ‘transcendental’ and ‘comparative.’⁴ The transcendental tradition has us posit a theory of perfect or complete justice that the current state of affairs can then perhaps be measured against. Comparative theories of justice, however, look at different states of affairs and then judge them on their relative measures of justice, instead of looking at perfect justice.⁵ I propose here that something in between the two methodologies will suffice for my purposes. Here, I rely on an intuitive, but vague notion of fairness involving some sort of equality, but without specifying a particular theory. We can assess Fair Trade on a comparative approach, given that we are comparing it to a separate model of trade. There are arrangements of the international trading institutions currently in place that would make trade *fairer* than it is now without any reference (for the time being) to an idea of perfect fairness. To those who simply reject Sen’s argumentation, my hope is that Chapter 2 demonstrated that at the

³ Here, it is also worth noting that although in ethical literature or writings with a philosophical bent, Fair Trade is often contrasted with free trade, the two are not exactly opposites. Free trade denotes trade that is unfettered by tariffs, quotas, subsidies, or similar restrictions; this is also sometimes referred to as ‘pure competition.’ The governments restrict neither imports nor exports, and fully free trade is rather an economic myth. It is indeed more reasonable to contrast with free trade with protectionism, where certain types of restrictions are levied against incoming or outgoing goods and services. Even in so-called ‘free trade areas’ (FTAs), like the European Union’s (EU) single market or the FTA established by the North American Free Trade Agreement (NAFTA), there will be some degree of regulation on the goods and services that cross country borders. (The contrast between Fair Trade and free trade is more interesting, as it is unclear what exactly Fair Trade is and how it is intended to operate within the existing paradigm of international trade. This is the topic of section III below.)

⁴ Amartya Sen, “What Do We Want from a Theory of Justice?,” *The Journal of Philosophy* 103, no. 5 (2006): 216.

⁵ See also Amartya Sen, *The Idea of Justice* (Penguin UK, 2010).

very least, practically, we have reason to be concerned about the issue of fairness in the international trading regime.

This chapter takes the following structure. First, I attempt to define and explain Fair Trade. Second, I engage with Andrew Walton's attempts at a philosophical conceptualization of the Fair Trade movement and reject his depictions of the project. Third, I further discuss four problems with the Fair Trade movement. Fourth, I propose my own conceptualization of the Fair Trade project, arguing that there are some salvageable, or at least admirable parts, of the project that are valuable moving forward. Indeed, Fair Trade looks similar to a miniature of my Two-Tiered Capabilities Approach, proposed in Chapter 6. Ultimately, though, I conclude that *we have to do better than Fair Trade*.

Section I – Understanding 'Fair Trade'

As I briefly discussed in the Introduction of this thesis, economists often debate the merits of free trade versus protectionism. This debate is over the outcomes of international trade, and usually centers on whether free trade accompanied by some redistributive measures or protectionist policies⁶ produces better results (assessed in various ways) for the domestic market. Recently, however, a distinct third position on international trade has arisen: the position of fair trade, which usually calls for some sort of balance in the international trading system.

Fair trade, however, is not necessarily a cohesive position and has a myriad of connotations or meanings. The WTO even uses the language of 'fair and unfair trading practices' to refer to practices such as dumping and subsidies.⁷ Another common usage of 'fair trade,' often used by the media or politicians, suggests that those calling for 'fair trade' believe that their country is being cheated by cheap imports.⁸ This is why both Ehrlich and Maseland and De Vaal say that fair trade is

⁶ Ehrlich posits that protectionists view trade as a zero-sum game "where gains to foreign countries must come at the expense of domestic workers." (Ehrlich, *The Politics of Fair Trade*, x.). This seems to be an overly simplistic view of protectionism, because it is not necessary that advocates of trade protectionism do not wish for the other side not to benefit. The important part rather is the motivation to protect the domestic economy from international competition.

⁷ "WTO | Understanding the WTO - Principles of the Trading System," accessed July 11, 2018, https://www.wto.org/english/thewto_e/whatis_e/tif_e/fact2_e.htm.

⁸ Maseland and De Vaal argue that this version of 'fair traders' advocate "...against products that have been produced in poorer countries at prices developed countries cannot compete with because of their different economic circumstances. Protectionism is defended by arguing that trade should only be conducted on a level-playing field. Products that have been produced cheaper in a country because of specific favourable circumstances have to be excluded from trade in this view. Taken to the extreme, this would mean that all trade based upon comparative advantage should be abolished; in practice, the argument is mostly used to protect domestic industries in developed economies against cheaper imports from countries with low labour costs" (Robbert

often conflated with protectionism. Advocates of this definition of fair trade are certainly calling for protectionist measures to protect their domestic industries against outside competition from cheaper goods. In this way, some uses of the term ‘fair trade’ might just be protectionism in disguise.

That said, the distinct position to which I refer in this chapter refers to a separate belief about moral obligations entailed in international trade. This is the Fair Trade movement, which, as discussed below, is not necessarily a cohesive project. The Fair Trade movement is a consumer-driven campaign to engage in trade that benefits the global poor.

This position maintains that international trade can be beneficial to developing countries as long as it is performed in a just manner. The idea behind this is that, in conducting trade, we have a moral obligation to pay decent prices for products that have been produced under decent conditions. In many western countries organisations have emerged which conduct trade in such a way and which succeed in selling products for a price above market level, because of their guarantee that the extra money is directly going to the producers.⁹

The Fair Trade movement, then, reflects a concern not for domestic well-being, but rather a concern for the human rights, labor standards, and to a certain extent environmental conditions of poor individuals around the globe.

The Fair Trade movement began in the Netherlands in the late 1980s as a way to help combat poverty in developing countries, particularly the global south. Fair Trade has grown into an entire movement that works by partnering with producers of certain goods, guaranteeing them a minimum wage for their products, and shifting the above-market premium onto the consumers, usually in the global north. The Fair Trade movement developed into FINE, an association of four Fair Trade organizations and networks: The Fairtrade Labelling Organization—now Fairtrade International—(FLO), The International Fair Trade Association (IFAT), The Network of European Worldshops (NEWS), and The European Fair Trade Association (EFTA).¹⁰

Maseland and Albert De Vaal, “How Fair Is Fair Trade?,” *De Economist* 150, no. 3 (2002): 252).

⁹ Maseland and De Vaal, 251.

¹⁰ As Maseland and De Vaal note: “A problem with this is that adherents of fair trade are organised in a myriad of organisations, which all have their own particular understanding of what fairness in trade constitutes or should constitute” (Maseland and De Vaal, 254). Indeed, since 2010 in the America Fair Trade movement, there has been an outbreak of in-fighting amongst the Fair Trade organizations. The U.S. branch of the FLO changed its name from TransFair USA to Fair Trade USA, which critics argued made it seem like it was usurping the entire American Fair Trade movement. In 2011, Fair Trade USA split from FLO completely in favor of producing its own certification. They argued that this would allow them to certify more products and get more people involved in the movement, while critics saw Fair Trade USA’s new partnerships with

In 2001, FINE agreed on the following definition of 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, marginalised producers and workers - especially in the South. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.¹¹

By the late 2000s, FINE developed into the World Fair Trade Organization (WFTO) who now have over 300 subsidiary Fair Trade organizations. In 2009, they sanctioned *A Charter of Fair Trade Principles*, which espoused the following five principles of Fair Trade:

1. **Market access for marginalised producers:** The Fair Trade movement recognizes that, especially in developing countries, individual producers may find it difficult or impossible to break into the export markets. Those who do manage it may find the process overly cumbersome due to bureaucratic restrictions or inefficient supply chains. The Fair Trade movement helps these marginalized producers break into the market and attempts to help them more directly connect with consumers. This in turn “helps producers realise the social benefits to their communities of traditional forms of production,”¹² though what precisely these social benefits might be is left open.
2. **Sustainable and equitable trading relationships:** Fair Trade seeks to rectify many of the inequalities discussed in Chapter 2 above by ensuring that the terms of trade between buyers and producers are such that they allow for a sustainable livelihood on the part of the producers. They try to ensure that the trading relationships established through Fair Trade will have longevity and provide increased stability and continued life-prospects improvement on the part of the producer. This also allows for information sharing on both sides, which should lead to better economic conditions for the producer. Further, “The economic basis of transactions within Fair Trade relationships takes account of all costs of production, both direct

corporations like Starbucks as an abandonment of the fundamental principles of the Fair Trade movement (Sean Ehrlich, *The Politics of Fair Trade: Moving Beyond Free Trade and Protection* (Oxford University Press, 2018), 31–32).

¹¹ “A Charter of Fair Trade Principles,” Text, World Fair Trade Organization, September 17, 2014, 6, [http://www.wfto.com/sites/default/files/Charter-of-Fair-Trade-Principles-Final%20\(EN\).PDF](http://www.wfto.com/sites/default/files/Charter-of-Fair-Trade-Principles-Final%20(EN).PDF).

¹² “A Charter of Fair Trade Principles,” 7.

and indirect, including the safeguarding of natural resources and meeting future investment needs.... Prices and payment terms (including prepayment where required) are determined by assessment of these factors rather than just reference to current market conditions.”¹³ This is part of the reason that the Fair Trade movement seeks to cut out intermediaries so that they can track supply chains and ensure that every aspect of the trading relationship is equitable.

3. **Capacity building & empowerment:** “Fair Trade relationships assist producer organisations to understand more about market conditions and trends and to develop knowledge, skills and resources to exert more control and influence over their lives.”¹⁴ This can also include help like pre-financing the exporter and strengthening unions.
4. **Consumer awareness raising & advocacy:** In addition to being a model of change in international trade, Fair Trade also sees itself as a project that can make consumers more aware of the issues facing producers in poorer countries. They then help the consumers turn into advocates for change in the international system.
5. **Fair Trade as a ‘social contract’:** Fair Trade wants buyers to see themselves as having a social contract with or responsibility for the producers. Buyers “agree to do more than is expected by the conventional market, such as paying fair prices, providing pre-finance and offering support for capacity building.”¹⁵ In return, the producers are expected to develop their local communities.

Thus, while the Fair Trade movement is largely associated with the labelling of products, it sees itself as a broader policy-oriented project aimed at bringing about a fairer international trading system. The associated product labelling is a means to this end. Fair Trade does not want to be seen as a charity but rather as a model for development and change. Further, the project sees itself as a direct response to ‘conventional trade’ in order “to deliver sustainable livelihoods and development opportunities to people in the poorest countries of the world.”¹⁶ It not only sees itself as a trading initiative, however, but also as “a diverse range of practical activities and programmes”¹⁷ that aim to aid impoverished producers through the ethical sale of their goods as the ultimate goal.¹⁸

¹³ “A Charter of Fair Trade Principles,” 7.

¹⁴ “A Charter of Fair Trade Principles,” 7.

¹⁵ “A Charter of Fair Trade Principles,” 8.

¹⁶ “A Charter of Fair Trade Principles,” 5.

¹⁷ “A Charter of Fair Trade Principles,” 5.

¹⁸ In this way, it seems reasonable to view the Fair Trade movement as a miniature or scaled-down version of my Two-Tiered Capabilities Approach to Trade

There are two routes through which Fair Trade goods are implemented. The first is the ‘integrated supply chain route’ where Fair Trade products are distributed and sold through organizations that espouse the Fair Trade philosophy. These organizations are used additionally as marketing channels to raise awareness of Fair Trade and to campaign for their principles. The second is the ‘product certification route’ where the FLO certifies that goods have been ‘produced, traded, processed and packaged’ according to Fair Trade regulations.¹⁹

In sum, Fair Trade is known for helping producers in poorer countries secure a fair price—one that secures a basic living standard—for their goods. Fair Trade simultaneously tries to ensure that this basic living standard is accompanied by decent working conditions. It also attempts to deliver a more direct global supply chain so that the relationship between producer and consumer becomes more direct. If the producers are organizations, Fair Trade requires them to be democratically structured and environmentally friendly. Additionally, “Distributors must offer a Fair Trade minimum price and premium (to be used for business or social development projects), pre-financing, long-term contracts, business and market assistance, and transparent business practices....”²⁰ In short, Fair Trade attempts to address many of the problems with the current international trading system.

Section II – Philosophizing Fair Trade

Economists often find the Fair Trade movement controversial, which I will discuss below. But as Andrew Walton points out, philosophers and policymakers also find it controversial due to its lack of clarity: how precisely are we to interpret this project? “There is no settled understanding of how the present Fair Trade project (its motivating goals and existing facets) is best characterised. In essence, there is no established answer to the question ‘What is Fair Trade?’.”²¹ Is it simply a charitable non-profit/non-governmental organization (NGO) despite its aspirations to be more? Is it an activist movement for global justice; a channel of protest for consumers? Or is it a new model for international trade?

Many of the characterizations that have been offered seem to have gone unevaluated or scrutinized. That is, many would argue that we buy Fair Trade products because they contribute to development, but the economic gains are dubious, as we see below. Others might argue that it reduces poverty, and we therefore have a moral obligation to purchase these goods. Yet others still might

¹⁹ “A Charter of Fair Trade Principles,” 11.

²⁰ Walton, “What Is Fair Trade?,” 433.

²¹ Walton, 431.

be less focused on the consequences of Fair Trade and argue that there is a deontological moral imperative to pay a 'fair price' for all goods.²²

In his article 'What is Fair Trade?', Andrew Walton attempts to address this question and characterize the philosophy of the Fair Trade project. Walton writes that any way of understanding Fair Trade must provide: "1. an account of the criticisms Fair Trade makes of the present market system and 2. an account of the manner in which Fair Trade assists producers."²³ He addresses five options in total, three of which he rejects immediately²⁴ because they do not meet these two criteria and two that meet the criteria that he considers in-depth. I discuss each of the two considered proposals in turn.

Two Views of the Fair Trade Project

Walton suggests there are two ways of seeing Fair Trade as a form of market justice. The first he calls 'The Interim Account,' which posits that Fair Trade is a temporary correction in a non-ideal world until perfect justice can be fully realized. The second he labels 'The Complete Ideal Account,' where we view Fair Trade as an idealized picture of perfectly just trade. He ultimately accepts the former and proposes that Fair Trade is best understood as a mechanism for establishing some form of 'global market justice.'²⁵ I evaluate each of the two, beginning with *The Complete Ideal Account*, as Walton ultimately rejects this option.

The Complete Ideal Account

The second understanding of Fair Trade that Walton explores is the idea that Fair Trade is itself an ideal version of international trade. This he calls 'The Complete Ideal Account.'²⁶ In effect, this version of international trade argues that markets themselves are compatible with global justice, but that they must be constrained—specifically in the ways that Fair Trade constraints them. Further, "the tools Fair Trade employs are themselves constitutive of ideal trade arrangements."²⁷ Ultimately then, Fair Trade is the idealized picture of global market justice and all trading relations should be shaped in this way.

²² Andrew Walton, "The Common Arguments for Fair Trade," *Political Studies* 61, no. 3 (2013): 691.

²³ Walton, "What Is Fair Trade?," 433.

²⁴ The views that he rejects are 1) 'Fair Trade as ethical consumerism' 2) 'Fair Trade as a development initiative' and 3) 'Fair Trade "in and against" the market.' As an overarching generalization, Walton believes that each of these depictions of Fair Trade are too narrow to capture the full scale of the project, and are also not in line with the stated goals of the WFTO (c.f. Walton, 431–38).

²⁵ Walton, 435.

²⁶ Walton, 434–35.

²⁷ Walton, 434.

The view offers an explanation of the assistance Fair Trade offers to producers by suggesting that the various tools it employs are attempts to re-shape dimensions of the trade relationship that seem to suggest injustices. The demands for direct-as-possible trade relations and pre-financing can be understood as attempts to remove the exploitation of middlemen. Similarly, the pre-set long-term contracts should reduce the instability of producer livelihoods. Producer welfare is also aided by the guaranteed minimum price, human rights protection, and business and community development projects (which enhance access to education and health care).²⁸

These criteria could certainly be in line with WFTO ideals. This depiction captures the idea that Fair Trade is a trading partnership model and that many of the traditional ideas about markets are not justice-promoting. The idea seems to be that if Fair Trade were properly scaled so that all trade interactions were based on the Fair Trade model then global market justice will have been achieved.

This view is far-fetched for many reasons, not least of which it seems that not even the WFTO itself sees Fair Trade in this way. They give no indication that their project is meant to be a path to complete global justice. Further, Walton argues that it is hard to imagine Fair Trade as idealized on any account of global justice, because there are prior *unfair* conditions in place that seem to make Fair Trade necessary.²⁹ If all people had equal market access and equitable trading relations (not falling prey to the structural vulnerabilities mentioned above), Fair Trade would be redundant. Thus, it seems that if we were to construct an *ideal* picture of trade, we would adjust the underlying conditions, not the market constraints. Finally, we also imagine that Fair Trade could eventually be phased out once complete, ideal background justice had been realized. Thus, Walton argues that we should prefer the interim account.

The Interim Account

The Interim Account (of Fair Trade) starts with the assumption that markets *can* be consistent with economic justice, which perhaps a relatively uncontroversial claim in much of the mainstream global justice literature. However, the background market conditions that exist as they are now are not consistent with justice. Fair Trade, then, Walton argues, aims at ameliorating this shortcoming. He sees it as a ‘second-best proxy’³⁰ to establishing complete global justice. “While Fair Trade does not constitute justice itself (this is a much grander project that requires international organisations with sufficient power to enforce political and

²⁸ Walton, 434.

²⁹ Walton, 435.

³⁰ Walton, 434.

redistributive rights), it does offer a form of justice-emulation or justice-promotion in the absence of justice being institutionalised at the global level.”³¹ Thus, Walton proposes that we see the Fair Trade project as a means of bringing about a kind of justice in the context of our current, imperfect or non-ideal conditions. The tools that Fair Trade provides then are best seen as “interim correctives necessary in circumstances which do not meet the standards required to justify allowing a freer market.”³²

Problems with the Interim Account

Walton’s proposal that Fair Trade “is best understood as an attempt to offer interim global market justice in a non-ideal world”³³ leaves us with many questions and problems which I now want to address. My critique follows in two parts. First, it is unclear exactly how we are meant to understand Fair Trade as ‘interim.’ Second, although Walton’s characterization of Fair Trade makes sense according to the conditions he set out, it is unclear that Fair Trade actually is an interim solution to global market injustices. I discuss each in turn below, before proposing an alternative third way to conceptualize the Fair Trade project.

First of all, it is unclear how Walton intends us to understand Fair Trade as an interim project. There seem to be three options: either it is 1) ideally interim in that if this project were to be properly scaled we would have complete market justice, 2) it is interim in that this version of trade is sufficient until something better comes along, or 3) Fair Trade provides a ‘stepping stone’ or path so to speak for getting to a better version of the international trading regime. Walton makes it fairly clear that the first understanding of ‘interim’ is not what he intended. In discussing fair background conditions and free markets, it seems that he does indeed mean Fair Trade is only valuable temporarily—the second or third options. Yet, the rejection of the first understanding might seem premature, as we do not know what Fair Trade would look like as a complete model of international trade, because it only encompasses a very small part of the current international trade in goods. (Asking if it *can* be scaled is another question completely. I address it below and argue that it cannot.)

Whether or not this is the case, Walton leaves us wondering: do we continue then to attempt to scale Fair Trade as far as possible, or does that distract us from the fundamental or ideal project of bringing about ideal background justice? Additionally, Walton clearly falls into the transcendental view of justice camp, as evidenced by his assertion that “Fair Trade does not constitute justice

³¹ Walton, 434.

³² Walton, 435.

³³ Walton, 441.

itself,”³⁴ implying that he does believe that a perfect form of justice exists. On this view, if Fair Trade is only valuable temporarily, it is hard to think of it as a form of *justice* at all. If it must later be replaced with free trade against the backdrop of ideal background conditions OR if it is a measurement put in place to eventually reach perfect justice, it is hard to see how these Fair Trade market constraints are ‘emulating’ or approximating justice at all. If instead, Fair Trade is justice ‘promoting,’ it seems reasonable to argue that Fair Trade can be promoting justice without attempting to emulate it, meaning that we need not see Fair Trade as a form of justice at all. That said, if it is justice promoting, on a transcendental view of justice, we need a definition of justice to understand the ways in which Fair Trade is promoting it.

Secondly then, this leads us to the biggest problem with Walton’s proposal: that Fair Trade is not a form of justice (or justice emulation/approximation/promotion) at all. Walton, in a way, attempts to preempt this criticism by addressing some common criticisms of Fair Trade. First, he levels the common ‘liberal critique’³⁵ that Fair Trade creates false markets. The critique suggests that the problems that producers face in trade are simply an issue with the market not functioning properly (efficiently). The producers who are most inefficient cannot access the market, but the solution is not to support them artificially; this creates ‘false markets’ or markets that would not exist based on the laws of supply and demand. Instead of propping up these inefficient producers through Fair Trade, we should encourage them to pursue other areas of production where they might be able to break into the market. “Essentially, it is argued, Fair Trade is actually offsetting efficient market processes by delaying and hampering this process.”³⁶ On the flip side of this criticism is the ‘Marxist critique’ that Fair Trade simply reinforces market mechanisms, which have never been and will never be compatible with any form of justice. Because Fair Trade functions within a capitalist framework, defined in essence by its market structures, it can never be considered an interim step towards justice. “At best, then, this critique asserts, Fair Trade will act only as a palliative; at worst it perpetuates the very structural problems of the capitalist system from which it claims to protect producers.”³⁷ Walton argues that both of these claims can be reduced to the following premise (P) and conclusion (C): “P: Fair Trade does not aim at or cannot achieve ideal ends.

³⁴ Walton, 434.

³⁵ I believe this is better labelled as an ‘economic’ critique, because there seems to be nothing essentially liberal to this claim. It is rather one that market economists commonly make.

³⁶ Walton, “What Is Fair Trade?,” 441.

³⁷ Walton, 441.

C: It is an erroneous project.”³⁸ Walton correctly points out that C does not logically follow from P.

That said, Walton’s defense of the argument is not robust. He cites Peter Singer and Jim Mason’s argument that just because Fair Trade may not be perfect, this does not prevent it from being worthwhile. “In other words, imperfection should not be misconstrued as worthlessness.” This is again true, but the problem with this defense is that Walton’s claim that Fair Trade is best depicted as an interim stage towards global market justice does not claim that Fair Trade aims or can achieve ideal goals. In fact, he gives us very little in the way of what interim means to him. He does note that “it is now common to think of the market as being broadly consistent with justice,”³⁹ but that, of course, is not a robust philosophical defense of markets. Indeed, Walton’s lack of critique of Fair Trade in general weakens his argument that it is best understood as an interim justice-emulating project. At best, it seems, Fair Trade may be construed as an interim corrective to *some* fundamental issues with international trade.

Thus, we can see that Walton’s depictions of the Fair Trade project fail to capture the nature of the project, or at the very least, the ambiguities entailed in his argument leave us wanting a better conceptualization of what Fair Trade is. I turn now to my own critique of Fair Trade, before proposing that instead of the project being interim to justice or complete market justice, it is best to think of the project as partial justice, defined as a comparatively better or more just state than many alternatives, yet not encompassing the entirety of the international trading regime and therefore unfit to be called a complete or even interim form of justice. Walton’s approach and my approach differ in that it seems he is capturing the idea of Fair Trade temporally, I propose to look at its scope. This is less important conceptually, and more important in its applications to the wider fair trade movement.

Section III – Critiquing Fair Trade

In this section, I levy four criticisms of the Fair Trade movement before discussing why we have to do better. Though there are myriad objections to Fair Trade that can be made, the following four seem to be the ones that best demonstrate why we have to do better.

Fair Trade is not a structural fix. As discussed above in Chapter 2, the problems with the international trading system are structural. Developed countries take advantage of developing countries through the market system and through the unfair rules of trade that they established. Fair Trade, however, is not

³⁸ Walton, 442.

³⁹ Walton, 442.

a structural fix, because it functions within the problematic market structures that are creating these problems in the first place. As Walton himself points out, Fair Trade is not a long-term solution, and indeed by arguing that it emulates not *promotes* justice, we might worry that in the long run, we may never get to a fully just system. Further, the problems in the international trading system, while they are structural, are not necessarily inherent to the nature of international trade. They are rather unfortunate byproducts that have been created by agents taking advantage of the system. While Fair Trade seeks to remedy this, it does not present us with a new or just model of trade and indeed works within the existing system. Indeed, Fair Trade works using current unfair or unjust market incentives. For example, studies have shown that when the world price of coffee drops, more people seek to obtain Fairtrade certification, because selling coffee through these channels becomes more profitable.⁴⁰ As Roozen and van der Hoff argue,

Fair Trade operates on the free market and accepts its rules: the price of a product is set based on factors such as efficiency, competition, and the quality of a product.... The Fair Trade movement does not challenge the market economy in itself. On the other hand, it expects something positive; it seeks to fundamentally rectify its secondary effects in order to come up with completely different social implications.⁴¹

This does not suggest that there is anything inherently *wrong* with market structures, but rather instead that (unjust) market structures as they are now allowed advantage taking. Fair Trade as a project does not remedy this. Simply setting a minimum price to market entry does not undermine problematic market pricing structures. Additionally, instead of erasing the current North-South trade imbalances, Fair Trade uses them to its advantage by marketizing and monetizing the plight of the global poor. While this may be a useful strategy to draw attention to the problem in the short term, it means that Fair Trade does not fix fundamental issues with international trade as it currently stands.

Fair Trade is not (fully) scalable. The second critique is largely a continuance from the first, because not only is Fair Trade not a structural fix, it seems that it could not be. The Fair Trade movement developed largely in Latin America where foodstuffs are a major, if not the major, export. Fairtrade certification grew up and around this context. To generalize, developing countries in different geographical areas tend to specialize in the production of different goods. In Asia, clothes and textiles tend to be a major export for developing

⁴⁰ Bruce Wydick, "10 Reasons Fair-Trade Coffee Doesn't Work," *Huffington Post* (blog), August 7, 2014, https://www.huffingtonpost.com/bruce-wydick/10-reasons-fair-trade-coffee-doesnt-work_b_5651663.html.

⁴¹ Roozen and van der Hoff qtd. in Ndongo Sylla, *The Fair Trade Scandal: Marketing Poverty to Benefit the Rich* (Pluto Press, 2014), 87.

countries, and in an African context, extractive industries tend to be major sources of export-based income.⁴² While Fairtrade is attempting to expand the branding to other sectors of production besides agriculture, its production is still largely biased that way. This means that it is unclear what this model might look like in other primary sectors, such as mining. Its goal of direct-as-possible producer-consumer relationships seems much harder to imagine in other sectors, as extractive industries are multinational due to their complicated processing and supply chains. This means that in this context, Fair Trade would not be dealing with individual producers. Additionally, in extractive industries, the resources must be refined, and this is often done in countries that do not or cannot participate in Fairtrade certification because their national income status is too high. Further, Fair Trade does not yet deal in services, and again because of the income requirement for countries to participate, it is hard to imagine that it will unless its goals or model change drastically, and then it becomes unclear if it would even be the same project. Additionally, it is uncertain what Fair Trade in services might mean, aside from decent working conditions and fair wages. But a fair wage tends to be less of a concern in many service industries, where wages can be disproportionately high compared to production sectors. Finally, in a movement that aims to form direct relations between consumers and producers, but in a world where corporations largely control international trade, Fair Trade and corporations seem largely at odds with one another. Thus, Fair Trade would need a shift in its fundamental goals and purpose to be a scalable model to encompass all international trade.⁴³

Fair Trade functions like a corporate/business model. One of the biggest criticisms levied against Fair Trade tends to be that the premium price that consumers are paying for Fairtrade goods is not all passed on to the producer. Estimates range from as little as 10-25% of the markup actually goes to consumers.⁴⁴ Much of the profit instead goes towards paying for the Fairtrade certification fees. These certification fees then go towards Fairtrade brand promotion. Many critics “feel that Fair Trade has grown into a complex bureaucracy and an industry in itself. Consequently, it has to charge high certification fees to cover these costs, which eats up a major proportion of the Fair Trade price premium.”⁴⁵ Essentially, Fair Trade’s continued existence depends on consumers continuing to buy their brand. There is another issue that as Fair Trade continues to grow, it means crowding out other businesses or brands. While this

⁴² Sylla, 133–34.

⁴³ I should make clear that the Fair Trade movement has not made it an express goal of theirs to replace all existing trade with Fair Trade. I simply point out the problem with scalability to show why Fair Trade alone is insufficient to bring about justice in trade.

⁴⁴ Sylla, *The Fair Trade Scandal*, 53.

⁴⁵ Sylla, 53.

may seem desirable for proponents of Fair Trade, it also reinforces the idea that Fair Trade is not an alternative trading model but indeed one that functions as a business within the existing international market system.

Fair Trade does not help the worst off. Despite Fair Trade's specifically stated goal "to deliver sustainable livelihoods and development opportunities to people in the poorest countries of the world,"⁴⁶ there is strong evidence that it does not do that at all. Fair Trade tends to work in middle-income countries, rather than low-income or LDCs, who need help from trade the most (as discussed in Chapter 2). In 2007, the countries with the most Fairtrade certifications were Mexico, Colombia, Peru, and South Africa, all of which are classed as upper middle-income countries by the World Bank.⁴⁷ Indeed, "Countries ranked by the World Bank as *upper middle-income countries* account for 54 per cent of producer organisations having received FT certification against 21 per cent in the case of *low-income countries*. As for LDCs, they only account for 13.5 per cent of effective certification demand."⁴⁸ Moreover, as noted above, middle-income countries tend to have a diversity of exports instead of relying on a few primary exports for development.⁴⁹ Buying coffee from more developed countries means that we are actually channeling money away from the very poorest countries.

One could reply here that at least Fair Trade is helping people in some countries, and does not actively harm anyone, so therefore this criticism is unproblematic. There are a few useful responses. First, we might concede this, but still say that Fair Trade would still be a better project if it helped the worse off. Alternatively, we might argue that there is a discrepancy between who gets help and who might be deemed to need it most. Fair Trade producers are restricted to developing countries, the logic being that the worst off individuals in developed countries have a domestic support system to help them. Yet, the difference between income between an upper middle-income country and a high-income

⁴⁶ Sylla, 53.

⁴⁷ Sylla, 63.

⁴⁸ Sylla, 131.

⁴⁹ For example: "Within the FT system, dependent countries are underrepresented, whereas those countries with the most diversified exports are overrepresented. Let us take the case of coffee, a product with a major distributive advantage, as it is mostly produced by small producer organisations. Ethiopia and Burundi are among the countries most dependent on coffee. Coffee accounts for 34% and 26% of their export revenue, respectively. For both these countries, only three FT coffee certifications were issued in 2009. In contrast, Mexico and Peru received 42 and 57 certifications, respectively, which represents nearly 31% of the effective certification demand for coffee. Yet these two economies are relatively diversified and, at any rate, coffee exports account for less than 2% of their export revenue. In Latin America, Honduras and Nicaragua are two countries relying greatly on coffee. In relative terms, their dependency on coffee is at least 10 times higher than that of Mexico and Peru. But their share of certification demand is lower." (Sylla, 132–33).

country tends to be proportionally much lower than the difference between an LDC and an upper middle-income country.⁵⁰ “In fact, if we choose to favour Mexico over France based on the need criterion, the same logic should mean favouring the poorest countries at the expense of wealthier developing countries.”⁵¹ Fair Trade has promised a lot in terms of being a development initiative, but its program is not helping those who need development the most. This ultimately means that although Fair Trade may not be problematic in this aspect, we might still think we want more from a model of fair trade.

Conclusion – Fair Trade as Partial Justice

As we have seen, the Fair Trade project is neither captured well by *Complete Market Justice* nor *Interim Justice*. Additionally, while we have seen that it has many admirable goals and benefits, there are numerous problems with Fair Trade. Thus, I propose that Fair Trade is best understood as attempting to achieve *Partial Justice*. Within the confines of the current market system, Fair Trade tries to promote ethical principles in certain areas of the economy. Thus, while it cannot, in its current form, be fully scaled or help the poorest of the poor, it can be said to be attempting to promote justice within its remit in international trade. Thus, like Walton, I see Fair Trade as compatible with the language of justice, but I simply see it as a matter of the scope of the project, rather than its temporal nature. The key difference here is the application to the wider fair trade project. It is important to know the precise role Fair Trade is playing in bringing about justice in international trade, its limitations, and its overall utility. Given the criticisms levied above in Section III, a depiction of Fair Trade that looks at the entire scope of the project, and what it can and cannot achieve is not only more accurate, but also preferable, to the conception of Fair Trade where it is only seen as ‘interim.’ Looking at the project’s scope can help us determine where exactly we need improvements.

Here it is worth considering a criticism of Fair Trade that might be levied by the Effective Altruist movement: that Fair Trade is not just at all and is therefore not worth pursuing. For example, in his book *Doing Good Better*, Will MacAskill cites criticisms similar to the ones that I laid out above⁵² and concludes, therefore, that “there is little altruistic reason to buy Fairtrade products. In buying Fairtrade products, you’re at best giving very small amounts of money to people in comparatively well-off countries. You’d do considerably more good by buying

⁵⁰ Rodrik, *The Globalization Paradox*, 135–36.

⁵¹ Sylla, *The Fair Trade Scandal*, 132.

⁵² C.f. William MacAskill, *Doing Good Better: Effective Altruism and a Radical New Way to Make a Difference* (Guardian Faber Publishing, 2015), 164–67.

cheaper goods and donating the money you save....”⁵³ MacAskill’s argument can be appealing, especially to development economists who know that Fair Trade cannot produce widespread economic growth.

I, like MacAskill, think the Fair Trade project is not a long-term fix. He and I differ on two key points, though. First, I am not looking for a model of human behavior, I am trying to devise a theory of what fair trade means; effective altruism cannot do that. Second, I *do* think there are things that we can learn from the Fair Trade movement that can be translated into a broader theory of fairness in trade. As I discuss in Chapter 6, paying attention to labor standards, human rights, and environmental standards are important parts of international trade. That said, admirable as its goals may be, we have to do better than Fair Trade.

⁵³ MacAskill, 167.

4

Political Theories of Just Trade

“The main features of contemporary international interdependence relevant to questions of justice are the results of the growth of international investment and trade.”

—Charles Beitz, *Political Theory and International Relations*

In the previous chapter, I engaged with a ‘real-world’ activist project to bring about a fairer world trading regime. In this chapter, I look at philosophers’ proposals to bring about just trade. Like the Fair Trade movement, these proposals should correct for or mitigate against the harms of trade that I identified in Chapter 2. This chapter contains a review of some of the most prominent literature on trade justice. It assesses and critiques each author and their thinking individually while drawing out common concerns. There are three common themes that I have identified in the literature: consent, distribution, and growth. Proposals for just trade entailing the latter two tend to treat growth and distribution together, thus I examine them together in this chapter, though I ultimately want to separate these concerns.

The first theme that I identify in this chapter is the issue of consent in trade. Consent should help mitigate against both imbalanced trading interactions and unfair rules of trade by ensuring that both are agreed to. I begin with Frank Garcia, who looks at the role of consent in a theory of just trade. Garcia is ambiguous as to whether consent must be applied to the rules of trade or trading interactions themselves, but given the context, it seems most likely that he primarily cares about consenting to rules of trade so that the structure of the international trading system is fair. While I conclude that consent is fundamental for any international trading relations, it is insufficient alone to build an entire case for just trade. Thus, we will need other relevant principles, as well.

With this in mind, I turn to Leif Wenar, who is also concerned with consent in trade. Wenar argues that several countries in the world today are selling off ‘stolen’ resources. Unlike Garcia, Wenar cares that each individual trade is consented to, rather than the rules of international trade necessarily being structured so as to entail consent. (That said, he does propose a structural fix so that rules are established to ensure that each trade is consented to in a meaningful way.) Once again, we see that consent plays an important role in countries being able fully to realize the benefits of trade. I argue that the end goal of Wenar’s

proposal to stop buying these stolen goods is similar to the aims of a Capabilities Approach to Trade, yet it focuses on rights instead of holistic development. Thus, while his proposal fixes one problem, it seems to overlook another. My Two-Tiered Capabilities Approach will help to secure both rights and development (though I am admittedly less concerned about property rights specifically).

Next, I look at the issue of redistribution and growth in philosophical theories of just trade. Here, I look at Aaron James's proposal for 'Structural Equity,' which is comprised of three principles of distributive justice to bring about structural fairness to the international trading regime. I tease out ways in which James also appears to have a functionalist understanding of trade, where he understands the point of trade to be the 'augmentation of national income,' and I subsequently question the method of redistribution to realize this. I argue that 1) augmentation of national income is not a sufficiently wide enough depiction of the point of trade, 2) that because trade does have a point, we need to prioritize it, and 3) redistribution therefore must be secondary to the concern of trade providing growth and development rather than the other way around.

Finally, I look at Matthias Risse's articles on 'Fairness in Trade' and his proposed principles to bring this about. Risse is concerned with prioritizing growth as a duty to developing countries and how to distribute the benefits and burdens of trade. I argue that my Capabilities Approach to Trade is a practical instantiation of Risse's principles of Fairness in Trade.

Consent in Trade

Frank Garcia and Consenting to the Rules of Trade

In his book *Global Justice and International Economic Law*, Garcia lays out three 'takes' on global (economic) justice. The book is not a specific work of philosophy, legal studies, or economics, but rather an overview of ways in which the three fields might work together to provide a more holistic understanding of tentative approaches to justice in international trade. None of Garcia's three takes, he claims, is conclusive, but each of them sheds light on some problems of international trade and the respective solutions that each approach can provide.

In Takes One and Two, Garcia takes pre-existing Rawlsian-inspired theories of global justice and applies them specifically to trade. Take One argues for globalizing Justice as Fairness and Take Two argues that there is sufficient evidence that some form of global communitarian justice could reasonably apply. I have chosen not to focus on them because they focus more on Rawlsian political theory than international trade, specifically. Garcia's Take Three is the one I shall focus on here, as it is the one where consent matters the most.

Take Three is an approach to trade that looks at its intrinsic characteristics and looks to analyze the very nature of the concept of trade, which Garcia argues is based on the idea of consent. This Take attempts to “shed light on subtle but important dynamics in contemporary trade relations, particularly as they involve substantial inequalities in power among participating states.... These inequalities and their effect on trade rules and trade negotiations undercut global justice through their effects on the rules of the game and on the possibility of true consensual exchanges.”¹ Garcia wants to focus on criteria that must be present in the practice of trade itself (in the very definition of trade, by his account) in order for trade to be fair. Anything that does not meet this definition of trade is then classed as an act other than trade; in other words, trade is fair if and only if it is free.²

Consent, Garcia argues, is the key factor in characterizing trade qua trade “rather than theft, coercion, or exploitation.”³ Ultimately, then, Garcia wants the international legal framework that underlies trading interactions to be structured in such a way to reflect the principle of consent. It should be noted that he does not employ the idea of consent as a formal way of enforcing international trade agreements, but as a necessary condition to define *what trade is*. Garcia writes that “what distinguishes trade from the many other exchanges we participate in...is that trade involves a transfer of economic value” by which he means “goods, services, or currency” and value is “determined by preferences and markets.”⁴ Because of this, he argues that trade, by definition, must be voluntary and consented to, otherwise the exchange entails “some element of theft.”⁵ (As we will see below, Leif Wenar has a similar picture of trade.) The idea of consent in trade is supplemented by the concept of ‘bargaining’ to reiterate the necessity of the voluntary nature of trade. “Bargaining, or the process of reaching mutually agreeable terms, is often a necessary element in reaching consent. Even when parties to an exchange do not actually bargain, the exchange presumes the freedom of both parties to consider and propose a variety of possibilities on the road to saying yes or no.”⁶

The idea of consent as a basis for just trade seems like a start promising to rectify the institutional harms of international trade, and here I attempt to construct a case for a consent-based theory of justice in international trade. First,

¹ Frank J. Garcia, *Global Justice and International Economic Law: Three Takes* (Cambridge University Press, 2013), 222.

² It seems then that by Garcia’s definitional approach in his 3rd Take, there is no such thing as ‘unfair trade.’

³ Garcia, *Global Justice and International Economic Law*, 216.

⁴ Garcia, 229.

⁵ Garcia, 230.

⁶ Garcia, 230.

I want to draw out the assumptions that are found in Garcia's argument that if trade is structured so as to entail his criterion, then it is *fair*. He writes "free trade involves consensual exchange – it has the consent of those involved in the trade. This is true at the level of private exchange, at the institutional level, involving the structure and negotiation of the agreements framing trade relations.... Otherwise it is not trade in the fullest sense but partakes of some form of oppression."⁷ Thus, he is seeking to capture the essence of international trade as consensual exchange, and from this work to infer the principles that are true to this idea of trade. This initially seems to be an appealing approach, because it gives trade a fundamentally ethical definition. On this account, we can then begin to look at the laws and workings of the WTO and reshape them so that they no longer reflect a value-neutral or purely economic definition of trade, but instead aim to produce an ethical international trading regime.

The question then becomes: to what extent we can ground a theory of just trade on consent alone? The answer seems to be that while consent is necessary for trade to be fair, it is not sufficient. Indeed, Garcia implicitly relies on a principle of legitimacy in order to claim that countries can actually consent to the rules of trade. This proves to have problematic applications for Take Three, because it ignores or fails to include other agents. That is, Garcia is concerned with trade between countries, but the idea of legitimacy relies on actors such as the people and other states in the international sphere. Thus, it is not as simple as Garcia makes it sound. Garcia also implicitly relies on the concept of equity in exchange, which ultimately leads us to question whether or not consent can do all of the work that Garcia wants it to for justice in international trade. He appeals to moral principles in addition to consent without explicitly stating them. I discuss these issues below.

The first problem that might arise in constructing a case for a consent-based approach to trade is that one might simply disagree with Garcia's definition of what trade is. If one were to disagree fundamentally with his notion of trade qua consented exchange, there is not much he can do to escape the objection. Thus, it is worth exploring the extent to which consent is necessary for trade. In other words, is consent actually an integral part of trade, or at the very least can it be? Trade, by definition and in practice, is an exchange and to exchange anything implies a level of voluntariness captured by the idea of agreeing to the exchange. That is, exchange by definition is voluntary; if it is not, it is some form of theft.⁸ Thus, we may see that we may later need to add normative elements to this theory

⁷ Frank J. Garcia, "Is Free Trade Free - Is It Even Trade - Oppression and Consent in Hemispheric Trade Agreements," *Seattle Journal for Social Justice* 5 (2007 2006): 505–6.

⁸ Leif Wenar uses this idea of voluntariness to justify his idea of theft in the trade of resources, as we will see below.

of consent, but for now, at least, we can see that consent does seem at least to be necessary for international trade. The next question becomes whether or not it can be the only principle needed.

We must then ask if consent by itself is sufficient to ground a theory of just trade. There are at least two levels on which consent could work: on a country level meaning that the rules of trade or exchange are consented to, and on a firm level, meaning that firms do not steal goods from one another. The first issue that arises, though it is not an insurmountable one, is that Garcia does not give us a working definition of consent. If we were working on an individual level, the idea of consent seems straightforward: both parties verbally agree to a deal; perhaps they make it official with a handshake or by signing a contract. The problem with using consent at the national level is that it is unclear who must do the consenting. Garcia does acknowledge this problem and suggests a solution, based on a Rawlsian idea of a 'consultative mechanism.'

It may be that as an adjunct to trade negotiations with under-representative governments, we require that such governments form a special consultative mechanism for the purposes of that negotiation, not for reasons of political theory but to safeguard for ourselves the possibility of creating genuine trade with the social benefits it may bring, and to minimize the risk of creating non-trade with its attendant social costs.⁹

He takes a Rawlsian idea of legitimacy and applies it to trade. Garcia argues that either democratic countries or countries with these consultative mechanisms can reasonably consent to trade. This also then suggests that consent is operating on the country level and applies to consenting to the *rules* of trade rather than the trade agreement itself. It then seems that the trade rules must be set up so to ensure that no individual trades occur without consent.

The problem then occurs when countries are not democratic or at least 'decent,' in the Rawlsian terminology. It is unclear if these countries are not allowed to engage in international trade. Further, would a despotic country with a consultative mechanism made of only political elites count as a sufficient consulting mechanism? There is no guarantee that this consultative mechanism will truly represent all of the people in the country. This means that a country with a consultative mechanism could reasonably consent to the rules of trade by Garcia's standard, but still leave parts of the population unconsulted and unconsenting. Yet, even if Garcia were then to concede that only meaningful democratic countries are allowed to engage in trade, we must consequently exclude most of the world from the international trading regime. This signals that consent of the representatives alone is impractical to bring about trade justice. It

⁹ Garcia, *Global Justice and International Economic Law*, 247.

seems here that Garcia wants other moral issues like legitimacy and democracy to also be at play here, and yet he does not seem to acknowledge that. It is true, however, that even in most democratic countries the individuals themselves do not actually consent to the rules of trade; the consent comes from much higher up. That said, let us assume for now that countries are the relevant parties to consent. We still need to know, however, what consent *is*, and what it might mean to consent to the rules of trade.

In order to determine what consent means in international trade, it is helpful to look at cases where Garcia argues that consent is missing, so we can determine from the missing pieces what needs to be there in order for the trade to be legitimate. Garcia contrasts trade with three situations that do not include consent to highlight that when consent is absent from trade, the practice becomes something else altogether.

1. **Predation:** These are cases where “an economic benefit flows from one party to the other but it is not mutual in a meaningful sense, and most important, it is not consensual.”¹⁰ One country is *preying* upon another’s vulnerability. Contract law recognizes that contracts signed in duress are not genuine forms of consent and will not recognize the contract as legally binding. Garcia then argues the same can apply in international economic law to recognize when a country has not fully and freely consented to a trade exchange. It is unclear that this is an immediately necessary law, because most international agreements, at worst, seem to fall under the two categories below. That said, it seems useful to allow countries to have recourse to this option should it become necessary
2. **Coercion:** Coercion, Garcia argues, is less heinous than predation. It occurs when trade is “mutual and in some basic way consensual,”¹¹ but there is something that weakens one country’s consent while still stopping short of theft or duress, as in the case of predation above. In law, this would not invalidate a contract, but rather serve as cause for some type of mitigation. An example of this mitigation may be some of the regional or preferential trade agreements discussed above in Chapter 2, where developing countries do not possess the same amount of bargaining power as their developed counterparts.
3. **Exploitation:** Here, Garcia relies on Hillel Steiner to add an additional criterion to the idea that trade must be both bilateral and voluntary. Steiner adds that in order for an economic exchange not to be exploitative, the two sides must be exchanging things of relatively equal value. Garcia writes that “By rough equality, I mean (and I take Steiner to mean) that

¹⁰ Garcia, 232.

¹¹ Garcia, 233.

both parties consider the exchange *fair* – there is an appropriate relation, in their eyes, between what they are giving and what they are receiving. Where two transfers are not of equal value, yet the exchange is voluntary, Steiner characterizes this as evidence of exploitation.”¹²

It seems relatively uncontroversial, as Garcia is suggesting, that each of these cases of non-trade is wrong because they do not involve some form of consent. Consequently, by consent, he seems to mean something akin to Feinberg’s definition where consent involves voluntariness¹³ and confers authorization to a second party.¹⁴ Thus, consent for Garcia might then include verbal agreement and argue that countries consent to international trade when there is some form of written or verbal (or otherwise standardly legally binding) agreement. This seems to be a promising definition, because, as Garcia shows, there is some sort of domestic legal precedents for this definition of consent, so it seems practical to scale it up to the international level.

The non-trade cases of predation and coercion, where there is not consent, are interesting and helpful because there is legal precedent in domestic contract law to mitigate or nullify contracts made under non-meaningfully consented to circumstances. These domestic parallels could be used as models to structure international trade law in such a way that trade agreements made under duress or coercion can be rectified in some way through the WTO. Yet in defining predation, for example, as categorically wrong, we run into the issue of whether or not it means that we must stop trade: either predation is wrong, and we must therefore stop trade, or predation is wrong, but it is better for the participating countries than not trading and therefore we must allow it to continue. Garcia does not tell us which option is correct but based on his principled account of consent and his condemnation of predation, it seems that he might opt for stopping trade completely. Additional evidence that he would be in favor of this position includes the fact that he cited domestic contract law as a parallel case that nullifies non-consented-to contracts. If predation were to occur on the international level, a nullified contract seems to suggest that trade can no longer occur. The problem with this is that this approach could leave people significantly economically worse off in a state of not trading than when they were being ‘preyed’ upon. Thus, it does not necessarily take the economic welfare of the participants into account in a

¹² Garcia, 235.

¹³ Voluntariness is key, because as philosophers of consent and coercion tell us, agreements made under duress cannot be said to be fully consented to (c.f. Robert Nozick, “Coercion,” in *Philosophy, Science, and Method: Essays in Honor of Ernest Nagel*, ed. Sidney Morgenbesser, Patrick Suppes, and Morton White (New York: St. Martin’s Press, 1969), 440–472; Joel Feinberg, *Harm to Self* (Oxford University Press, USA, 1986), chaps. 23 & 24).

¹⁴ Feinberg, *Harm to Self*, 173.

meaningful way. This is one reason to suggest that a purely consent-based approach to trade is insufficient.

Another curious thing about Garcia's three categories of 'non-trade' is that under his third category of exploitation, consent is no longer solely doing the philosophical legwork—an additional principle of equity, or equal exchange is also present—so this signals that exploitation is not a parallel case to predation or coercion. There is more to the problem of exploitation, in addition to consent and equity, than Garcia seems to acknowledge here. Exploitation, Garcia argues, is a case of non-trade that can appear as trade in practice sometimes, because two countries are not trading at equal value—one is exploiting the other. One might argue that this case is not purely about consent, because when one party agrees to exchange something for less than it is worth, the party must be doing so because it has no other option. Thus, although they may appear to give their consent, the lack of a meaningful alternative might signal that consent cannot *truly* be given. This can indeed be an issue of consent, but the reason that consent cannot be given might actually be an issue of freedom of choice or viable alternatives, meaning consent alone is not the only philosophical principle at work here. Alternatively, it may not be an issue of consent at all. Imagine that Andrea has many job offers, each with roughly the same salary, and she chooses to go to work for a company that pays men more than women. The company's action is morally wrong here even if she consents. Her choice to work there is independent of the fact that they are performing a moral wrong. Thus, even though her working there does occur with her consent, the presence of consent does not make this action moral. The same then applies to trade. Country A exploiting country B is morally wrong, whether or not B meaningfully consented to the trade agreement. Thus, consent cannot do all of the philosophical legwork in the case of exploitation that Garcia would like it to. This signals once again that Garcia's consent-approach to trade is not based solely on the principle of consent.

While adding additional principles helps Garcia to strengthen his case against instances where trade seems morally unfair, it does mean that consent alone does not seem able to ground a theory of just trade. It does, however, signal that consent is necessary in all of the cases addressed above so that trade does not collapse into an immoral exchange. Ultimately then, a consent-based approach by itself is insufficient to provide an overall picture of what just trade should look like. Garcia himself relies on principles other than consent, like legitimacy, freedom of choice, and equity in exchange to supplement his consent-based theory, even if he does so implicitly. Therefore, we can conclude that while it is necessary that fair trade includes consent, it is not sufficient to bring fair trade about. This then becomes useful below because truly consenting to the rules and structure of

international trade seems necessary for individual countries to be able to benefit from and utilize the gains from trade.

Leif Wenar and Property Rights

Like Garcia, Wenar is concerned with consent in trade; unlike Garcia, however, Wenar is concerned with the goods that are being traded—specifically, natural resources. Both in his book *Blood Oil* and in various articles, Wenar argues for a ‘Clean Trade’ policy that maintains that the world must stop buying ‘stolen oil’ and other resources from foreign tyrannical regimes. Thus, consent matters for Wenar insofar as the people of a country have agreed that the goods being traded can actually be sold off. I argue that this type of consent is easily subsumable under a Capabilities Approach to Trade, and that focusing on growth and development through trade can also help address the concern of property rights that Wenar has.

Wenar writes that today natural resource ownership, oil in particular, is still largely governed by the archaic principle of ‘might makes right.’¹⁵ More specifically, in many developing non-democratic, resource- or oil-rich countries, whoever has power over the land has the ‘right’ to sell off the resources. They have this right in the sense that they have both the political capability to control the extraction and sale of resources, and also in the sense that the international community recognizes this sale is legitimate in that countries will trade with whomever is selling the oil. These tyrants extract and sell their country’s resources and the general population does not reap the benefits of this trade. Wenar contrasts ‘might makes right’ with what he calls ‘popular resource sovereignty,’ which is the idea that the people should have control over the resources in their country.¹⁶ When we buy the oil from these tyrannical regimes, we do so without the consent of the people of that state. Thus, we are both empowering or legitimizing these regimes by buying oil from them, and we are simultaneously buying *stolen* goods. To illustrate the moral issue at stake, Wenar contrasts this with a domestic situation in a democratic country where a gang takes over a gas station by force.¹⁷ Under no circumstances would we say that the gang has the right to sell the shop’s petrol, nor do people who buy from them have a legal right to do so. Domestically, in democratic countries, might does not make right. So why, Wenar wonders, do we allow that principle to govern our trade policies with oil-selling countries?¹⁸ This is the basis of what Wenar labels ‘the oil curse,’ or the fact

¹⁵ Wenar, *Blood Oil*, 2016, 159–60.

¹⁶ Wenar, 193–96.

¹⁷ Leif Wenar, “‘Blood Oil’: How to Stop Funding Dictators,” CNN, accessed July 19, 2018, <https://www.cnn.com/2016/03/16/opinions/wenar-blood-oil/index.html>.

¹⁸ Essentially, Wenar is claiming, similarly to Garcia’s Take One, that liberal countries must also behave liberally internationally.

that much of the world's oil is mined and sold without the consent of the people to whom the oil belongs.

Wenar's argument can be summarized in four claims:

1. The people who live in any given country own the resources found there.
2. Governments cannot legitimately use or sell those resources without the consent of the people of that country.
3. Doing so is a violation of property rights, tantamount to theft.
4. Purchasing these resources is no different than purchasing stolen goods and is therefore morally wrong.

We can see here how consent plays a key role in Wenar's argument; if the people who live in the country own the resources, then they must also consent to their sale. Before moving on to assessing Wenar's proposed solution, it is worth a brief detour to explore the fundamental claim upon which Wenar's argument rests: that the people of a country have ownership over natural resources found on their soil. "The natural resources of a country belong to the citizens of that country, and no one may sell off that property without some sort of authorization."¹⁹

In support of his claim that the people of a country own their natural resources, Wenar cites examples of international treaties that endorse this idea. For example, Article 1 of the International Covenant on Civil and Political Rights states "All peoples may, for their own ends, freely dispose of their natural wealth and resources...."²⁰ He also cites national constitutions that claim ownership of the natural resources within their borders.²¹ While nations asserting their ownership may seem slightly dubious, and international treaties (especially on human rights) tend to be treated as symbolic and unenforceable, the principle of national property ownership is gaining strength in international economic policy. The Kimberley Process for diamond certification, for example, although its main purpose is to prevent the sale of diamonds from funding dictators, also has the by-product of further enshrining the principle of national natural resource ownership into international code.²² Ultimately then, while a more theoretical proposal might object to national ownership of resources, in presenting a real-world solution, Wenar operates within existing legal frameworks.

¹⁹ Leif Wenar, "Property Rights and the Resource Curse," *Philosophy & Public Affairs* 36, no. 1 (2008): 12.

²⁰ "International Covenant on Civil and Political Rights," Art. 1, accessed July 19, 2018, <https://www.ohchr.org/en/professionalinterest/pages/CCPR.aspx>.

²¹ The 2005 Iraqi Constitution, for example, asserts in Article 108 that "Oil and gas are the property of the Iraqi people in all the regions and provinces."

²² In order for a country to participate in the Kimberley Process, it must guarantee that any diamond that comes from its soil is accompanied by a certificate, is not sold to finance rebel or terrorist groups, and is not exported to a country not participating in the certification process. In other words, on this scheme, countries are responsible for the natural resources (diamonds) found on their soil.

This assumption is not without its critics, especially cosmopolitans. Charles Beitz, for example, strongly disagreed with this claim. Beitz compares the possession of natural resources to Rawls's argument of the moral arbitrariness of the possession of natural talents. Beitz, however, argues that resources, unlike natural talents, are not constitutive of the self, and the people who simply happen to find the resources on their land do not have a *prima facie* claim to them. Therefore, ownership of natural resources needs justification, and Beitz goes on to use this as an argument in favor of global distributive justice.²³ Wenar responds that the problem with this objection is not necessarily in its lack of normative value. He seems agnostic to whether or not there is a *moral* right to the resources in the country. Yet Wenar is concerned here with *legal* rights and notes correctly that there is sufficient international precedent to maintain that people have a legal right to the resources in their countries.²⁴ Thus he levels a challenge that generally faces cosmopolitans: the world is, as a matter of fact, organized into states, and does not currently function in a way that acknowledges world ownership of resources. Therefore, for Wenar's purposes—to find a workable solution to the oil curse—it makes sense for him to take the world as it is.

Granting Wenar's claim that people have a right to their resources, I now move on to discuss his proposed solution to remedy this resource theft. Wenar's solution is that we must institute a 'Clean Trade Act' in all democratic countries. That is, democratic countries should refuse to buy oil from countries where people do not have collective ownership over the resources.²⁵ A Clean Trade Act enforces the property rights of the peoples of these countries by disengaging commercially from those who would sell off their resources:

- This Act makes illegal the purchase of resources from a disqualified country and sets out legal penalties for making purchases or facilitating imports.
- The Act denies all commercial and financial facilities of the home jurisdiction to vendors of a disqualified country's resources. Regime members and militants from disqualified countries will be barred from entering the home jurisdiction. Sale of real estate to them will be prohibited, as will be sale of any domestic goods and services (including financial services). No regime-controlled businesses will be permitted to list on enacting-country stock exchanges, and no inward investment will be permitted from the wealth funds of disqualified countries.
- The Act declares all judicial venues of the home jurisdiction closed to the actors in a disqualified country who control the country's resources. Any

²³ Beitz, *Political Theory and International Relations*, 143–53.

²⁴ Wenar, *Blood Oil*, 2016, 230–31.

²⁵ Wenar, 283.

resource contracts to which these actors are party will be unenforceable in home-country courts.²⁶

Certain minimum conditions must be met in order for it to be possible for the people to authorize the sale of their natural resources, either by requesting, agreeing, or tacitly consenting that the goods be sold.²⁷ Ultimately the government must have mechanisms for the citizens to express their discontent, and Wenar suggests using Freedom House²⁸ as a way to determine whether or not these standards are in place. Countries with a Freedom House rating of ‘7’ are trading stolen goods,²⁹ and the onus is on us to stop buying from them. If those conditions are not met, we assume the goods are stolen and do not buy from that country.

²⁶ Wenar, 284.

²⁷ These conditions are as follows: “1. *Information*: Citizens who cannot find out about the management of their resources cannot approve that management, even tacitly. At the very least, the average citizen should be able to obtain reliable general information about who is getting the revenues from resource sales and how these revenues are being spent. Citizens need not have the details of all commercial arrangements (any more than, say, shareholders do). But there must be some systems in place that will reliably alert citizens to what they would regard as gross mismanagement of their assets. 2. *Independence*: To be authorizing, approval must not be forced. Citizens who are brainwashed, relentlessly propagandized by the regime, or subject to extraordinary psychological manipulation do not authorize the management of their resources even if they remain silent as those resources are being sold. North Korea may have oil, but the comprehensively dominated people of that country could not now give tacit approval to the regime selling off their oil, even if the regime were inclined to do this. 3. *Deliberation*: For the people to be able to approve the regime’s resource management, citizens must be able to discuss that management with each other. Ordinary citizens must be able to pass information to each other about resource laws and policies without reasonable fear of suffering major harms like serious injury, loss of employment, imprisonment, torture, disappearance, or death. And citizens must be able to debate the regime’s resource policies with each other, in public or in private, without reasonable fear of such harms. 4. *Dissent*: To approve the regime’s resource management, citizens must be able to dissent from that management without risking severe costs. Any regime claiming that it has the authority of the people for its resource management must allow the people to disagree with that management. Citizens must be able peacefully to express their dissent, alone or together, inside or outside of formal mechanisms, without justified fear of major harms.... And the people’s dissent must work: if a majority of citizens strongly oppose the regime’s resource management, that management must, within a reasonable time, change to reflect the people’s opposition” (Wenar, 227–28).

²⁸ “Freedom House is an independent NGO established in 1941 by Eleanor Roosevelt and Wendell Wilkie.... Since 1972 the organization has published Freedom in the World, an annual evaluation of political conditions in countries around the world. The survey uses indicators drawn from the Universal Declaration of Human Rights to rate each country in two broad categories: civil liberties and political rights.... The Freedom House report assigns each country a rating from 1 (best) to 7 (worst) on civil liberties and on political rights.” (Wenar, 23).

²⁹ Countries with a civil liberties rating of 7 “have virtually no freedom. An overwhelming and justified fear of repression characterizes these societies.” For countries with a political rights rating of 7 “political rights are absent or virtually nonexistent as a result of the extremely oppressive nature of the regime or severe oppression in combination with civil war. States and territories in this group may also be marked by extreme violence or warlord rule that dominates political power in the absence of an authoritative,

Further, he recognizes that not all countries will impose a Clean Trade Act and that we will likely continue to trade with those countries. This means that even though, for example, we are not buying stolen oil directly from Sudan or Saudi Arabia, the stolen oil can still be used in Chinese products that subsequently enter Clean Trade countries and those ‘hands’ will still be dirty because they are benefitting from stolen oil. Thus, we must impose a tariff on all goods made by countries who deal in stolen oil. Though Wenar glosses over this tariff in his book, elsewhere he calls this a ‘Clean Hands Tariff’ the proceeds of which go into a ‘Clean Hands Trust’ for every country that is currently having its resources stolen.³⁰ This money will then be waiting for the people when they have managed to secure basic human rights. An illustration will be helpful here before I proceed. The United States enacts a Clean Trade Act which means they stop buying Saudi oil altogether. China, however, does not stop trading with Saudi Arabia, nor does America stop trading with China. Yet, to punish China for continuing to buy stolen oil, the United States imposes a tariff on Chinese imports. The income from this tariff is put into a fund that the Americans establish for the people of Saudi Arabia. The Saudi people will qualify for these funds once there is a basic level of human rights in their country.

Wenar’s idea of consent is more modest than that of Garcia’s. Instead of trying to ground an entire theory of just trade on consent alone, he attempts to use consent to shore up property rights in international trade. In this way, trade becomes a tool for guaranteeing property rights. In my own theory, I agree that trade is a tool as well, but one of development prioritized over property rights. In the case of Wenar’s proposal, however, development and property rights come into conflict, as I show below, and the question becomes which we prioritize. I argue that Wenar has the causality of his proposal backward. By prioritizing development, we can subsume property rights and consent under the umbrella of development, yet it seems that focusing on property rights as a primary concern takes away from a more holistic concept of development.

Although Wenar does not offer us a specific theory of development in trade, Clean Trade and a Capabilities Approach to Trade seem to be compatible. Indeed, implicitly, by arguing for building up domestic rights and democratic procedures, it seems that Wenar is describing a sort of political capability development. Thus, a Capabilities Approach to Trade seems to be able to deal with many of Wenar’s concerns; even though the primary methodologies are different, the end goals are similar. Below, I discuss some of the shortcomings that I see with

functioning central government.” (“Freedom House,” accessed July 19, 2018, <https://freedomhouse.org/>).

³⁰ Wenar, *Blood Oil*, 2016, 289–91.

a focus on a Clean Trade approach to development, and discuss why a broader theory might be preferable.

First, Wenar's account of theft in resource trade applies as a blanket principle across an entire country; yet in many of these resource-rich countries, there may be peaceful parts that are under the rule of law to a greater extent than other parts. On my account, it seems necessary to make a moral distinction between resource extraction and sales that benefit the local populations by providing jobs and foreign direct investment (FDI) and parts of the country where resources are extracted at gunpoint (so to speak) by warlords that then go on to fund insurgencies.³¹

Moreover, Wenar's focus on this moral purity in resource trade has some surely unintended immoral effects. For example, by creating Clean Trade Funds that are controlled by Clean Trade countries (that we assume will be powerful, Western countries), we inadvertently create more, or at the very least, deeper power structures, in allowing the West to manage funds that technically belong to developing countries. In addition to being paternalistic, it serves to strengthen Western power structures that were created largely by the colonial occupation of many of these countries in the first place. If we care at all about historical injustice, Wenar's solution does nothing to rectify colonialism, and in many ways, reinforces it. Who monitors these funds? Who decides when a country is sufficiently democratized to receive the money? What gives some countries the right to withhold money that 'legally' (according to Wenar) belongs to the people of another country? To the first two questions, Wenar does not give an answer. To the third, the answer is likely to be the moral superiority that Western countries gain from 1) their democratic legitimacy and 2) the fact that they are not trading in stolen goods. Ultimately, though, Wenar's proposal seems like Western interventionism in a subtler way.

In many ways, then, Western countries like the United States become the moral arbiters of the oil-cursed citizens. Further, despite the huge role that consent plays in Wenar's theory, it only seems to matter when the people are not subject to a 'protector,' so to speak. That is, it seems odd at the very least that Wenar places such a high priority on consent when it comes to one's own (tyrannical) government, but he does not seem to be concerned with the fact that we might also require consent from those same citizens in order for the West to stop trading there. Surely consistency would require that the U.S., for example, only stop trading if the people asked or tacitly consented to it. Further, by Wenar's own standards, it seems that trade would be morally permissible if the owners of the resources consented to it.

³¹ Collier, *The Bottom Billion*, 190.

Here we begin to see that Clean Trade becomes less about trade and more about power relations. Thus, one may begin to wonder if Wenar's analysis is misplaced: surely it is *bad* to sell off 'unowned' resources, but should that really be our primary concern? Conversely, prioritizing what trade can do for capability development and ensuring that trading relations are structured around that end can help to ensure property rights and build a democratic culture, as I argue below. Thus, I want to argue that trading can ultimately be better for capability development than not trading, as in the case of Clean Trade. I aim to show in Chapter 6 that my proposal to focus on growth and development through trade can deal with several of Wenar's concerns. A Capabilities Approach to Trade can subsume consent and property rights, but not the other way around. That said, both Wenar and I both are proposing ways means of fixing (or more appropriately, reimagining, in my case) a broken trading system and arguing that the ultimate goal should be greater welfare of the people. Property rights by themselves, however, directly prioritize a specific type of capability development, that which we might call political capabilities, and does so with some potentially damaging side effects. A Capabilities Approach to Trade, on the other hand, provides a more holistic framework for development that includes focusing on economic growth as well as political and social development and can be tailored to each individual country's priorities and needs.

In terms of consent in trade, then, it can help us to mitigate against some of the harms of trade identified in Chapter 2. Specifically, the idea of consent is useful to ensure that domestic economies are benefitting from trade in the way that best suits them, rather than being subject to rules of trade governed by international power, which can help to improve international trading relations and outcomes. That said, there are additional important issues necessary to bring about just trade. I address two of these, growth and redistribution, in the next section.

Growth and Distribution

Aaron James and Redistribution

Here, I look at Aaron James's proposal for fairness in international trade, which he calls 'Structural Equity.' For James, fairness applies to the social practice of market reliance "in which countries mutually rely on common markets...for the sake of augmenting their national incomes."³² In other words, James is concerned with the way in which countries rely on international markets, and they face this

³² Aaron James, "A Theory of Fairness in Trade," *Moral Philosophy and Politics* 1, no. 2 (2014): 178.

reliance because of either the desire or necessity (it does not seem to matter much to his inquiry which it is, though prioritarianism does play a role in terms of distributing benefits of trade) to supplement GDP. He argues that, because this collective social enterprise is comprised of interactions that have direct effects on the parties involved, it is subject to principles of fairness:

The international practice of market reliance can be organized in different ways, with varying consequences for the national incomes of different countries and for the socio-economic prospects of their respective social classes. Countries may benefit from trade to very different degrees overall, and specific groups of people may on balance be “losers” from freer trade even if their country gains in the aggregate.... The collective choice of organization, through negotiated agreements or trend-setting unilateral action, is therefore subject to basic moral demands of fairness, beyond mere considerations of national interest, efficiency, or overall welfare.³³

The implication here then is that in order for fairness to arise, it must be triggered by a ‘social’ practice.

James labels his proposal for a just trading ‘Structural Equity,’ which is grounded on the idea that the trading system must be structured in such a way that the benefits and burdens of trade are distributed in an equitable way. By this, he means “according to principles no one can reasonably complain of”³⁴ or one which is reasonable to everyone. Structural Equity has three tenets that “arise simply in virtue of the responsibilities that emerge from the distinctive kind of social relationship that the global economy in fact is.”³⁵ I explore each of these below.

The three principles of Structural Equity are as follows and outline responsibilities that correspond to ‘socio-economic tendencies’ normally occurring in trade.³⁶

1. **Collective due care:** “trading nations are to protect people against the harms of trade (either by temporary trade barriers or ‘safeguards,’ or, under free trade, by direct compensation or social insurance schemes). Specifically, no person’s life prospects are to be worse than they would have been had his or her society been a closed society.”³⁷
2. **International relative gains:** “gains to each trading society, adjusted according to their respective national endowments (e.g. population size,

³³ James, 178.

³⁴ James, 178.

³⁵ James, *Fairness in Practice*, 18.

³⁶ James, “A Theory of Fairness in Trade,” 180.

³⁷ James, *Fairness in Practice*, 17.

resource base, level of development) are to be distributed equally, unless unequal gains flow (e.g., via special trade privileges) to poor countries.”³⁸

3. **Domestic relative gains:** “gains to a given trading society are to be distributed equally among its affected members, unless special reasons justify inequality of gain as acceptable to each (as, e.g., when inequality in rewards incentivizes productive activity in a way that maximizes prospects for the worst off over time).”³⁹

James claims that Structural Equity is basic and central because “it applies to the social practice without which the global economy as we know it would not exist.”⁴⁰ Further, he proposes that addressing the structure of trade in this way is more fundamental than, and applies prior to, less basic concerns such as Fair Trade, fair wages and exploitation, or equal growth. “Fairness in trade can be seen to generate limited but significant egalitarian requirements of distribution given only relatively plausible assumptions about the international system, *the economic point of trade*, and specific moral judgments” (emphasis added).⁴¹ This implies that James, like I do, believes that trade does have a point, and similar to me, he thinks that that point is the augmentation of national income. I agree that this is part of the point of trade but think that growth and development should be understood more broadly than this.

My analysis of James’s proposal comes in two parts. First, I examine the redistributive mechanisms at play in James’s theory. Second, I look at the role of gains of trade and economic growth in relation to redistribution to show how, while James’s concerns about losers from trade are well-placed, a redistributive approach is not able to capture the full range of benefits of trade, nor can it deal with all of the concerns about the harms of trade addressed above (specifically in terms of concerns like sustainability and non-exploitation associated with the Fair Trade movement).

Redistribution

Principle I: Collective Due Care

The first principle of Collective Due Care is intended to correct for the burdens or harms of trade. The grounding assumption is one we have heard before: morally, no one should be worse off simply because of participation in a practice. For example, if international trade causes wages to drop in one sector, we have a duty of care to compensate these losers from trade. Due care then requires either

³⁸ James, 18.

³⁹ James, 18.

⁴⁰ James, 19.

⁴¹ James, “A Theory of Fairness in Trade,” 183.

“market protection or a social insurance scheme”⁴² or a “compensatory social safety net.”⁴³

Collective Due Care is a principle of redistribution, and what Sean Ehrlich calls ‘the compromise of embedded liberalism’ that economists use to justify free trade. Building on Ruggie’s embedded liberalism thesis,⁴⁴ Ehrlich argues that liberals can ‘buy off’ opposition to free trade through redistributive measures and safety nets, and thus “enable trade to continue despite its costs.”⁴⁵ The problem with redistribution here is that it does not fix the root of the problem of unfair trading practices. While it does seem to fix some of the internal issues with international trade that I identified in Chapter 2, redistribution will not deal with the root causes of unfair structures of rules of trade. Like all redistributive solutions for justice, they allow the fundamental problem to continue and then attempt to mitigate against the unequal or unjust consequences.

Furthermore, James’s solution only seems to work if national income rises through trade. If compensation is to be given to the losers of international trade, this extra money has to come from somewhere. If a particular country is a net loser of trade (due to the advantage taking or unequal terms of trade), then countries as a whole could indeed be worse off overall due to James’s principle of Collective Due Care. As Suranovic puts it, “the only way to assure that everyone gains from free trade after compensation is if there is a positive national welfare effect from trade liberalization.”⁴⁶ Yet, James acknowledges that many less developed countries (LDCs) will not have the infrastructure to provide these types of protections, which is why the principle of due care must transcend borders and apply globally, or at least to all trading partners.⁴⁷ Thus, individuals in developing countries who do not benefit from trade must be compensated from somewhere else.

Further, if the point of trade for James is the augmentation of national income, James has nothing to say about trade that does actually fulfill that purpose. It seems that 1) trade must augment national income in order for Collective Due Care to be an effective principle, and 2) if trade does not fulfill this purpose, surely the more fundamental question then is ‘what is preventing this from happening in the first place?’. This is an issue that redistribution cannot resolve.

⁴² James, *Fairness in Practice*, 20.

⁴³ James, 213.

⁴⁴ C.f. John Gerard Ruggie, “International Regimes, Transactions, and Change: Embedded Liberalism in the Postwar Economic Order,” *International Organization* 36, no. 2 (1982): 379–415.

⁴⁵ Ehrlich, *The Politics of Fair Trade*, 45.

⁴⁶ Steven Michael Suranovic, *A Moderate Compromise: Economic Policy Choice in an Era of Globalization* (Springer, 2010), 43.

⁴⁷ James, *Fairness in Practice*, 213.

James wants to claim that considerations of harm apply to *all people in the world*, even those not involved in trade. It is still a moral necessity even if these harms “are only indirectly related to trade practice’s aim of augmenting national income.”⁴⁸ Given the problems with international trade *not* supplementing national income discussed above in Chapter 2, the principle of Collective Due Care seems to be missing an important moral consideration about where the means for compensation might come from. If Structural Equity is truly to be basic, it seems that the *most* fundamental problem is addressing the root of these inequalities in the first place. I address this further below.

James must then face other, more practical questions about this principle: Who is responsible for the compensation; who pays for it and how? If we grant that countries have a *prima facie* right to trade,⁴⁹ and yet countries outside the trading regime are harmed, what precisely is owed to them when others’ rights infringe upon theirs to, say, remain unharmed? What about negative environmental externalities caused by trading nations that do not harm any one person or country in particular, but will eventually harm us all? I do not seek to provide answers to these questions, merely to illustrate the complications that arise from the criteria of Collective Due Care and that perhaps a clearer definition of what counts as a harm would strengthen James’s case.

It is also unclear which agents James has in mind in his account of Collective Due Care. Collective agents, namely states or governments, are those agreeing to the rules of trading, and corporations are the agents doing the trading, but the ones harmed and to whom compensation is owed are individuals. States are made up of people—are those people responsible (through taxation or other redistributive mechanisms) to compensate those left worse off even if the citizens of the trading nations had no say in the matter originally?

Identifying the winners and losers from trade is incredibly difficult. The same groups of people might gain in some ways, say through the ability to purchase goods more cheaply, and lose in others, for example through decreased wages. The principle of compensating these people then becomes even less clear. We need some mechanism by which we can judge exactly what ‘worse off’ means. While this is by no means a damning criticism of James’s theory of redistribution, it does demonstrate several of the very practical problems with a redistributive approach to trade. It seems instead then, that a model that can preempt these problems would be preferable. Indeed, this is the motivation behind the Fair Trade movement discussed above. Whereas compensation policies can assuage issues of

⁴⁸ James, 219.

⁴⁹ This is still a controversial claim in itself, as it is still unclear that countries even have rights.

inequality, they do not address concerns such as fair wages, non-exploitation, or sustainability.

Principles 2 and 3: International and Domestic Relative Gains

James's second and third principles are about distributing the benefits, rather than compensating for the burdens, of trade. Note here that James is careful to say that Structural Equity does not guarantee equal outcome; and in fact, will likely have unequal outcomes.⁵⁰ The point, rather, is that the structure of the international trading system should be fair and therefore the procedure for sharing in the gains of trade are fair. As James puts it, Structural Equity is about 'fair play' between countries.

As above, an immediate practical issue arises from these two principles: How do the domestic and international adjustments work logistically? Trading countries will have significant differences in labor force composition, natural resources, and other factors of production. James tells us that we must adjust for population size, but that is the only factor we are supposed to adjust for according to Structural Equity. Yet this makes little sense for a theory of justice in trade. Distributing the benefits of trade will have vastly different practical effects on countries that, even with the same population sizes, have very different unemployment rates, which trade can then subsequently affect. Population size does not seem to be the primary factor to consider in terms of distributing the benefits of trade.

Additionally, James does not tell us how other differences in the factors of production, in addition to labor, might be factored in when considering how benefits are distributed. We need to know exactly how this would be done. Is it to be in terms of macroeconomic policy benefits (e.g. tax credits) or do we simply distribute tangible goods? What if there are not enough resources to go around, will there be a priority for the worst off or do they go to those who are harmed most directly by the trade interaction? Will there be a supranational body that ensures that these principles are upheld? People may have a right to benefit from the gains of trade, but these rights seem meaningless without something to enforce them.

Here, it is briefly worth mentioning some general points about these two principles. In terms of the second principle, Domestic Relative Gains, James states that because trade results from national-level policies, any benefits or gains from trade will be at the macro or aggregate level, as well.⁵¹ He additionally gives no requirements for domestic-level distributive justice, but rather argues that fairness in trade will in essence give rise to "principled requirements of internal

⁵⁰ James, *Fairness in Practice*, 19.

⁵¹ James, 219–20.

egalitarian distribution of some such kind.”⁵² As Risse and Wollner have pointed out, if we measure the benefits at the country level, we are left with no recourse to determine how to adjust the gains of trade if certain parts of the population are harmed and others gain, which, once again, is often the case with international trade. Even if James did give us a more specific principle of domestic distributive justice (the Difference Principle, for example), he is still left with the logistical problem that some people might gain in some ways while being harmed in others; or that the majority of the population benefits while a minority are harmed. This is not a damning objection, but requires additional work before we can claim, as Risse and Wollner say, that “free trade is morally advisable.”⁵³

James goes on to argue that it is more important that the gains of trade be distributed more equally at the *international* level. Hence, we get the third principle: International Relative Gains. More developed countries (MDCs) have a lesser legitimate interest in ‘greater wealth’ (the specific type of gain from trade that James is concerned about with this principle) than developing countries. Thus, International Relative Gains reflects “priority for the worse off.”⁵⁴ The MDCs are of course entitled to benefit from trade, but James believes it is fair for the LDCs to experience greater gains (again in terms of wealth). James also claims that International Relative Gains is more demanding than some form of an international Rawlsian Difference Principle because there must be some ‘development goal’ to ensure that the advantage is realized. A further note on the relevance of the ‘international’ aspect of International Relative Gains tells us that this principle, “provides no scope for comparing levels of gain for any two individuals of the world. The first principle does consider harm to individuals (or members of social classes), whether or not they live within the trading system.”⁵⁵ Yet as far as *gains* are concerned, we only look at them within the trading system; whereas, as long as no one is harmed, we looked at the *benefits* of trade at the level of countries as a whole.⁵⁶ It seems immediately unclear why *negative* byproducts (harms) are analyzed, accounted for, and corrected *outside* the trading system at the *individual* level, but *positive* outcomes (benefits) that are direct results of a trade interaction, we only assess at a *national* level. James believes that trade is undertaken for the purpose of augmenting national income, so this clearly seems to be why he only cares about benefits at the national level. The problem is that he

⁵² James, 221.

⁵³ Mathias Risse and Gabriel Wollner, “Critical Notice of Aaron James, *Fairness in Practice: A Social Contract for a Global Economy*,” *Canadian Journal of Philosophy* 43, no. 3 (May 4, 2013): 386.

⁵⁴ James, *Fairness in Practice*, 223.

⁵⁵ James, “A Theory of Fairness in Trade,” 181.

⁵⁶ James, 181.

seems to be concerned about individuals on some level, as I think he rightly should be, and this does not come through when discussing the benefits of trade.

Gains of Trade

It is here worth discussing, as it later pertains to my own theory as well, what precisely the gains of trade are. James issues an important caveat about his second and third principles:

The second and third principles concern the national income gains that arise from trade, due to greater allocative efficiency in the division of labor, economies of scale, and the spread of technology and ideas. The ‘gains’ in question are not the total economic improvements that result among societies in a trading relationship.... At issue presently are only the gains in productivity that result *specifically due to trade*, as specified in economic theory....⁵⁷

Here we can see that James is focusing specifically on the neoclassical category of gains from trade that are largely exogenous and static, in that they are one-off gains in overall macroeconomic efficiency gained by entering into international trade. These gains are directly related to the theory of comparative advantage, which says that countries trade because it benefits them to specialize in a good that they can produce at a lower opportunity cost (in terms of other goods or services) than another country. As we saw above, the Ricardian model of international trade tells us that when a country specializes in the production of a certain good, it can then dedicate its extra labor and other resources in the most efficient way possible—to making that good—meaning it can produce more and sell more and benefit from an economy of scale.

Yet, as discussed in Chapter 1, the benefits of trade are not always static gains, or indeed external growth factors. Economists have now begun to recognize and analyze what are known as dynamic gains of trade,⁵⁸ or gains that occur in terms of the overall development *rates* (as opposed to levels) of an economy over a period of time and are not as easily quantifiable and harder to track through a country’s macroeconomy. These gains have to do with overall productivity of the economy. They look at increases to productivity in firms; ‘intermediate imports,’ or imports that are then used to produce final goods; and complementary policies that influence the aforementioned areas but are not related to the trade policy of a country as such. Ultimately these gains influence the level of economic activity

⁵⁷ James, 180.

⁵⁸ C.f. Stone and Shepherd, “Dynamic Gains from Trade.”

within a country but are not as traceable or tangible as a number such as an increase in the augmentation of national income or growth in GDP.⁵⁹

It is true that static gains of trade are easier to pinpoint, measure, and therefore adjust for or redistribute, due to their nature. That said, it would be a mistake not to include dynamic gains of trade when discussing the benefits of trade, but James does not seem to have a way to factor these into his theory of distribution in trade. The problem is that because dynamic gains are country-specific, such as varying levels in productivity within firms,⁶⁰ and it therefore seems impossible to compare across countries and therefore adjust for different increases in development. Ultimately, dynamic gains are not comparable across countries, much less distributable. This is perhaps why comparing benefits of trade and subsequently attempting to adjust for them is not as straightforward as James makes it seem, nor is it the best way to structure a fair or just trading regime. Because of the complexity and incomparability across countries of measuring dynamic gains of trade, adjusting for benefits becomes insufficient since 1) they will affect countries in different ways and 2) each country will require different supplementary policies to ensure that the gains are realized.

Thus, we begin to see how ‘the augmentation of national income’ cannot be the full story about the function or purpose of international trade. The purpose of trade can be growth, but endogenous growth is not solely related to income augmentation, but rather about diversification and productivity growth. Thus, it seems to be a big leap to move on from the observation that trade is undertaken to augment national income to the conclusion that the gains should be shared in any particular way. Further, in support of his claim that the aim of trade is to augment national income, he cites classical political economists in support of this.⁶¹ Yet, as I argued in Chapter 1 above, (economic) growth is a much more sophisticated idea than simply income, and Smith, Mill, and Ricardo observed these extra-economic benefits, as well.

If the benefits of trade were just augmenting national income, then they would be distributable. The full range of benefits from trade is indeed not. Moreover, the problems with injustices within the international trading regime are deeper than redistribution, as demonstrated in Chapter 2. James argues that fully free trade can be fair, as long as it is accompanied by social insurance schemes. I agree with James that social insurance schemes must accompany international trade, but where his understanding of these schemes is redistributive, mine comes in the form of capabilities. A Capabilities Approach to

⁵⁹ Stone and Shepherd, 9–11.

⁶⁰ For example, a firm in country X might see an increase in capital investment thanks to dynamic gains in trade, where a firm in country Y will see an increased productivity in labor.

⁶¹ James, *Fairness in Practice*, 197–201.

Trade, as I argue below, addresses the problems with protecting the losers from trade and making sure that the benefits that James is concerned about are widely reaped. But it also addresses concerns of sustainability, labor standards, and human rights that redistribution cannot account for.

Division of the Gains of Trade

Despite the problems addressed above with dividing the gains of trade, we might still want to argue that a more equitable distribution of the benefits of trade is a comparatively *better* state of affairs than a trading relationship that sees countries benefit from trade in a substantially unequal way. Alternatively, we might, like James, take a Rawlsian approach, and argue that it would be fairer if the gains of trade were divided in a way that benefits the worse-off country in the trading relationship. These concerns are certainly valid. As discussed in Chapter 2, a large part of the concerns about trade not fully fulfilling its function is due to inequalities within the trading regime. It does seem that there are certain distributions of the gains of trade that are *prima facie* unfair. One solution, of course, is to focus on procedural justice so that the procedural inputs are fair, rather than worrying about unequal outcomes. The point here is to ensure that the bargaining power of the parties are equal so that the outcomes are determined by procedural fairness. We might want to analogize bargaining within the WTO to Rawls's Original Position, for example. Bargaining power and more equitable procedures are discussed below in Chapter 6.

The way in which the gains of trade are distributed is a secondary question to whether or not countries are gaining from trade in the first place, and what these gains are, as James himself points out. Further work will have to be done on how capabilities as the gains of trade can be distributed, and moreover how they can be distributed in an equitable way. James's proposal that priority go to the worst off (of the two trading nations, as well as the worst off domestically) certainly has intuitive sense. The issue is that these distributive considerations are not internal to theories of international trade. They take a theory of international trade and add distributive principles on top of it; there is nothing *internal* to trade to say how dividends should be distributed except to say it must be consensual and that both sides should benefit (see the discussion of Garcia above). In this way, a distributive theory of the gains of international trade is a separate project to the conceptualization of international trade that I am trying to offer here.

It is worth noting that a Capabilities Approach to Trade is not *incompatible* with a distributive theory of the gains of trade similar to the one James proposes. It seems in keeping with the spirit of a project that looks at the potential of trade to provide capability development to also assert that there are some capabilities that are more fundamental than others and the gains of trade should therefore be

distributed to reflect that. That said, that is a different, and indeed secondary, type of theory of what international trade should look like. Thus, while it is an extremely important project to consider how the gains of trade might be distributed, a comprehensive theory of distributive justice in trade is outside of the scope of this thesis. I do, however, explore the idea of capability development in relation to the distribution of capital below in Chapter 6, as a way that we might start to think about how capabilities and a theory of distributive justice can complement one another.

Mathias Risse and Duties of Trade

The final analysis in this chapter considers Mathias Risse's proposal for justice in the international trading system. In his articles 'Fairness in Trade I: Obligations from Trading and the Pauper-Labor Argument' (henceforth 'Fairness in Trade I') and 'Fairness in Trade II: Export Subsidies and the Fair Trade Movement' ('Fairness in Trade II') that he co-authored with Malgorzata Kurjanska, Risse develops his theory of fairness in trade that he calls the 'Weak Westphalian View.' This principle is based on the idea that trade is not simply a matter of national interests and that we owe duties to distant others. He contrasts his moralized or normative 'Weak Westphalian View' with what he calls the 'Strong Westphalian View': the non-normative position on state sovereignty that is the current standard in international trade relations today. Risse's position is similar to James's view that fair trade naturally entails duties to distant others, but whereas for James, these duties are triggered by trade, for Risse, trade can be part of these duties. I contend that my Capabilities Approach to Trade is an appropriate way of conceiving of and implementing the principles of fairness in trade that Risse has in mind.

Risse begins with what he calls the 'Strong Westphalian View,' which he presents as the current state of affairs in international trade.

Strong Westphalian View: Trade policy is every country's own and exclusive affair. As long as the production processes themselves do not harm other countries, the social costs of production and the prices of goods from a country should not be subject to external interference, unless such production involves atrocious activities such as slavery. The world market prices of goods from other countries must be accepted in much the same way in which climatic conditions must be accepted: their change cannot be demanded as a requirement of fairness, nor do such prices by themselves give individuals *elsewhere* claims in fairness to governmental protection such as subsidies. Different countries do not stand in a relationship to each other that allows for fairness considerations to arise: they do not owe each other anything as far as the determination of prices is concerned, nor do

governments owe anything to their own citizens based merely on what social costs are elsewhere.⁶²

Risse rejects this conception of international trade, due to its non-moralized character. Specifically, he argues that it does not capture the idea that some people are oppressed by trade and consequently they have legitimate complaints of fairness against their trading partners.⁶³ Not only does trade affect wealth distribution internationally, but it also affects it domestically, and this is a problem not captured by the Strong Westphalian View.

Trade creates winners and losers domestically: winners because people can gain from cheaper international prices, make greater profits by selling their goods to a larger market, etc., and losers because of increased competition, which can drive profits down, as well as wages. These are, Risse says, justifiable consequences of trade.⁶⁴ However, if parts of the population of one trading country are *oppressed* (not just losing out), then it must be of moral concern to both trading partners. The Strong Westphalian View does not acknowledge this and does nothing to help us rectify it. Risse argues that because trade can be “partly constitutive of the oppression,” there are thus reasons “sufficient to give the oppressed a complaint in fairness against a trading partner”⁶⁵ and that ultimately it may be an appropriate response to suspend trading.⁶⁶ Thus, after looking at fairness objections to the Strong Westphalian View, Risse derives a model to replace it.⁶⁷

Risse concludes ‘Fairness in Trade I’ by replacing the Strong Westphalian View with the Moderate Westphalian View, which encompasses a normative idea of trade:

Moderate Westphalian View: It is up to each country to determine the social costs of production. However, the production processes themselves must not harm other countries, and the effects of trade must be distributed in such a way that no negative rights are violated. Violations of this latter condition give rise to claims in fairness to trading partners by those who lose out in the process, and constitute *pro tanto* reasons to suspend or restrict trade. Conceivably, they also provide justification for intervention through non-trade-related measures (for sufficiently severe violations). However, these reasons may not be conclusive. Changes of world market prices of goods from other countries that have been determined without the violation of negative rights cannot be demanded as a requirement of fairness.

⁶² Mathias Risse, “Fairness in Trade I: Obligations from Trading and the Pauper-Labor Argument,” *Politics, Philosophy & Economics* 6, no. 3 (2007): 360.

⁶³ Risse, 361.

⁶⁴ Risse, 363.

⁶⁵ Risse, 362.

⁶⁶ Risse, 363.

⁶⁷ Risse, 369.

Still, prices of goods from other countries may, under certain conditions, give individuals claims in fairness to protection by their government, namely, if they negatively affect these individuals' interests and have arisen in ways that are at odds with domestic social standards. However, these claims to protection have to be weighed against competing economic interests in free trade and thus may also not be conclusive.⁶⁸

The Moderate Westphalian View builds on the Strong Westphalian View by building in a moralized idea of harm and negative rights. If these violations occur, then countries have a moral reason to stop or suspend trade. Yet, these moral considerations are not, as Risse puts it, 'conclusive' and he acknowledges that there may be overriding considerations such as economic interests (growth, for example) to keep trading despite these fairness concerns.

Yet the Moderate Westphalian View is not Risse's finalized principle of fairness in trade. Risse and Kurjanska ask us to assume that we have minimal duties towards developing countries, and that these duties can be grounded on any number of different moral schemas. Next, they ask us to suppose that "trade plays a crucial role for growth as well as for other desirable goals of development, such as those listed as the UN Millennium Goals."⁶⁹ Elsewhere in this thesis, I have given reasons that this is more than a plausible supposition. (Though as Risse notes, as well, the link is problematic due to empirical complications discussed above in Part I of the thesis.) Thus, based on these two assumptions, "On any account of duties to developing countries, links between trade and growth and growth and other goals make an overwhelming case for helping developing countries to join world markets. Measures to keep people in positions whose maintenance contributes to the plight of the poor become unacceptable."⁷⁰

While the Moderate Westphalian View addresses concerns of oppression, it does not address unfair subsidies, and therefore, we need further principles to govern trade. Consequently, in 'Fairness in Trade II,' Risse and Kurjanska give us the modified Weak Westphalian View, which they say captures the duties that we owe to distant others (i.e. not merely concerns of fairness to trading partners). The Weak Westphalian View is their definitive account of fairness in trade and is meant to serve as a useful guide or background for judgements about the fairness of countries' trade policies. It reads as follows:

Weak Westphalian View: Every country's trade policy is subject to constraints in fairness that limit how it can determine the social costs of production. First, the production processes themselves must not harm other countries. Second, the effects of

⁶⁸ Risse, 369.

⁶⁹ Malgorzata Kurjanska and Mathias Risse, "Fairness in Trade II: Export Subsidies and the Fair Trade Movement," *Politics, Philosophy & Economics* 7, no. 1 (2008): 39.

⁷⁰ Kurjanska and Risse, 39.

trade must be distributed in such a way that no negative rights are violated. Violations of this condition on the distribution give rise to claims in fairness by those who lose out in the process to trading partners. They constitute *pro tanto* reasons to suspend or restrict trade and conceivably also for interference through non-trade-related measures by the trading partners; however, it is a separate question whether these reasons are conclusive. Third, world market prices of goods from other countries may, under certain conditions, give individuals claims in fairness to protection by their government. This would occur if such prices negatively affect these individuals' interests and if they have arisen in ways that are at odds with domestic social standards. However, these claims to protection would have to be weighed against competing economic interests in free trade and may not be conclusive either. Fourth, trade policies must be devised in such a way as to be consistent with duties to poor countries. Therefore, countries have *pro tanto* reasons to determine prices in such a way that they take into account their effects on third parties.⁷¹

The third and fourth points are the new additions to Risse's (and now Kurjanska's) third, final, and most comprehensive principle of fairness in trade. The third point is relatively uncontroversial, as it reads above, but the background to the idea of government protection is related in 'Fairness in Trade II' to the idea of subsidizing industries. For example, if France subsidizes produce from its own farms to make domestic food cheaper to buy than imported food, farmers in developing countries who sell food to France might have a fairness complaint against the government of France.⁷² Thus, the authors have us imagine that the case can be made that trade is so important for development in LDCs that we must abolish agricultural subsidies that distort trade. The fourth point in the Weak Westphalian View seems to have the most wide-sweeping application to global justice in trade. We have duties to poor countries, and those are related directly to the prices of goods. Risse and Kurjanska tie this price-setting point back to the Fair Trade movement, where a 'fair price' for them is determined by Fair Trade.

Despite having a moralized view of trade, they only seem to have an implicit moralized view of development or growth to accompany it. In other words, while countries have a duty to trade because it can help with development, Risse and Kurjanska do not discuss the meaning and need for development in-depth. My Capabilities Approach to Trade is a good way of conceptualizing these duties that we have to both developing countries and individuals. A Capabilities Approach to Trade pays attention to the distribution of burdens and benefits of trade, just as the Weak Westphalian View requires, but is not strictly redistributive in nature. Instead, it looks at development as a way to fulfill duties to developing

⁷¹ Kurjanska and Risse, 42.

⁷² Kurjanska and Risse, 40–41.

countries, which includes just production processes, due attention to rights, as well as the rules of trade such as subsidies and prices that have a pervasive impact on the agents involved in trading.

Conclusion

In this chapter, I have discussed four philosophical proposals for justice in international trade. These theories should address the concerns of the harms of trade that I raised in Chapter 2. Two proposals emphasized the role of consent in trade, and two looked at the distribution of the burdens and benefits of trade. On Garcia's account, consenting to the rules of trade would help mitigate against the unfair rules of trade discussed in Chapter 2. However, consent cannot do all of the philosophical work to ensure that these rules are fair. Other principles such as equity seem necessary before the rules of trade can be structured in a way that is truly fair. Wenar's idea of consent, where individuals must consent to individual trading interactions, helps to mitigate against the precarious nature of developing economies. Consent, in this case, ensures that these countries are not being taken unfair advantage of. That said, Wenar's proposal for Clean Trade alone cannot fix the precarious nature of developing economies and the problems that they face in the international trading regime due to this. Although this is not Wenar's concern, I argue that prioritizing growth and development through trade will have the by-product of shoring up property rights that Wenar wants, while also helping to mitigate against many of the other problems that developing countries face.

In terms of growth and distribution, I argue that a focus on growth must be primary to redistributive policies, whereas James's Structural Equity seems to prioritize distribution over 'the augmentation of national income.' I argue that in terms of the benefits of trade, we have to look more broadly than the augmentation national income, and that focusing on capabilities helps to build a mechanism of distribution through national welfare into the notion of trade, so that redistribution between individuals no longer needs to be as much of a concern. Finally, Risse and Kurjanska provide us with the Weak Westphalian View as a principle for fairness in trade, but they stop short of discussing its application in-depth. I argue that my Capabilities Approach to Trade is a meaningful way of conceptualizing an implementation of their principle of Fairness in Trade.

In sum, this chapter has argued that while each of these proposals added important contributions to the debate on fairness in international trade, they each only partially address concerns I raised about the harms of international trade. Further, I maintain that a Capabilities Approach to Trade can either supplement or supplant these proposals. I discuss this in-depth in the Conclusion. It is to my proposal for a Capabilities Approach to Trade that I now turn.

PART III –
CONCEPTUALIZING
THE ENDS OF TRADE:
A TWO-TIERED
CAPABILITIES
APPROACH

5

A Two-Tiered Capabilities Approach

“Economic growth without investment in human development is unsustainable – and unethical.”

–Amartya Sen, *interview with Madeleine Bunting*

Part II of this thesis examined various proposals for justice in trade from the Fair Trade movement to philosophical theories. Each proposal added important components to our considerations about how to bring about fairness in trade, but also raised additional concerns. In the next two chapters, I propose my own theory for how to rectify international trade so that it can fulfill its purpose, which I here propose is best understood in terms of capabilities development.

In Part I, I covered trade’s theoretical connection to growth and the empirical problems with that connection. It is now necessary to establish a means for *assessing* growth and development through trade before moving on in the next chapter to presenting my own theory of justice in trade. GDP is the most commonly used metric to measure and assess growth, but in this chapter, I argue that it is insufficient both in general, as well as for the specific purposes of my argument. Thus, we need a better standard of measurement. In this chapter, I develop and propose a Two-Tiered Capability Theory where countries develop ‘capabilities’ (‘country capabilities’) that in turn help them to provide for the development of individuals’ capabilities (‘human capabilities’ or ‘individual capabilities’). The capabilities approach, roughly speaking is a framework for assessing the human capacities, thus a similar framework seems to be a useful starting point for a theory of country development.

This chapter takes the following structure. Section I critiques GDP as the universal standard for growth measurement, as well as the way in which it is often conflated with a measurement of well-being. Section II offers the capability approach as an alternative standard of measurement for my purposes. Section III justifies the use of a capabilities approach for a project on growth through trade. Section IV proposes my theory of a Two-Tiered Capabilities Approach. Here, I look at how we might conceive of country capabilities and why this is useful for my project that proposes a functionalist understanding of international trade justice.

Section I – On GDP

An increase in gross domestic product (GDP) tends to be the standard measurement for economic growth in modern economics. This section criticizes this practice, as well as the use of GDP as an accurate measurement, and argues that there are too many facets of well-being, growth, and development to be captured by this standard measure. I make these arguments to show that trade can produce growth in many more ways than contributing to a rise in GDP, and consequently in ways that are not captured by a GDP metric. A theory of justice in trade must recognize the broad and varied ways in which trade can contribute to countries' economies, as well as the countries' well-being as a whole. Here, I critique GDP here as a contrast to a capabilities framework.

Gross domestic product is a measurement of all of the goods and services produced by a country in one year, and because of this, it is used as a standard of measurement for the country's entire economic activity and serves as a measurement for the size of the economy. GDP measures market production from individuals, corporations, foreign companies operating domestically, as well as the state itself.

GDP calculations have international standards so that they can be compared across nations. To calculate GDP (Y), statisticians look at consumer spending by household (C), plus investment (I) which includes foreign investment, business and government investments in capital, and family housing purchases, plus the total value of the goods exported out of the country (X) minus the value of the imports (M). The equation for measuring GDP is:

$$Y = C + I + (X - M)$$

While the equation itself is incredibly simple, the statistics involved in producing it are excessively complex, and even despite the international standards, the statistics are prone to over- or under-estimates.¹ For example, the fact that the values are based on market prices means that they are often volatile from quarter to quarter, which is how most developed countries measure and release their GDP statistics. Countries usually calculate 'Real GDP' by comparing statistics from year to year and accounting for inflation and the effect of exchange rates on imports and exports.

Positive increases in GDP from quarter to quarter and year to year are used to signify growth, whereas decreases signify 'negative growth'. Periods of negative

¹ Joseph E. Stiglitz, Amartya Sen, and Jean-Paul Fitoussi, "Report by the Commission on the Measurement of Economic Performance and Social Progress," *Paris: Commission on the Measurement of Economic Performance and Social Progress*, 2008, 21–22.

growth signify a recession, and prolonged periods, a depression. Increases in GDP that occur too rapidly can be bad for the economy as well because growth rates that are unsustainable in the long run can lead to high inflation rates through a self-perpetuating cycle of higher wages and higher consumer prices (known as demand-pull inflation).

Before moving on to the critiques, my point here is not to say that GDP is a useless measurement in all scenarios. I am simply pointing out many of its detriments in order to make way for a better metric below. Indeed, monetary measurements of the economy are useful under certain circumstances.

One reason why money measures of economic performance and living standards have come to play such an important role in our societies is that the monetary valuation of goods and services makes it easy to add up quantities of a very different nature. When we know the prices of apple juice and DVD players, we can add up their values and make statements about production and consumption in a single figure. But market prices are more than an accounting device. Economic theory tells us that when markets are functioning properly, the ratio of one market price to another is reflective of the relative appreciation of the two products by those who purchase them. Moreover, GDP captures all final goods in the economy, whether they are consumed by households, firms or government. Valuing them with their prices would thus seem to be a good way of capturing, in a single number, how well-off society is at a particular moment. Furthermore, keeping prices unchanged while observing how quantities of goods and services that enter GDP move over time would seem like a reasonable way of making a statement about how society's living standards are evolving in real terms.²

The problem is that GDP often gets mistaken for a measurement of well-being, which it is not; the reasons why are laid out below. Increases in GDP then become conflated with long-term improvement in the quality of life within countries, which again, it is not. Essentially, GDP does not give us the whole story when gauging how well economies are doing. This can, in turn, lead to bad policy decisions.

Problems with GDP

In 2008, then-president of France Nicolas Sarkozy commissioned a report on 'the Measurement of Economic Performance and Social Progress,' colloquially known as the Stiglitz-Sen-Fitoussi Commission, or even shorter the Fitoussi Commission. This report is one of, if not the, most comprehensive assessments of the use and utility of GDP measurements. The aim of the Commission was to "identify the limits of GDP as an indicator of economic performance and social progress,

² Stiglitz, Sen, and Fitoussi, 21.

including the problems with its measurement; to consider what additional information might be required for the production of more relevant indicators of social progress....”³ The 292-page report also has several positive recommendations, but it is some of its numerous critiques of GDP that I am interested in here. Taking inspiration from the critiques listed in the Fitoussi Commission, I here draw out several relevant problems with GDP.

Individual Problems with GDP

GDP does not capture the experiences and feelings of individuals. This may seem a truism, the word ‘gross’ being a dead giveaway that GDP does not relate to individuals. The main problem, however, is that people often feel that these government-produced statistics do not reflect their actual state of affairs:

The standard measures may suggest, for instance that there is less inflation or more growth than individuals perceive to be the case, and the gap is so large and so universal that it cannot be explained by reference to money illusion or to human psychology. In some countries, this gap has undermined confidence in official statistics (for example, in France and in the United Kingdom only one third of citizens trust official figures, and these countries are not exceptions), with a clear impact on the way in which public discourse about the conditions of the economy and necessary policies takes place.⁴

While this criticism could theoretically apply to any government statistic, it is important in relation to GDP because it captures the sense in which individuals do not feel like official measurements appropriately capture their experiences. This disconnect might be indicative of several things. First, while the inputs into the equation might be right categorically, the way in which statisticians and economists measure the inputs might be lacking.⁵ Second, following on from this, as supply chains become more complex and international, measurements of what exactly occurs within a country’s borders become harder to trace. This means that while GDP might be rise overall, if individuals witness the production of goods and services being outsourced overseas, they are less likely to feel that GDP measurements are accurate or capture the full picture of the economy.⁶ What the people are experiencing might simply be disconnected from what the government observes. Here Stiglitz, Sen, and Fitoussi use the example of numerous traffic jams. While traffic jams might be good for GDP because they increase petrol

³ Stiglitz, Sen, and Fitoussi, 7.

⁴ Stiglitz, Sen, and Fitoussi, 7.

⁵ Stiglitz, Sen, and Fitoussi, 8.

⁶ Stiglitz, Sen, and Fitoussi, 11.

consumption, it might ultimately make citizens late to work, making them feel less productive overall.⁷

GDP does not capture inequality, nor does it capture the position of the worst-off. In order to compare statistics internationally, countries divide their GDP by the number of residents to get GDP per capita, which then becomes the mean indicator for the standard of purchasing power for the people in the country. What this does not tell us is the range or median, which can vary drastically from the mean. The range of production values, incomes, and purchasing power by household can vary by a matter of billions of dollars within a country. And, unsurprisingly, if we looked at the median figures, they would probably be substantially lower than the mean, due to the fact that the top 1% of earners push that figure up in the calculations. Essentially, GDP does not give us any indication of the distribution including equality. While people usually assume that if GDP is growing, the entirety of the population is becoming better off, it may only be the top earners who are benefitting. GDP gives us no indication of this. In other words, “If inequality increases enough relative to the increase in average per capita GDP, most people can be worse off even though average income is increasing.”⁸ Changes to the size of the population can also affect GDP figures in the same way. It is very possible to see an increase in GDP from year to year, while this change might simply reflect a growing population. (Per capita measurements can help to adjust for this problem, but then we run into the problem discussed above.)

GDP is sexist.⁹ The measurements overlook unpaid labor and consequently can overlook the contributions of women.¹⁰ GDP measures market production. Therefore, any non-market production does not get counted. Household jobs, emotional labor, care work, etc. are all roles traditionally undertaken by women, but are not valued monetarily. In her 2007 book, *The Real Wealth of Nations: Creating a Caring Economics*, Riane Tennenhaus Eisle notes that a 2004 study in Switzerland estimated that unpaid labor would have accounted for \$190 billion, which was 70% of Swiss GDP.¹¹ The most recent study by the UK Office of National Statistics (ONS) made an estimate that in 2014

⁷ Stiglitz, Sen, and Fitoussi, 8.

⁸ Stiglitz, Sen, and Fitoussi, 8.

⁹ It is also probably somewhat racist. Many migrant workers work in informal sectors of the economy, so their work also goes unaccounted for.

¹⁰ This point is extrapolated from points made in the Fitoussi Commission about household-level data, the importance of unpaid work, and gender equality, but it not made specifically therein. (On a side note, only two of the twenty-five members of the Commission were women.) There is widespread evidence supporting the claim that GDP calculations ignore women, c.f. Marilyn Waring, *If Women Counted: A New Feminist Economics* (London: Macmillan London, 1989) and Riane Eisler, *The Real Wealth of Nations: Creating a Caring Economics* (Berrett-Koehler Publishers, 2008).

¹¹ Eisler, *The Real Wealth of Nations*, 37.

unpaid work *would have been valued at of £1.01 trillion*, which would have been 56% of UK GDP that year.¹² These figures make the assumption that a price can be put on social goods like caring for one's family, which by many accounts would be beyond monetary estimates. By ignoring unpaid labor, GDP replicates and reproduces the male-dominated assumptions underlying capitalism, that anything of value can be given a price.

Additionally, GDP quantifies household consumption and output, which once again underplays women's importance by aggregating them with the other members of their households. Interestingly, the Fitoussi Commission notes that "There have been major changes in how households and society function. For example, many of the services people received from other family members in the past are now purchased on the market."¹³ What this means is that more and more women are joining the official workforce and therefore either have to or are able to purchase certain services that they used to perform for themselves. Under GDP measurements, this would look like a rise in real income because purchasing goods and services from the market makes it look the country is experiencing a rise in overall income levels. The problem is that by paying each other for things that were once done for nothing, we see no increase in real wealth, even if we see an increase in GDP. This trend might be a very important aspect of economic growth that gets overlooked by the official figures.

Further, the fact that GDP measures household incomes evades the issue that women's incomes tend to be less than men's. "Women, for instance, have fewer assets than men, on average their wages are lower, and they benefit as individuals less than do men from social insurance. Personal income is often not a good measure of personal consumption because of intra-household income transfers."¹⁴ So, we see once again how GDP ignores or overlooks the positionality of women within society.

Macro Problems with GDP

Related to the last point above about women's work, **price and market value cannot capture everything**. In addition to not being able to put a price on care or companionship, there are other goods and services that are hard to price, as well. "Prices may not exist for some goods and services (if for instance,

¹² "Women Shoulder the Responsibility of 'Unpaid Work' - Office for National Statistics," accessed July 21, 2018, <https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinhours/articles/womenshouldtheresponsibilityofunpaidwork/2016-11-10>.

¹³ Stiglitz, Sen, and Fitoussi, "Report by the Commission on the Measurement of Economic Performance and Social Progress," 14.

¹⁴ Irene Van Staveren in Irene van Staveren et al., *The Feminist Economics of Trade* (Routledge, 2007), 261.

government provides free health insurance or if households are engaged in childcare), raising the question of how these services should be valued.”¹⁵ Additionally, market mechanisms make valuation doubly difficult, because the market price does not always reflect how much value these goods might bring to society. Individuals might pay one price for a good, for example electric cars, but the social good that it creates might not match its market price, in this case, a reduction in air pollution.

There are things that can contribute to an increase in GDP without making the country as a whole better off. While this is similar to the point about traffic above, this time I want to emphasize GDP rises in comparison to the *country as a whole*. War is a prime example of this. During times of war, GDP rises, because there is a substantial increase in public spending. The problem is that the average person is quite clearly not going to be better off if her country is at war. These same problems could apply to anything from deforestation to increased petrol sales being good for GDP measurements, but not good for most individuals.¹⁶

GDP is not at all a good indicator to help us move from economic growth to development, because it has nothing to say about sustainability. There are two related problems here: first, GDP may capture wealth, but not well-being; and second, GDP captures the current state of affairs, but not the countries’ long-term situations. Both are important for obtaining a comprehensive picture of a country’s state of affairs. An increase in real household income from quarter to quarter, even year to year, might look promising, but it tells us little about what is causing the trend and therefore whether or not it might continue. And a rise in real income, recall, is distinct from well-being. “Current well-being has to do with both economic resources, such as income, and with non-economic aspects of peoples’ life (what they do and what they can do, how they feel, and the natural environment they live in). Whether these levels of well-being can be sustained over time depends on whether stocks of capital that matter for our lives (natural, physical, human, social) are passed on to future generations.”¹⁷ Sustainability does not only refer to maintaining the level of well-being of citizens in the long run but also whether or not the economy is able to support the level, as well. GDP does not tell us this.

The simplicity of a single GDP measurement coupled with the firm entrenchment of capitalism and systems of production has made GDP an easy-to-

¹⁵ Stiglitz, Sen, and Fitoussi, “Report by the Commission on the Measurement of Economic Performance and Social Progress,” 21.

¹⁶ “What Is GDP? | Bank of England” accessed July 21, 2018, <http://edu.bankofengland.co.uk/knowledgebank/what-is-gdp/>.

¹⁷ Stiglitz, Sen, and Fitoussi, “Report by the Commission on the Measurement of Economic Performance and Social Progress,” 11.

sell measurement. The problem is that if we want to value things outside of or tangential to the market, GDP does not allow for assessment of this. Further, the ubiquity of GDP as a measurement makes it even harder to look for alternative assessments and ends up reinforcing the status quo. As Stiglitz, Sen, and Fitoussi note: “what we measure shapes what we collectively strive to pursue – and what we pursue determines what we measure.”¹⁸ The Fitoussi Commission recommends that we move away from measuring economic production, and move towards measuring and assessing well-being, particularly in the context of sustainability.¹⁹ It is towards developing a framework for doing this that I now turn.

Section II – The Capabilities Approach

I should note that it is not my goal in this section to give a comprehensive theory of capabilities theory. Rather, this section simply lays the groundwork for understanding what a capabilities approach is. In its simplest form, the capabilities approach is a social justice framework for assessing people’s well-being. The individual and her livelihood are central to the capabilities approach, which maintains that there are certain qualities and abilities central to the condition of being human and leading a fully human life.²⁰ Fundamental to this framework is the idea that people are entitled to ‘flourish’ as a type of well-being, and we can measure how well off they are in terms of ‘capabilities’ or real opportunities/possibilities that they possess in order to bring about their well-being. This well-being is not usually precisely defined,²¹ but rather is widely

¹⁸ Stiglitz, Sen, and Fitoussi, 9.

¹⁹ Stiglitz, Sen, and Fitoussi, 12.

²⁰ It is important to note here, as most capability theorists do, that the capabilities framework is quite purposefully ambiguous. As Sen notes: “There are many ambiguities in the conceptual framework of the capability approach. Indeed, the nature of human life and the content of human freedom are themselves far from unproblematic concepts. It is not my purpose to brush these difficult questions under the carpet, in so far as there are genuine ambiguities in the underlying objects of value, these will be reflected in corresponding ambiguities in the characterization of capability. The need for this relates to a methodological point...that if an underlying idea has an essential ambiguity, a precise formulation of that idea must try to capture that ambiguity rather than attempt to lose it. Even when precisely capturing an ambiguity proves to be a difficult exercise, that is not an argument for forgetting the complex nature of the concept and seeking a spuriously narrow exactness. In social investigation and measurement, it is undoubtedly more important to be vaguely right than to be precisely wrong” (Amartya Sen, “Development as Capability Expansion,” *Journal of Development Planning* 19: 45).

²¹ Martha Nussbaum proposes a list of ten broad ‘central human capabilities,’ which are life; bodily health; bodily integrity; senses, imagination and thought; emotions; practical reason; affiliation; other species; play; and control over one’s environment. Yet she does clarify that this list is both “open-ended and humble,” suggesting room for modifications (Martha Nussbaum, “Capabilities as Fundamental Entitlements: Sen and Social Justice,” *Feminist Economics* 9, no. 2–3 (2003): 41–42, 46.). Sen, on the other hand, gives us five

conceived of so that well-being equates to living a flourishing or autonomous life compatible with human dignity.²² Thus, rather than being a comprehensive theory of well-being, a capabilities framework gives us ways to assess well-being and the institutions, policies, or social structures that might bring it about.

There are two key terms within the capabilities approach in need of defining here. The first is ‘functionings’²³ (often defined as ‘beings and doings’²⁴), which are qualities or actions that a person might possess or undertake. The second is ‘capabilities’²⁵ which are the real opportunities that a person has to achieve the functionings. Examples of the ‘beings’ part of functionings might include being sated, anxious, illiterate, or part of a large family. ‘Doings’ then are actions like riding a bicycle, eating a cake, paying taxes, etc. Corresponding capabilities then would be the ability to ride a bicycle, the ability to chew food, and the ability to do calculations. The relationship between capabilities and functionings is what a person has the possibility to do or be and what that person accomplishes with that possibility. As Robeyns writes:

The distinction between achieved functionings and capabilities is between the realized and the effectively possible; in other words, between achievements on the one hand, and freedoms or valuable options from which one can choose on the other. What is ultimately important is that people have the freedoms or valuable opportunities (capabilities) to lead the kind of lives they want to lead, to do what they want to do and be the person they want to

broad categories of different types of freedoms: political freedoms, economic facilities, social opportunities, transparency guarantees, and protective security (Amartya Sen, *Commodities and Capabilities*, Oxford India Paperbacks (Delhi: Oxford University Press, 1999), 10.).

²² Here Sen and Nussbaum’s definitions of capabilities differ slightly. Whereas Nussbaum uses the phrase ‘human dignity’ (Nussbaum, “Capabilities as Fundamental Entitlements,” 56), Sen begins with the idea of what people ‘have reason to value’ (Amartya Sen, *Development as Freedom* (OUP Oxford, 2001), 10).

²³ It is worth noting that ‘functionings’ and ‘capabilities’ are morally neutral only insofar as we have to recognize that there can be good/positive or bad/negative functionings. “In the core of the capability approach, functionings and capabilities are defined in a morally neutral way. Not all functionings necessarily have a positive value. Instead, some functionings have a negative value, for example, the functioning of being affected by a painful, debilitating, and ultimately incurable illness or of engaging in acts of violence. Functionings are constitutive elements of well-being but also of ill-being. The notion of functionings should, therefore, be value-neutral in the sense that we should conceptually allow for the idea of ‘bad functionings’” (Ingrid Robeyns, “Capabilitarianism,” *Journal of Human Development and Capabilities* 17, no. 3 (July 2, 2016): 406). Thus, the ultimate focus is not the functioning itself, but rather one’s ability to achieve a wide range of functionings.

²⁴ Sen, *Commodities and Capabilities*, 19.

²⁵ Sen, of course, refers to them as ‘freedoms,’ as well as capabilities. He seems to use the word ‘freedom’ because it speaks to an ability to choose from amongst various real and valuable options.

be. Once they effectively have these substantive opportunities, they can choose those options that they value most.²⁶

What is important is not the functionings that humans choose, but rather the capabilities that they have effectively possible to them and that they have the freedom to pursue what functionings they desire or value. Thus, the capabilities approach is concerned with, unsurprisingly, the *capabilities* that humans have to achieve various functionings.

We focus on capabilities not functionings for three important reasons. First, if we concentrated on functionings, we would be imposing a paternalistic or indeed imperialistic notion of the human good upon the people whose lives we are examining. By focusing on capabilities, we continue to allow the freedom to pursue what the individuals deem to be valuable and thus not prescribing any particular way of life other than one which is allowed to develop meaningfully. In other words, “Capability reflects a person’s freedom to choose between different ways of living.”²⁷ Second, focusing on abilities (capabilities) rather than ends (functionings) maintains the value of autonomous decision-making and also responsibility for one’s life choices. This has value outside the realm of political philosophy as well. “This responsibility-sensitivity principle is widely endorsed, not only in debates on equality in political philosophy, but also in the mathematical models of normative welfare economics. If one wants to implement this principle of responsibility-sensitivity, then specifications and applications of the capability approach should focus on capabilities, rather than functionings.”²⁸ Third, functionings may sometimes come into conflict with one another. A person who has the capability to work may choose any number of careers but cannot choose all of them. Assume she freely chooses a lower-paid job because it allows her more free time to enjoy her hobbies. If we only look at her functioning—the fact that she has a low-paid job—we miss out the important dimension that she actually is well-off in a meaningful way because she had the luxury to choose between numerous different paths. Looking at her capabilities shows us that she might be better off than we would have known otherwise.

The final element to introduce and define here is ‘conversion factors’ which tell us about the relationship that one has between resources and creating capabilities. Resources or indeed commodities play an important role in capability theory. They can refer to market and non-market goods and services that people

²⁶ Ingrid Robeyns, “The Capability Approach: A Theoretical Survey,” *Journal of Human Development* 6, no. 1 (March 1, 2005): 95.

²⁷ Sen, “Development as Capability Expansion,” 44.

²⁸ Ingrid Robeyns, “The Capability Approach in Practice,” *Journal of Political Philosophy* 14, no. 3 (2006): 353.

can use to achieve various functionings. Sen famously uses the example of a bicycle to illustrate this point:

[A bike] is, of course, a commodity. It has several characteristics, and let us concentrate on one particular characteristic, viz., transportation. Having a bike gives a person the ability to move about in a certain way that he may not be able to do without the bike. So the transportation characteristic of the bike gives the person the capability of moving in a certain way.... The commodity ownership or availability itself is not the right focus since it does not tell us what the person can, in fact, do. I may not be able to use the bike if – say – I happen to be handicapped. Having the bike – or something else with that characteristic – may provide the basis for contribution to the standard of living, but it is not in itself a constituent part of that standard.²⁹

The characteristics of the bicycle (or whatever resource or commodity one is in possession of), aid in functioning. The way in which the commodity contributes to a functioning is known as a ‘conversion factor’.

Robeyns identifies three groups of relevant conversion factors:

1. **Personal Conversion Factors:** These are characteristics intrinsic to the person, such as their sex, intelligence, physical health, etc., and they determine to what extent “a person can convert the characteristics of the commodity into a functioning.”³⁰ For example, a person born with a disability that prevents them from using their legs will not be able to convert the resource of a bicycle into a functioning that entails using a bicycle for mobility.
2. **Social Conversion Factors:** These are issues external to a person that impact their wellbeing from a societal point of view. Social conversion factors include societal power structures, laws or public policies, gender norms, and social hierarchies, all of which might limit or expand a person’s set of capabilities depending on the extent of their impact upon her life. For example, in a society where women are not allowed to leave the house unaccompanied by a man, a woman’s use of a bicycle would be severely limited.
3. **Environmental Conversion Factors:** These are again external conditions to the person and include both natural and artificial elements. Thus, factors in this category include things like the geographical features (ports, rivers, mountains), the climate, pollution, or the infrastructure

²⁹ Amartya Sen, *Resources, Values, and Development* (Harvard University Press, 1997), 334.

³⁰ Robeyns, “The Capability Approach,” March 1, 2005, 99.

surrounding her. A country that has no paved roads will again limit one's use of her bicycle.³¹

"Hence, knowing the goods a person owns or can use is not sufficient to know which functionings he/she can achieve; therefore, we need to know much more about the person and the circumstances in which he/she is living."³² Once again we see how capabilities theory demonstrates that we need a holistic picture of a human life to be able to assess their well-being. It is not enough to look solely at resources or outcomes.

The final assumption to draw out is how to ground the idea that functionings reflect well-being, and therefore capabilities are desirable to achieve this. Sen writes, "The relation between individual freedom and the achievement of social development goes well beyond the constitutive elements – important as it is. What people can positively achieve is influenced by economic opportunities, political liberties, social powers, and the enabling conditions of good health, basic education, and the encouragement and cultivation of initiatives."³³ In other words, an individual's well-being is a holistic picture of her life and her circumstances. We cannot reduce well-being to a single, or even a few, factors. "Basically, the claim builds on the straightforward fact that how well a person is must be a matter of what kind of life he or she is living and what the person is succeeding in 'doing' or 'being'."³⁴ Thus, a capabilities framework captures the idea that well-being is the goal of a human life and that in order to assess it without prescribing a specific lifestyle, we need to look at all aspects of her available choices in life.

Section III – Why Capabilities?

There are a number of intuitively appealing things about the capabilities approach when speaking in terms of development. Its purposeful ambiguity means it is flexible and can be used in a variety of scenarios and for a variety of purposes. Further, the adaptability of a capabilities framework also allows us to respond to different development needs in recognition of the adage that one size does not fit all in terms of developing countries' policies.³⁵ Despite the fact that the word 'development' is usually associated with contexts discussing poorer countries and individuals within these countries, the capabilities approach is by no means limited to developing countries. This is important because trade occurs between countries with all levels of development. Finally, in keeping with the methodology of the thesis, the capabilities approach does not require a comprehensive or ideal

³¹ Robeyns, 99.

³² Robeyns, 99.

³³ Sen, *Development as Freedom*, 5.

³⁴ Sen, *Commodities and Capabilities*, 19.

³⁵ Stiglitz and Charlton, *Fair Trade For All*, 34.

view of justice; it simply prescribes that we address shortcomings with people's capabilities.

The capabilities approach is a more holistic means of assessing development than other approaches. As noted in Section I above, there are several reasons to think that GDP is not the best way to assess well-being. Capability theorists, in particular, are especially critical of this measurement, as well as other arithmetic assessments such as Gross National Product (GNP)³⁶ or a utilitarian calculus. As I have discussed critiques of GDP at length above, and capability theorists have dedicated abundant pages to the discussion of this topic, I shall not belabor the point here,³⁷ and instead, simply show the problems with these aggregative approaches from a capabilities-specific critique. While GDP is a useful and relatively straightforward means by which to measure how a country as a whole is progressing economically, it does not give us any meaningful information about other aspects of development, such as the health or education level of the population. "...[H]igh GNP per capita can nevertheless have astonishingly low achievements in the quality of life, with the bulk of the population being subject to premature mortality, escapable morbidity, overwhelming illiteracy and so on."³⁸ Sen argues that even opulence (or what we might otherwise equate to GDP per capita or income level of an individual) is not a good indication of how well a person is doing. This is because 1) it is an average measurement so does not capture individual circumstances (and indeed can thus be compatible with mass poverty as long as there is enough wealth elsewhere to offset the poverty statistically speaking) and 2) because it does not give us any indication about other circumstances in life. A person may be relatively well-off in terms of capital but face other barriers to well-being not captured by her sufficient income.³⁹ This falls prey to what Sen says is a means/ends confusion. Personal wealth is not a final goal, because wealth is accumulated for the purpose of leading a better life;⁴⁰ it is not the end goal but rather a means to it. Thus, as noted above, a simple wealth measuring metric does not capture this and can therefore be misleading about people's actual quality of life.

Further, both Sen and Nussbaum reject utilitarianism, because it is traditionally based on individual preferences,⁴¹ and indeed, often, preference

³⁶ GNP is similar to GDP but includes measurements from overseas corporations, headquartered in the country, and citizens living and working overseas.

³⁷ C.f. Martha C. Nussbaum, *Creating Capabilities* (Harvard University Press, 2011), 47–50; Sen, *Development as Freedom*, 290–92.

³⁸ Sen, "Development as Capability Expansion," 42.

³⁹ Sen, *Commodities and Capabilities*, 19.

⁴⁰ It is clear here that Sen takes inspiration from Aristotle, who, as discussed in Chapter 1, also thought that monetary wealth was only a means to an end.

⁴¹ A eudaimonistic utilitarian framework might not be so problematic, and indeed, might work well with a capabilities approach.

aggregation. First, like the GDP approach, a classical utilitarian approach uses a catch-all metric that does not capture serious differences among persons and their preferences. A person may have any number of wants or needs that cannot all be measured on the same scale of utility. While contemporary utilitarian theory might employ a more sophisticated or multi-faceted metric, it still runs into the problem of ‘adaptive preferences,’ where individuals’ requirements and wants are formed by the circumstances they find themselves in. For example, a poor person with very few options in life might be brought up to accept her lot and indeed be happy with what she has. Thus, she might be said to be happy or have her preferences satisfied while still being very unfree in terms of life prospects. A basic utilitarian measurement would count her as satisfied, which could be very problematic if we are trying to improve her education level, overall health, or even her overall life chances.⁴²

Sen and Nussbaum also both critique other modern liberal theories of measurement such as Rawls’s ‘primary goods’ metric or Dworkinian ‘resourcism.’ The claim underlying these standards is that “a country does better the more resources it has, *so long as it divides them equally (or equally enough) among all citizens*.”⁴³ These resources do not have to be tangible goods, but rather can be understood as “general-purpose means that help anyone to promote his or her ends, and include ‘rights, liberties and opportunities, income and wealth, and the social bases of respect.’”⁴⁴ The problem with these approaches is that they ignore conversion factors. They give no indication of what people are able to achieve with these resources, or what kind of life they are able to lead. Because different people will need different resources in different ways, resourcism or a primary goods metric will not tell us what people are capable of achieving with the resources that have been distributed to them.⁴⁵

It is worth noting, as it becomes important below, that although both Sen and Nussbaum reject human rights alone as a holistic framework for development, human rights are not incompatible with capabilities. Human rights by themselves, they argue, are insufficient to tell us what kind of life a person is able to lead.⁴⁶ That said, both theorists do believe that capabilities and human rights can and should be compatible in bringing about a flourishing life. The benefit of the capabilities approach, then, is that it assesses well-being on several different dimensions. Income and preference satisfaction can be taken into account, while still allowing us to recognize and assess a variety of other goods, such as human

⁴² Sen, *Commodities and Capabilities*, 17–18.

⁴³ Nussbaum, *Creating Capabilities*, 57.

⁴⁴ Sen, *Development as Freedom*, 73.

⁴⁵ C.f. Sen, 72–74; Nussbaum, *Creating Capabilities*, 56–58.

⁴⁶ Sen, *Development as Freedom*, 244–48; Nussbaum, *Creating Capabilities*, 62–68.

rights. Additionally, it allows us to compare across persons, and assess distributions.

Objections to Capabilities

One major objection to the capabilities approach is its supposed unworkability, or at the very least its lack of quantifiability or measurability. Amartya Sen himself has acknowledged that “there are widespread doubts about the possibility of making actual empirical use of this richer but more complex procedure.”⁴⁷ At least we have standards and data for calculating GDP and can more-or-less straightforwardly assess human rights abuses. The reply is two-fold. First, just because capabilities are more difficult to measure than something like GDP, does not mean it is not a preferable metric for some purposes. While GDP might be sufficient for measuring problems like long-term recessions, because a capabilities approach captures a more holistic picture of human well-being and development, it is more apt for my purposes:

The issue of aggregation across dimensions (that is to say, how we add up, for example, a measure of health with a measure of consumption of conventional goods), while important, is subordinate to the establishment of a broad statistical system that captures as many of the relevant dimensions as possible. Such a system should not just measure *average* levels of wellbeing within a given community, and how they change over time, but also document the diversity of peoples’ experiences and the linkages across various dimensions of people’s life.⁴⁸

Second, it is worth distinguishing between developing a metric for measurement and gathering information to be fed into the metric. We might say that developing a metric can be modeled after a complicated utilitarian calculus; in both cases, we are measuring things that we would not normally count as quantifiable and assigning them a numerical value. In terms of gathering the data, Nussbaum suggests that measuring capabilities need not be a quantitative exercise, but rather a qualitative or discursive one, where we set a minimum threshold of a good life by looking at different circumstances.⁴⁹ Alternatively, we might want a mix of quantitative and qualitative information, looking at readily available data sets such as income, geographical location, sex, age, etc. and comparing them to qualitative measurements we have set. Sen writes, “And in terms of data

⁴⁷ Amartya Sen ‘Preface’ in Wiebke Kuklys, *Amartya Sen’s Capability Approach: Theoretical Insights and Empirical Applications* (Springer Science & Business Media, 2006), vii.

⁴⁸ Stiglitz, Sen, and Fitoussi, “Report by the Commission on the Measurement of Economic Performance and Social Progress,” 12.

⁴⁹ Nussbaum, *Creating Capabilities*, 60–61.

availability, keeping track of functionings (including vital ones such as being well-nourished and avoiding escapable morbidity or premature mortality) is typically no harder—often much easier—than getting data on commodity use (especially divisions within the family), not to mention utilities.”⁵⁰ Thus, despite its difficulties, data is available, at least to a certain extent, to assess fundamental functionings. Functionings can be used as proxies for capabilities, as in order to fulfill a functioning one must have the capability to do so. Alternatively, certain laws or infrastructures can give indications of capabilities when functionings are harder to detect. For example, laws allowing freedom of religion might then indicate a capability of religious observance in the populace at large. The point here is to show that the increasing availability of datasets in the ‘information age’ coupled with assessing certain structural indicators and qualitative evaluations mean that despite the difficulties with measuring capabilities, a framework could be developed for its assessment.

Indeed, a number of research groups around the world have begun to develop metrics for assessing capabilities in various groups or subsets of the population. For example, Sabina Alkire and the Oxford Poverty and Human Development Initiative are working on developing a multidimensional metric that not only assesses access to resources, poverty, and well-being, but looks at progress towards wider ‘social goals’ like education, health, and standard of living, and can then assign a value to each person.⁵¹ Thus, measuring capabilities, while difficult, is not an insurmountable issue.

A second major critique of the capabilities framework is its potential for paternalism, and in particular for Western imperialism, where policymakers from the West dictate to the rest of the world which capabilities are important, and those which are not. Indeed, the people making the list of capabilities will surely be in a position of privilege relative to much of the population, and therefore may not be able to capture a full picture of the needs of more disadvantaged sections of the global population,⁵² thus perpetuating some of the hermeneutical injustices⁵³ that a capabilities approach over GDP is supposed to remedy. To address this problem, Wolff and de Shalit seek a democratic way of devising a list of capabilities that is reasonable to both philosophers and the people themselves. They propose what they call ‘public reflective equilibrium,’ building on processes from Rawls

⁵⁰ Sen, “Development as Capability Expansion,” 50.

⁵¹ For the extended methodology of how this matrix was developed, see Sabina Alkire, “The Capability Approach and Well-Being Measurement for Public Policy | OPHI,” 18-24.

⁵² C.f. Jonathan Wolff and Avner de-Shalit, *Disadvantage*, Oxford Political Theory (Oxford, New York: Oxford University Press, 2013), 41.

⁵³ C.f. Miranda Fricker, *Epistemic Injustice: Power and the Ethics of Knowing* (Oxford University Press, 2007), chap. 7.

and Michael Walzer. Rawlsian reflective equilibrium suggests that individuals test various moral beliefs against other beliefs in order to seek a coherent system of beliefs and Walzer suggests this same process can be done by a philosopher against her community's system of beliefs. Wolff and de Shalit propose that the philosopher undertake this same process in conjunction with the community.

The best way to do so would be to start with the general public, activists and individuals who are engaged in moral reasoning and political activism and their dilemmas, alongside the theory and reasoning of the political philosopher....It should be a theory that reflects the actual philosophical needs of the public, of people who seek to convince others by appealing to practical issues, and not necessarily the philosophical needs of the philosopher, who convinces colleagues by appealing to consistency and simplicity. Naturally, the philosopher should not take the value of the public's propositions for granted. People's intuitions, arguments, claims, and theories should also be scrutinized. However, the fact that they need to be critically examined does not affect the main point: that people's intuitions, claims, and theories should be a fundamental point of input for a political philosophy of democracy which seeks policy change.⁵⁴

By consulting moral experts, policy experts, and the people whose lives these policies are affecting, we can avoid the charge of paternalism and imperialism. Further, as we see below, the idea of country-level capabilities can further democratize capability development, because it brings the processes closer to the people.

To this point, I have established why the capabilities framework is preferable to other metrics of well-being. Before moving on to presenting a Two-Tiered Capabilities Approach and how that can be used as an assessment of whether or not trade is producing development, we need to make the connection between well-being and development. This goes back to the point above about the need for sustainability. Development is about change and progress, in a way that GDP, recourseism, and preference satisfaction are not. Capabilities are long-term virtues that, as they accumulate, can equate to human development. It is how this can apply to country development that I now turn.

Section IV – A Two-Tiered Capabilities Approach

A capabilities approach as it stands cannot directly substitute as a measurement for GDP. GDP is an aggregate measure for the entire country, whereas a traditional

⁵⁴ Wolff and de-Shalit, *Disadvantage*, 42–43.

capabilities approach focuses on individual well-being. In light of this, I propose the development of a Two-Tiered Capabilities approach, which focuses on both country capabilities, which can serve, in principle, as an alternative national-level metric to GDP, and individual capabilities, which help to mitigate against several of the problems with GDP discussed above.

My argument can be summed up by the following: just as human beings need capabilities to fulfill their functioning, trade helps to develop countries' capabilities to provide for individual capabilities, as well as national- and individual-level functioning. Thus, while the ultimate goal is development of human capabilities, I am concerned here with how trade can impact that, and I argue that it is a two-step process. Countries are at least partially responsible for providing for the development of individual capabilities, and trade can help countries develop their capacity (through country capabilities) to provide this. To put it another way, Robeyns writes, "according to the capability approach, the ends of well-being, freedom, justice, and development should be conceptualized in terms of people's capabilities."⁵⁵ Therefore, according to my two-tiered approach, the ends of trade should be conceptualized in terms of countries' development of their capabilities to develop individual capabilities.

Something that the capabilities literature often misses out is who is responsible for developing capabilities. It is more often than not focused on assessing well-being rather than actually trying to provide for it.⁵⁶ Because the capabilities framework is purposely vague, this works in our favor when trying to figure out who is responsible for capabilities. It seems that we have four broad options: 1) individuals themselves are responsible for developing their own capabilities, 2) people as a collective society help each other to develop capabilities,⁵⁷ 3) the state is responsible for developing capabilities, or 4) some combination of the above. I think most people would agree that it is some combination of various options, but what I am interested in here is how 3) the state can help individuals to develop capabilities. Thus, I want to claim that at least one way that people should be able to develop capabilities is through the help of the state. This seems a relatively uncontroversial claim, unless perhaps one is a

⁵⁵ Ingrid Robeyns, "The Capability Approach," in *The Stanford Encyclopedia of Philosophy*, ed. Edward N. Zalta, Winter 2016 (Metaphysics Research Lab, Stanford University, 2016), <https://plato.stanford.edu/archives/win2016/entries/capability-approach/>.

⁵⁶ Nussbaum places the onus of capability development on the government, but does not go into detail about what precisely that means (*Creating Capabilities*, 19). Robeyns discusses the role of the government in creating capabilities, but does not give a comprehensive answer to the question of who is responsible for capabilities (*Wellbeing, Freedom and Social Justice: The Capability Approach Re-Examined* (Open Book Publishers, 2017), 179–83).

⁵⁷ This might also include narrower and more specific networks such as families and teachers.

staunch libertarian—and if someone is going to object on libertarian grounds, they will not find this the first difficulty with my argument.

The first claim, then, to put it in Rawlsian terms, is that the state has a pervasive impact on people's life chances, and therefore, on a liberal grounding of the state, the government has a duty to its people to provide for their well-being by the mere fact of its existence.⁵⁸ I do not here wish to make such a comprehensive claim, as I want this theory to be as widely appealing and justifiable as possible, so instead I make a more tentative claim that the state should bear *at least some responsibility* for helping individuals through their development. Consequently, countries need means by which they can help individuals develop their capabilities. Development, of course, is a continuous process, but countries have a finite amount of resources that they can use in aid of citizens' development. As I expand upon in the next chapter, trade, then, is a way for countries to expand or develop the resources available to them. As Sen notes, "It is hard to think that any process of substantial development can do without very extensive use of markets, but that does not preclude the role of social support, public regulation, or statecraft when they can enrich—rather than impoverish—human lives."⁵⁹ This then forms a reflexive relationship between the individual and the state, where individuals provide the productive capacities necessary for development (through trade) to take place, the government in turn provides the infrastructure, and through this process, both types of capabilities are enhanced. Further, through the development of country capabilities, countries are able to offer more and better conversion factors for individuals through means such as improved infrastructure, an environmental conversion factor, or education, which is a social conversion factor.

It is important to acknowledge that corporations are often important intermediaries to the process of individual and country capability development, at least in parts of the process. The state providing certain social goods, like social safety nets or healthcare, can put it in direct relation to its citizens, and voting directly affects the state. In many other ways, however, private firms act as intermediaries to the process, for instance by taking income tax out of employees' paychecks or providing private health insurance. The specific role of corporations in a Two-Tiered Capabilities Framework for trade is explored in depth in the next chapter.

There are two related objections to address related to my proposal for a Two-Tiered Capabilities Approach. The first is that countries cannot have capabilities because capabilities fundamentally contribute to living a decent

⁵⁸ This is why Nussbaum, who belongs to the liberal tradition, takes for granted that the onus of capability development rests on the state Nussbaum, *Creating Capabilities*, 19.

⁵⁹ Sen, *Development as Freedom*, 7.

human life or the ends of a human life. For this to apply to countries, we would also have to believe that there is something distinctive about countries that let them experience good or well-being. Sen even cautions us against misinterpreting functionings in this way, which he warns us to remember are characteristics of the state of existence of an individual.⁶⁰ The second objection is that countries cannot have capabilities because capabilities apply to humans who have agency to develop and make choices in a way that countries do not.

Both of these points are well-taken and undeniably true. I do not intend to propose that countries can experience well-being apart from or separate to the experiences of their citizens. Nor do I want to suggest that countries can have meaningful lives that must be fulfilled or improved with development. Thus, countries capabilities will have to mean something different than the “process of expanding real freedoms,”⁶¹ because countries do not have freedoms in the same way that human beings do.

Countries’ capabilities cannot be directly equated to individual capabilities. Rather, the term capability must mean something different when applied to countries that does not ascribe human-like agency to them, but still recognizes that states do have some form of agency and that countries can and do go through processes of development that are substantially different from, but procedurally similar to, the development of a human being. Here, Sen might be able to help us draw out the connection. He writes: “Individual freedom is quintessentially a social product, and there is a two-way relation between (1) social arrangements to expand individual freedoms and (2) the use of individual freedoms not only to improve the respective lives but also to make the social arrangements more appropriate and effective.”⁶² It is essentially the state-level social arrangements that I am ultimately interested in to develop a theory of country capabilities. Thus, country capabilities can be seen in a related, but distinct way to human capabilities, where country capabilities are used in a more traditional sense of ‘capability,’ meaning what the country has the ability to do. This idea is explored in depth below.

There are two ways in which we can approach the formulation of a Capabilities Approach to Trade. The first would be to ask what capabilities people need to live a flourishing life and then extrapolate up to see which of these capabilities trade can reasonably be expected to provide. The second option would be to look at what trade can do for a country and then zoom in, so to speak, on the ways in which these country-level improvements can be said to contribute to individual capabilities. This second approach is the one I take because this project

⁶⁰ Sen, *Commodities and Capabilities*, 10.

⁶¹ Sen, *Development as Freedom*, 3.

⁶² Sen, 31.

is concerned with trade after all, not individual capabilities.⁶³ Thus, I propose that we momentarily leave aside the idea of individual capabilities and focus on what country capabilities would mean and how trade can contribute to them. We can later look at how these country-level improvements tie back to individual capabilities. Thus, it is to the development of a theory of country capabilities that I now turn.

What are countries' capabilities?

The idea of countries having capabilities already has some purchase in economics. Sutton and Trefler, for example, define country capabilities as “the set of goods the country is able to produce and its quality and productivity in producing them.”⁶⁴ This may more accurately be defined as a country's *production* capabilities. Additionally, UMass economist Michael Best, in his book, *How Growth Really Happens*, uses the terminology of a ‘capabilities triad’ to articulate that economic growth occurs through a process of business organization, production system, and worker skill development.⁶⁵ Although I intend a broader definition than these authors, who use capabilities to describe production only, this idea of what a country is broadly capable of is helpful for my purposes.

There are two ways to look at country capabilities. The first, I call the Aggregative Approach, and it would posit that whatever countries' capabilities are is simply a high-level amalgamation of all the individual capabilities of the citizens of the country, just as we might see a country's production capability as its aggregate supply potential. While this interpretation may be appealing due to the emphasis it places on individuals and their capabilities, it is ultimately flawed. Any one individual's capability set will contain numerous capabilities not pertinent to the state. For example, going back to the ability to ride a bicycle: it might matter little to the state whether or not an individual (or even all of its individuals) has this specific capability. Therefore, this depiction seems inutile. While aggregation

⁶³ This second approach is more in keeping with a functionalist understanding of institutions: “Functionalist theories in the social sciences seek to describe, to understand and in most cases to explain the orderliness and stability of entire social systems. In so far as they treat of individuals, the treatment comes after and emerges from analysis of the system as a whole. Functionalist theories move from an understanding of the whole to an understanding of the parts of that whole, whereas individualism proceeds in the opposite direction” (Barry Barnes, *The Elements of Social Theory* (Princeton University Press, 2014), 37).

⁶⁴ John Sutton and Daniel Trefler, “Capabilities, Wealth, and Trade,” *Journal of Political Economy* 124, no. 3 (2016): 826.

⁶⁵ C.f. Michael H. Best, *How Growth Really Happens: The Making of Economic Miracles through Production, Governance, and Skills* (Princeton University Press, 2018), chap. 4.

may work in terms of countries' production potential, a parallel case does not seem to work in terms of capabilities.⁶⁶

My proposed alternative approach, the Lateral Approach, would be to think about country capabilities as something parallel or analogous to, but meaningfully separate from, individual capabilities. In this case, we are looking at a country as a distinct agent with some form of cohesiveness. (That said, countries, of course, do not exist without individuals, and it would be foolish to abstract away that much.) In this sense, just as a traditional capabilities approach says individuals should have the capacity to fulfill their (broadly defined) ends compatible with human dignity, I assume here that a state should have the capacity to fulfill its (broadly defined) ends which is to take care of its people.⁶⁷ **Thus, I propose that a 'country capability' can best be understood as a capacity a state has for providing for its people over time.** Examples of country capabilities, then, would be education, infrastructure, the legal system, political institutions, and so on.

Once again, it is important to note that this is not simply a pursuit of increased GDP to provide for these various functionings. Just as income level does not give us sufficient information about the quality of life of an individual, GDP does not give us sufficient information about the capabilities of a country. In fact, "A country can be very rich in conventional economic terms (i.e., in terms of the value of commodities produced per capita) and still be very poor in the achieved quality of human life."⁶⁸ Equatorial Guinea, for example, has a GDP of \$10.81 billion (USD) and has the highest GDP per capita in Africa. But over 75% of its population lives below the poverty line.⁶⁹ Thus, just as economic prosperity is only one facet of individuals' capability sets, GDP is only one facet (or perhaps a collection of facets under the broad heading of 'production capabilities') of a country's capabilities, as well. This idea is explored further in the next chapter.

The benefits of this Two-Tiered Capabilities Approach are numerous and avoid several of the problems with GDP listed above. First, it avoids aggregation, because while we start with country-level assessments, the ultimate goal is still the development of individual capabilities. Second, it means we can pay specific attention to ways in which countries can help develop the capabilities of women or the less-privileged. It can also be used to value things that are not normally

⁶⁶ Country capabilities will also be relevant to people who do not exist yet, for example, in terms of climate change. This is another reason why the aggregative approach does not make sense for my purposes.

⁶⁷ Here, I purposely avoid the word 'citizen' because the value of that word is another philosophical debate completely (c.f. Iris Young, "Polity and Group Difference: A Critique of the Ideal of Universal Citizenship," *Ethics* 99, no. 2 (January 1, 1989): 250-274).

⁶⁸ Sen, "Development as Capability Expansion," 42.

⁶⁹ "Equatorial Guinea," Text/HTML, World Bank, accessed July 17, 2018, <http://www.worldbank.org/en/country/equatorialguinea>.

valued by the market, or perhaps misvalued by the market, and it takes sustainability into account by looking at the way in which well-being translates into development in the long run.

Conclusion

The aim of this chapter has been to find a suitable measurement of growth and development to substitute for GDP in order to next look at how trade can meaningfully contribute to these things. This chapter has examined issues with GDP as a measurement and as a standard for economic assessment, especially how GDP and well-being are often falsely conflated. I went on to propose an alternative understanding of well-being through a traditional capabilities approach. The problem is that the capabilities approach itself cannot substitute for GDP, because it focuses on individuals, whereas GDP looks at the entire country. The problem with national-level measurements is that they are often aggregative and therefore ignore the position of those most disadvantaged in society. To remedy this, I formulated what I have called a 'Two-Tier Capabilities Approach' wherein country capabilities help to provide for individual capabilities, and in turn, individual capabilities help to develop country capabilities. The next step, now, is to look at how trade can contribute to the development of country capabilities, and how this satisfies the conditions I have laid out above for a theory of just trade.

6

Just Trade as Development, Broadly Construed

“It will be seen how in place of the wealth and poverty of political economy come the rich human being and rich human need. The rich human being is simultaneously the human being in need of a totality of human life-activities—the man in whom his own realization exists as an inner necessity, as need.”

—Karl Marx, *Economic and Philosophical Manuscripts of 1844*

In this final chapter, I examine how international trade contributes to the development of capabilities both at the country and individual levels, and how this satisfies the conditions of justice in trade (where trade fulfills its function of growth production) that I laid in Part I above. To this point, I have established that institutions have a function and that the function of the institution of international trade can reasonably be interpreted to be the production of growth or development, broadly construed. That said, the ways in which trade relates to growth are incredibly complex. Although trade should, in theory, bring about the production of growth, numerous contravening real-world factors hinder this relationship. Thus, I argued in Chapter 2 that the institution of international trade can be said not to be fulfilling its function. This chapter presents the way in which I propose to rectify this.

In Chapter 5, I argued that the best way to understand the production of growth and development in trade was in terms of a Two-Tiered Capabilities Approach where countries have capabilities akin to individual capabilities that can be enhanced through international trade. I argue in this chapter that the gains of trade can be seen as conversion factors for countries to develop their own capabilities and real functionings. This then satisfies the conditions of justice where an institution fulfills its purpose because, on my model, trade brings about the development of capabilities.

As stated in the introduction, my version of justice in trade is inspired by a model where an institution is just if it fulfills its function. Nevertheless, this version of justice is also perfectly compatible with a more modern conception where justice or fairness means receiving what one is owed. On a traditional capabilities social justice framework, individuals are owed capabilities that allow them the opportunity for development. The same applies in my model of a

capabilities approach to trade: trading nations are owed country capabilities. Here, I also want to emphasize that I assume that countries have a *responsibility* to use the gains from trade as conversion factors and I am assuming full compliance with this responsibility as well.

If a country uses the gains of trade to develop their capabilities (as I argue they *should*), winners and losers from trade, and consequently redistribution, become less of a concern for domestic economies. Country capabilities reflect an improvement in *national* welfare, so the nation as a whole benefits. As Ehrlich notes, “even though economic theory holds that free trade is good for the country as a whole, it is not good for everyone in the country. The winners *can* compensate the losers for their losses and still come out ahead, but there is no automatic compensation mechanism inherent within free trade.”¹ What I try to do with my capabilities model, then is build this compensation mechanism into the nature and purpose of international trade. Traditionally, focus on individual capabilities underplays the role of the state, while focusing on trade can underplay the importance of the individual.² My goal in this chapter is to rectify these two issues through a revival of the idea of national welfare from classical economics,³ and the subsequent sense of community responsibility that comes with it.

This chapter proceeds as follows: Section I looks at the role of markets and the role of the state in a Two-Tiered Capabilities Model. Here, I demonstrate ways in which we can conceive of states and (international) markets working in tandem to bring about development. Section II lays out some of the ways in which gains from trade can either contribute directly to both levels of capabilities or provide conversion factors for the development of capabilities at both levels. Using Robeyns’ schema of three types of conversion factors, I give an idea of how gains of trade can contribute to capability development. This list is by no means meant to be exhaustive, simply to demonstrate how my theory works. Section III looks briefly at the role of corporations as a mediator between individual and country capabilities, and the consequent moral responsibility they have. Section IV discusses the implications of this theory of justice in trade.

Section I – The Role of Markets and the State

This section sets out, conceptually, how we might conceive of the role of the state and the role of the market for capability development. I look at how the market

¹ Ehrlich, *The Politics of Fair Trade*, 45.

² Indeed the latter is the impetus behind the Fair Trade movement’s push for fair wages for individual producers.

³ Recall in Chapter 1, I discussed how the idea of ‘national welfare,’ or the idea of the country as a whole benefitting from trade, had gone out of vogue in contemporary economics and the concurrent rise in liberal individualism.

and the state can work together to promote capabilities. I also look at various proposals for how to bring about capability development: two models from Drèze and Sen and three from economists Anand and Ravallion. I examine each, before concluding that a capabilities approach to trade must employ all of these strategies to provide a holistic and comprehensive framework for development.

Before presenting the arguments in this section, it is worth heading off a potential objection about the nature of markets. The objection goes that a Two-Tiered Capabilities Approach cannot be compatible with international trade because this ascribes some sort of altruistic end to markets. While markets do produce efficient outcomes that lead to higher levels of welfare, they are ultimately concerned with the self-interests of individuals (or corporations or countries). This is what Adam Smith was referencing when he devised the ‘invisible hand’ metaphor.⁴ “It is not from the benevolence of the butcher, the brewer, or the baker, that we expect our dinner, but from their regard to their own interest.”⁵ Ultimately, the claim is that markets only reflect self-interest and therefore any attempt to use markets for development aims or positive ends are not being descriptively accurate about the nature of markets.

The response to this objection comes in three parts. First, those who think that Adam Smith’s invisible hand metaphor promoted egoism have misread him. His point was that while exchanges may not be motivated by benevolence, self-interest in exchange brings about a system that works effectively, but not selfishly. Second, there is nothing inherent in the definition of markets that says that they cannot bring about positive ends; in fact, that was Smith’s point. Third, capability development does not rest on the benevolence of the state, so pursuing trade in order to bring them about does not go against the common economic depiction of markets. Indeed, the point of markets is to allow for an exchange that brings about a mutually beneficial end. This is exactly what a capabilities approach to international trade does.

In a capitalist system, markets can determine the distribution of almost everything. The problems that I have highlighted in previous chapters, however, indicate that this can be a problematic means of allocating resources because GDP can increase without everyone actually benefitting. For example, people in a sector which has to compete with imports might lose their jobs, but the increase in production efficiency from competition with these imports might cause GDP to rise. The question then becomes to what extent economic institutions are the best way to provide for capabilities since markets make no guarantees that everyone is enabled to develop. The same, of course, applies to countries. As discussed in

⁴ C.f. Smith, *The Wealth of Nations*, 572 (bk. IV.ii).

⁵ Smith, 23–24 (bk. I.ii).

Chapter 2, international markets, as they currently stand, make no guarantees that countries benefit from trade.

Amartya Sen, like Adam Smith, sees the right of exchange as a basic freedom of individuals and part of what allows them to live valuable and more enriched lives.⁶ For Sen, the market has two roles, both of which are integral to development. First, markets generate income, which contributes meaningfully to an individual's capability development by enabling them to purchase goods and services necessary for their well-being. Second, the market provides a freedom of transaction that is valuable in and of itself because individual agency is central to capability development.⁷ The role of the market is just as important to country capabilities as individual capabilities, but I want to build on Sen's two interpretations of the role of the market and argue that it is not just valuable for freedom or income generation, though they are important aspects of the institution. The market is additionally a mechanism by which individuals can increase conversion factors. Income may be one of them, but so too might a typewriter that has been exchanged for a computer.

In this same vein, the gains of trade can be seen as conversion factors for countries to develop their own capabilities and translate them into real functionings. Recall that conversion factors are ways in which a good or service can translate a capability into a functioning. While for an individual this might be the acquisition of a bicycle, for the state, this is clearly going to have to be something much bigger. A more traditional theory would say that the increases to GDP brought about through exports, as well as the additional goods and services, count as the conversion factors that lead to increased country functionings. But as noted above, just as income from the market is only one facet of individual development, GDP is only one facet of country development. Others might be infrastructure, public services, or environmental sustainability.

Developing Capabilities

It is an established empirical fact that people in richer countries tend to be healthier and live longer lives. They also tend to be more literate. "In short, their basic capabilities tend to be greater than those of people living in poor countries.... This empirical observation may lead one to think that economic growth is the key to human development."⁸ Thus, it is important to pinpoint exactly how this growth

⁶ Sen, *Development as Freedom*, 6.

⁷ C.f. Amartya Sen, "Markets and Freedoms: Achievements and Limitations of the Market Mechanism in Promoting Individual Freedoms," *Oxford Economic Papers* 45, no. 4 (1993): 519–41.

⁸ Sudhir Anand and Martin Ravallion, "Human Development in Poor Countries: On the Role of Private Incomes and Public Services," *Journal of Economic Perspectives* 7, no. 1 (February 1, 1993): 138.

might translate into capability development, both at the individual and country levels.

Drèze and Sen identify two potential strategies for development: what they call ‘growth-mediated’ and ‘support-led’ processes.⁹ Growth-mediated development depends on rapid economic growth that is widespread throughout the economy. The improved economic prosperity is then used to “expand the relevant social services, including healthcare, education, and social security.”¹⁰ Support-led development does not necessarily depend on economic growth, but rather aids development through “a program of skillful social support of health care, education and other relevant social arrangements.”¹¹ Support-led development, however, cannot maintain itself without *some* level of growth. So, while Drèze and Sen are right to point out that these two strategies for developing individual capabilities are conceptually distinct, it does not seem correct to dichotomize them in this way.

Anand and Ravallion, building on Sen and Drèze’s processes, have identified three potential strategies for individual capability development:

- **Capability Expansion through Economic Growth:** This view is similar to Drèze and Sen’s growth-led development above. Here, economic growth contributes directly to the development of capabilities. Through economic growth, average income will increase, and people can thus enjoy a ‘greater command’ over goods and services from food to healthcare. This, in turn, translates to improved overall nutrition and health of society, which leads to higher life expectancies and consequently levels of development. Put simply, “All capabilities expand with economic growth, thus promoting human development.”¹² One problem with this view is that the state has no designated or active role in development. As I noted above, a focus on individual capability development, which is what Anand and Ravallion are concerned with, tends to underplay the important role of the state.
- **Capability Expansion through Poverty Reduction:** This view is related to the first, but instead focuses on the position of the worst-off in society. Anand and Ravallion note that it might be true that simply seeing a reduction in the overall levels of poverty within a country could be the best way to see the overall level of capabilities within a country rise. Here, we start with the evidence that individual capabilities are lowest at the

⁹ Jean Drèze and Amartya Sen, *Hunger and Public Action* (Clarendon Press, 1989), chap. 10.

¹⁰ Sen, *Development as Freedom*, 46.

¹¹ Sen, 46.

¹² Anand and Ravallion, “Human Development in Poor Countries,” 139.

lowest income brackets but tend to level off at some point of development. Consequently, people would be better off if poverty could be reduced or eliminated. This strategy depends not on widespread and/or aggregate growth, but rather on the empirical observation that growth tends to correlate to lower levels of absolute poverty.¹³ One issue here is that there is only a *tendency* for growth to reduce poverty, and thus no guarantee of capability development.

- **Capability Expansion through Social Services:** This final idea is similar to Drèze and Sen's second proposal for support-led capability development. This proposal *does* emphasize a strong role for the state in terms of capability development. "By this view, the public provision of essential goods and services—clean drinking water, sanitation, healthcare, epidemiological protection, elementary education, and so on—leads to improved social outcomes."¹⁴ Growth matters only insofar as it is used by the state to provide for public services.

Anand and Ravallion make these distinctions in a bid to assess which development strategies to pursue to enhance individual capabilities. The question they ask here is how much emphasis should be placed on private incomes versus overall levels of economic growth versus help or support from the state. It is worth noting that they conclude that empirical studies done over the past years are inconclusive as to which of these correlations is the strongest.¹⁵ Normally, this lack of empirical evidence would be problematic for policymakers, because it would prevent them from determining where to focus development efforts: income, GDP, or safety nets. "...[I]f social expenditures and the reduction in income poverty are the main forces driving human development, rather than economic growth per se, then policy intervention can play a role in promoting human development independently of the promotion of aggregate affluence."¹⁶ One important takeaway from this is that income is not the only way to develop capabilities.

Indeed, we might also want to think about supplementing Anand and Ravallion's schema with a fourth metric that concerns the ownership of capital and its distribution. We might call this **Capability Expansion through Equitable Division of Capital**. This fourth metric is related to poverty reduction, but would be distinct in that the distribution of capital ownership has significant bearings on the capabilities that an individual can develop. The idea here is similar to that of 'property-owning democracy,' a term which was first used by Conservative MP Noel Skelton in 1923, but was since co-opted by Labour

¹³ Anand and Ravallion, 140.

¹⁴ Anand and Ravallion, 140.

¹⁵ Anand and Ravallion, 137.

¹⁶ Anand and Ravallion, 144.

economist James Meade and featured in Rawls's political theory. The idea is that property and capital must be democratized, because ensuring equitable access to capital can ensure that people have greater freedom both in accessing capabilities but also in the freedom to choose the functionings that they pursue. While this metric is not related *directly* to growth, as economic growth occurs, ensuring that it does so in an equitable way will help to spur on overall human development.¹⁷

My Capabilities Approach to Trade uses a combination of all four processes, so that they are not three separate strategies for development, but rather use the benefits of each one to compensate for the weaknesses of the others and provide a holistic process of capability development. Development is not solely a task for states, and it is not solely a task for individuals; neither actor can be passive in this process. As countries experience economic growth from trade—which is an example of the development of a country capability—they have a moral responsibility to utilize that growth for the good of society (in a similar vein to Anand and Ravallion's third category, 'Capability Expansion through Social Services' above). This will help to mitigate against losses from trade, like a depreciation of wages in import sectors. At the same time that the country as a whole is benefitting from these gains from trade, economic growth should also be directly beneficial to the individuals in the country (the first category, 'Capability Expansion through Economic Growth'), average income will increase, improving overall quality of life. With an increase in wages can come a concurrent rise in taxes (both through the direct increase of revenue, but also through the ability to increase tax rates), which can then contribute to state services, completing a circle, so to speak, of growth and development at both the individual and country level. Further, in terms of poverty relief, the hope is that the empirical trend of growth leads to a reduction in the absolute numbers of people living below the poverty line. This is also why a possible redistributive or democratic principle about the ownership of capital seems to be an important prong of a state policy that promotes capabilities development. The empirical relationship between growth and poverty reduction is stronger in countries where there are strong social institutions to help alleviate need.¹⁸ Increased social services can aid in poverty reduction. Thus, this approach to capabilities development on two-tiers ensures a long-term and sustainable program that relies on using the benefits from trade

¹⁷ It is more directly related to the idea of growth in Meade's economics, because a key concern of his was rising returns to capital relative to wage labor, which signifies some sort of economic growth, and thus the state must enact some sort of democratization or redistributive policy over the wealth (c.f. J. E. Meade, *Efficiency, Equality and the Ownership of Property* (London: Allen & Unwin, 1964), 41–60).

¹⁸ Aaron Coseby, "A Capabilities Approach to Trade and Sustainable Development: Using Sen's Conception of Development to Re-Examine the Debates," *International Institute for Sustainable Development*, November 2004, 2–3.

(international markets) effectively but does not rely on market liberalization alone.

Now that I have established how the market and the state can contribute to capability development, it is time to examine more closely examples of how specific gains from trade can contribute towards the development of capabilities.

Section II – Capabilities and Gains of Trade

In this section, I offer several ways in which gains of trade can be used towards developing both country and individual capabilities. Trade can contribute directly to capabilities, through means such as increased income/GDP and goods. Trade can also contribute to conversion factors, as well, through means such as social improvements or infrastructure. The examples offered here are by no means meant to be a comprehensive list of ways in which the gains from trade can contribute to capabilities. Instead, this section gives a specific idea of how a capabilities approach to trade might be seen to work in practice, as well as serving as a starting point to examine the various ways in which international trade can contribute to well-being. To begin this section, I give a survey of various types of gains from trade. Next, I look at the direct contributions to capabilities, both at the country and individual levels. Finally, I look at gains of trade as conversion factors.

Gains from Trade

As discussed above in Chapters 1 and 4, economists tend to classify gains of trade into ‘static’ and ‘dynamic’ categories. Static gains from trade occur when countries liberalize their markets. They are one-off gains to the overall level (as opposed to rate) of growth or development of the country. An increase in GDP would be a static gain of trade. Static gains from trade include reducing the prices of goods and increasing wages. These gains from trade tend to directly impact individual and country capabilities, by giving them additional resources with which they can develop their capabilities.

Dynamic gains from trade are gains that occur to the overall growth or development *rates* of an economy over a period of time. These gains have to do with productivity increases that can make growth and development easier and quicker. An example of a dynamic gain from trade might be improvements to infrastructure, technologies, or knowledge transfer. These can serve as both direct contributors to capability development, as well as conversion factors. For example, improvements in infrastructure serve as a country capability because of the way in which they allow for a country to provide for its people, but also a

conversion factor for improving individuals' capabilities to, for example, get to work or school.

Static and dynamic gains from trade are what we might call 'economic' gains from trade. That said, as implied above, particularly in Chapter 1, there are also what we might call 'political' and 'social' gains from trade. These are benefits such as peaceable international relations or improvements to national welfare. These gains are often not addressed in the contemporary economic literature on international trade, yet they are often just as important as the economic benefits, especially in terms of capability development. A capabilities approach to development is a holistic schema. So, while it is certainly true that economic improvements can greatly enhance capabilities in the ways mentioned above, political and social gains from trade impact country capabilities through the ways in which they are able to provide for their people. Stronger social institutions equate both to improved country capabilities, as well as serving as social conversion factors for individuals.

It is worth noting here that these categories of gains from trade listed above, as well as the way in which they impact capabilities, interact and overlap in numerous ways. The discussion below artificially separates the contributions that these gains of trade make to different capabilities for the purposes of analysis. A real-world implementation of this framework would not necessarily be as cut-and-dry.

Gains from Trade and Capabilities

Here, I look at how some of the types of gains from trade above translate directly into both country and individual capabilities.

Country-level Capabilities and Gains from Trade

Since an increased national income is commonly associated with the idea of growth, I begin with the easiest to analyze gain from trade. Recall that GDP is calculated by looking at the total consumption, investment, and government spending *plus exports minus imports*. So, all other factors staying equal, an increase in exports relative to imports can lead to an increase in GDP. And, as GDP rises, the country has more money, so what we are really looking at here is a rise in national income. (GDP increases through trade can also have a bearing on investment and consumption, but this is discussed below.) This new increase in money can then equate higher taxes and tax rates, which then translates to an increase in government spending on things like education or infrastructure. These then serve as conversion factors for individuals to develop their capabilities.

This is probably the most obvious of the ways in which gains from trade can translate into country capabilities. It is worth drawing out the point about exports more though. An oft-cited gain from trade is a vent for surplus goods, or any goods produced that are left over after domestic demand is filled. In other words, international trade allows corporations to sell their excess supply overseas. Adam Smith recognized this benefit of trade when he wrote that trade “carries out that surplus part of the produce of their (trading countries) land and labour for which there is no demand among them, and brings back in return for it something else for which there is a demand. It gives a value to their superfluities, by exchanging them for something else, which may satisfy a part of their wants, and increase their enjoyments.”¹⁹ Almost 200 years later economist Hla Myint observed this phenomenon in Southeast Asia and proposed a ‘vent-for-surplus’ strategy for developing countries.²⁰ Under the theory of comparative advantage, two developed countries with high factor mobility simply specialize in the good in which they have a comparative advantage. Developing or underdeveloped countries, however, do not necessarily have high factor mobility and so rearranging their productive capacities to be more efficient might not be an option. So, by opening up for trade, the country is able to sell this surplus abroad instead. This then ultimately leads to more income coming into the country (and efficiency gains, which I discuss below). More income in the country translates to country-level capability development through increased capital with which to bolster political stability, provide social services and infrastructure, etc.

Individual Capabilities and Gains from Trade

Individual increases to welfare through international trade are often classified as ‘increases in household income,’ meaning that wages go up, and ‘efficiency gains,’ meaning that goods and services are cheaper and/or easier to produce and obtain. Efficiency gains from trade can be further broken down into ‘efficiency gains to consumption’ and ‘efficiency gains to production.’ I look at each of these in turn below and how they contribute to capability development.

Increases in income and efficiency gains are closely connected through the prices of consumption goods and household spending on these goods. Imports tend to be priced lower than the same or similar goods produced domestically—if they were not, countries would not import them. The reasons for the differences in price could be due to lower labor costs or better production technologies in the exporting country. While these cheaper imports may cause domestic workers to suffer a loss of wages, these lower prices might actually be beneficial or

¹⁹ Smith, *The Wealth of Nations*, 561 (bk. IV.i).

²⁰ Keith Owen Fuglie, “‘Vent-for-Surplus’ as a Source of Agricultural Growth in Northeast Thailand, 1958-1980,” *The Journal of Developing Areas* 25, no. 3 (1991): 331–33.

compensate for the wage loss if the imported good is something that the individual buys.²¹ Often, “these welfare gains through consumption, on average, are found to be larger in magnitude than the wage effect for some developing countries.”²² So, if trade works in a way in the country so that the price of consumer goods falls enough to offset a concurrent fall in wages, the overall welfare impact can be positive.

Increases in household income

Just as increased GDP is a fairly straightforward way of improving country capabilities, discussed above, increased income is a similarly straightforward way of improving individual capabilities through their ability to access more goods and services necessary for improved functionings. Although trade is commonly more well-known for depressing wages and causing an increase in wage inequality,²³ coupled with the right policies, trade *can* create an increase in income in a variety of different ways. First, as trade increases, new production plants open and firms hire more workers or pay them more, in order to expand production and ensure competitiveness. Second, trade will increase demand for certain skills, especially in sectors that, for example, are technology-intensive. Finally, empirically, as countries as a whole experience growth through trade, they also tend to experience development.²⁴ This then tends to lead to a higher quality of life for all people in the country, which occurs partially through a rise in wages throughout the country.

Indeed, just two years after the 2001 US-Vietnam Free Trade Agreement was signed, poverty in Vietnam fell by almost 10% from 28.9% in 2002 to 19.5% in 2004.²⁵ The connection between wage increases and trade was moreover demonstrated by the fact that Vietnamese provinces that traded the most in US goods, which were now tariff-free, experienced more rapid poverty reduction than other provinces.²⁶

The factors that affect wages are numerous, and not all directly related back to international trade. For example, developing countries can often experience high inflation, recessions, and vast and rapid changes in the most important economic sectors in the country. Any of these factors can cause wage

²¹ If the good is something that the household buys, it is known as being in their ‘consumption basket.’

²² Beyza Ural Marchand, “How Does International Trade Affect Household Welfare?,” *IZA World of Labor*, 2017, 1.

²³ It is worth recognizing that wage inequality, while a potential problem in and of itself if the gap is large enough, does not necessarily mean that all wages are not rising; it simply signifies that wages at the top are rising more rapidly than wages at the bottom.

²⁴ My Capabilities Approach to Trade helps to strengthen this connection, ensuring that economic growth does indeed translate to development.

²⁵ Brian McCaig, “Exporting out of Poverty: Provincial Poverty in Vietnam and U.S. Market Access,” *Journal of International Economics* 85, no. 1 (September 1, 2011): 103.

²⁶ McCaig, 106–7.

volatility. This is one reason a Two-Tiered Capabilities Approach to Trade is superior to a traditional capabilities approach. By promoting country capabilities, the country will be able to provide a better safety net to mitigate wage volatility experienced during the development process.

Efficiency Gains

EFFICIENCY GAINS TO CONSUMPTION

This phenomenon is especially important in developing countries when it comes to food. ‘Engel’s Law’ is an observation in economics that states that when incomes rise, the proportion of income spent on food falls, even if total spending on food goes up. This is important for capability development, particularly through poverty reduction in developing countries. In developing countries, imported goods make up a large portion of household consumption baskets. In fact, in some of the world’s poorest countries, the poorest households’ entire budget might go towards food.²⁷ Proportions of household budgets spent on food in developed nations are substantially lower. According to the US Department of Agriculture’s Economic Research Service, the average share of household budget on food, alcohol, and tobacco in 2014 was 6.6% in the United States, whereas in the Philippines, the share of budget that went to the same basket of goods was 42.1%. The disparity is striking between households even within the same country. In India, for example, the poorest households spent up to 57% of their budgets on food and drink whereas the wealthiest households spent roughly 10%.²⁸

Consequently, a reduction in food prices within a country will have a pro-poor result (everything else being equal). So, food, which is usually imported at a lower cost than domestically produced foodstuffs, can directly contribute to individual capabilities by allowing them to purchase food more cheaply, which will contribute to healthiness and a greater proportion of income can be devoted to other goods.²⁹

While this phenomenon is particularly important in developing countries when it comes to food, it applies more widely, as well. Any goods that are traded and experience subsequent price declines can be good for consumers. This can contribute to individual capabilities in any number of ways, depending on the goods or services in question.

²⁷ Marchand, “How Does International Trade Affect Household Welfare?,” 5.

²⁸ Marchand, 5.

²⁹ Cheaper manufactured goods, however, tend to be more beneficial to richer households than poor ones, however. Richer households dedicate much higher proportions of their budgets to manufactured items such as white goods, cars, and textiles than poorer households. Consequently, price reductions in manufacturing sectors tend to benefit richer households more than poorer ones (Marchand, 6).

It is also worth noting that this phenomenon has the potential to have a national equalizing effect *if* the goods that are becoming cheaper are more important for poorer households than richer ones. This has proven to be the case in India, where wage and consumption effects of trade were much more beneficial to poorer households.³⁰ Ultimately, this means that trade policy can actively contribute to individual capabilities (and indeed capabilities for comparatively poorer people) if the country pursues a strategy of ensuring that imports drive the cost of necessary goods down.

EFFICIENCY GAINS TO PRODUCTION

In addition to consumption efficiency, efficiency gains from trade can also be in the form of production efficiency gains, which occur through trade by extending the domestic market and also by bringing in more efficient production technologies. One production efficiency gain from trade is an economy of scale, which occurs when firms/industries benefit because they can produce more goods using the same amount of resources. For example, it might cost \$3,000 to produce 100 bicycles, but \$4,000 to produce 1,000 bikes. The average cost of production has fallen from \$30 per good to just \$4 because the factory producing the bicycles can buy the inputs in bulk and use the same machines that they already have so there is no upfront capital investment required. This ‘internal economy of scale’ works by bringing more income into the firm so that it can reinvest in better productive technology lowering the overall price of the good. This has two positive benefits overall. First, investment is good for GDP, contributing to country capabilities. Second, economies of scale lower the price of goods for consumers, meaning that the benefits translate to individual capabilities by lowering the cost of necessary goods.

Another efficiency gain from trade to production is through what Paul Krugman identified as ‘intra-industry trade,’ which I discussed at length in Chapter 1 above. Benefits from intra-industry trade can be explained thusly:

consumers love variety and are willing to pay a premium for a desired product, but as the market fragments niche products, producers struggle to attain the volumes needed to recoup their product development costs. International trade creates a larger marketplace, which means that each firm can operate at a larger scale and hence more firms can survive.³¹

Intra-industry trade explains why the United States, for example, both exports and imports cars. Intra-industry trade might initially seem like a by-product of

³⁰ Marchand, 8.

³¹ Marc J. Melitz and Daniel Trefler, “Gains from Trade When Firms Matter,” *Journal of Economic Perspectives* 26, no. 2 (2012): 92.

rampant consumerism and unhelpful for capability development. People do not need a choice of a Ford, a Honda, or a BMW to satisfy any meaningful capabilities. That said, intra-industry trade can have a pro-poor effect if it allows poorer households to choose a slightly lower-quality product at a lower price. Further, as Sen reminds us, choice in itself is a meaningful part of capability development, and intra-industry trade can contribute to the range of choices an individual has available to her.³²

The effects of intra-industry trade can also help to stop monopolization. This is good for firms because it means they have incentive to try to remain competitive. It is even better for consumers because means they can continue to purchase a greater variety of products at a lower cost than under a monopoly.

Gains from Trade and Conversion Factors

In addition to contributing directly to capabilities, gains from trade can also be used as conversion factors, which help translate capabilities into functionings. Recall from the previous chapter that Robeyns gives three categories of conversion factors: 1) personal conversion factors, which are characteristics of the individual, 2) social conversion factors, which relate to the society in which an individual lives, and 3) environmental conversion factors, which have to do with the physical environment in which an individual resides. The extent to which the acquisition of goods and services can meaningfully contribute to functionings depends on the conversion factors that an individual has available to her. Social and environmental conversion factors can be directly linked back to both country capabilities and gains from trade. For example, gains from trade can be used to improve infrastructure. This is then both an environmental conversion factor and a country capability.

Individual Conversion Factors

Because personal conversion factors are characteristics intrinsic to the individual, trade often does not impact them directly. Trade will not change a person's gender, height, or age. It can, however, impact them through education, skills, and health. These are discussed below. Mostly, however, what it can do is help to make these characteristics less of a problem through other types of conversion factors.

Just as individuals have personal conversion factors, a country can have a parallel type of conversion factors, which I call 'individual country conversion factors.' These would be characteristics 'intrinsic' to the country such as the

³² The capability to choose among various products is only meaningful insofar as it contributes to a flourishing life, and has to be balanced against the problems associated with consumerism, such as pollution and health effects like obesity.

resources found in its soil, its demographic composition, its geography, etc.³³ Trade can have an impact on individual country conversion factors in a number of different ways. First, it can allow countries to import resources that they would not otherwise have access to. Second, it can cause migration to fill gaps in the labor market.³⁴ Skilled workers with specialty training might move to another country where their skills are needed, or unskilled workers might move to places where there is a higher demand for manual jobs. This could then alter the demographic composition of a country.

The upshot here is that international trade can positively contribute to individual country conversion factors, which then improve their abilities to translate capabilities into functionings. For example, supplying jobs could be a country capability and with an appropriate migration policy in place, they will be able to realize that capability.

Social Conversion Factors

Here, I discuss several examples of ways in which international trade can contribute to social conversion factors.

Education

Education is usually meant, by capabilities theories, to be taken in a formal sense. Trade can contribute to formal education when GDP is spent on the education budget or through an increased instance of foreign students, who encourage the growth of higher education services, as well as formal knowledge transfer.³⁵ But here, I want to focus on more non-formal education, such as career training and skilled work, that is more directly impacted by trade.

International trade leads to the development of new technologies and innovations, and this knowledge is then spread through trade, as well. International trade also leads to an increased demand for certain skill sets depending on the country. Thus, the increased instances of innovations in a country, knowledge transfers between countries, as well as the demand for higher

³³ There are two additional points to be made here. First, ‘intrinsic’ for countries does not mean *quite* the same thing as it does for individuals, because we tend to think of intrinsic qualities as immutable things. People are born with intrinsic qualities and many of them cannot be changed. For a country, border lines could be redrawn, or migration can occur, so countries individual conversion factors tend to be slightly more mutable than personal conversion factors. Second, many of these individual country conversion factors actually translate to individual environmental or social conversion factors. A country’s geography, for example, is both an individual country conversion factor, and an environmental conversion factor for individuals.

³⁴ This assumes labor mobility across national borders.

³⁵ C.f. Ann Bourke, “A Model of the Determinants of International Trade in Higher Education,” *Service Industries Journal* 20, no. 1 (2000): 110–138.

skills, mean that international trade can contribute positively to education around the world. Further, the spread of technology and knowledge throughout a country should be comparatively easier than international transfer. This means that once new knowledge has entered the country, it can spread widely benefitting the entire population. Knowledge is what is known as a nonrival good: it need not be competitive and can consequently be used by multiple agents at the same time for different purposes, without interfering with others' goals or being direct competitors.³⁶ This then means that compared to certain other advances brought about by international trade, educational progress can benefit a wide swath of the community without competition.

In order to ensure that knowledge-based advances through international trade contribute to capabilities, the country will need appropriate infrastructure (which trade can aid in, as discussed below) for the spread of knowledge, coupled with investment in human capital to ensure that the knowledge is appropriately applied. Increased country capabilities through trade can help secure these necessary features for the spread of education, and increased education through trade contributes to capabilities of individuals to use and spread the knowledge.

Healthcare

International trade can contribute to healthcare standards by bringing in improved healthcare technologies into the country. More often than not, medical improvements take place in developed countries. Without international trade, LDCs would have little access to these medicines, because they do not have the knowledge-base or infrastructure to create these advances. International trade can contribute to country capabilities by ensuring that people around the world have access to life-saving medicines. This further contributes to individual capability development by ensuring that more people can live longer and healthier lives. Increased population health also serves as a conversion factor for individual capabilities because the healthier the overall population, the fewer instances of disease spreading.³⁷

Despite the fact that international trade in healthcare is growing,³⁸ the current rules of international trade make this medical knowledge transfer and importing of new healthcare technologies very difficult. Intellectual property rules that govern healthcare advances tend to be structured in such a way that protect

³⁶ Kamal Saggi, "Trade, Foreign Direct Investment, and International Technology Transfer: A Survey," *The World Bank Research Observer* 17, no. 2 (2002): 192.

³⁷ This is known as 'herd immunity' (C.f. Manish Sadarangani, "Herd Immunity: How Does It Work?," Oxford Vaccination Group, April 26, 2016, <https://www.ovg.ox.ac.uk/news/herd-immunity-how-does-it-work>).

³⁸ Lior Herman, "Assessing International Trade in Healthcare Services," *European Centre for International Political Economy*, March 2009, 1.

the developers of the technology in the developed countries, and can consequently make the sharing of these advances prohibitively expensive.³⁹ Because a Capabilities Approach to Trade prioritizes the well-being of individuals, health being a fundamental priority, my theory of international trade requires that these barriers to trade in international healthcare be lowered so that the benefits of medical advances can be shared.

Labor Standards

International trade is often associated with poor labor standards, namely developed countries importing goods produced with sweatshop labor. It is also true that the instances of sweatshop labor decrease as a country reaches higher levels of development. The relationship between trade and labor standards, however, is more complicated than this. Opponents of labor standards argue that adding labor clauses into trade agreements is simply veiled protectionism or that it is a violation of national sovereignty. Others argue that labor standards are too important an issue to be left up to development through free-market forces.⁴⁰

Labor and wages are inextricably tied to trade. A Capabilities Approach to Trade strengthens this necessary connection between trade and labor, by promoting the well-being of the individual, who cannot flourish in poor labor conditions. Further, labor standards can contribute to country capabilities, because countries who implement labor laws help to avoid market failures, increase labor mobility and thus market efficiency, as well as increasing instances of redistribution and equality.⁴¹ Labor standards are important on a capabilities approach because they allow individuals to live happier, healthier lives, with better wages and a higher quality of life during both work and leisure time. Thus, labor standards can be seen as both country capabilities as they help countries to provide for the well-being of their people, as well as social conversion factors, because they help to secure a better working environment overall. Indeed, there are economic incentives for both MDCs and LDCs to implement high(er) labor standards. If the government pursues a rationale of promoting overall well-being, which it should on a capabilities approach, there are higher social benefits overall, and many of costs of implementing labor laws are subsequently transferred to corporations (more on this below).

Further, in terms of minimum working age, which is often a key concern about labor standards, if a country raises the minimum employment age by one

³⁹ Stiglitz and Charlton, *Fair Trade For All*, 73.

⁴⁰ The concern here is a 'race to the bottom,' where firms actually continue to lower their labor standards in a bid to lower costs and remain internationally competitive.

⁴¹ Alan Krueger, "Observations on International Labor Standards and Trade," *NBER Working Paper Series*, June 1, 1996, 11.

year, it tends to mean that young people are required to stay in education for this extra year. Thus, the social cost of having fewer workers is balanced out by the greater levels of educational attainment within the country. There are also incentives for developing countries as a group, to raise labor standards. Developing countries tend to be labor abundant, so if all countries raised their wages together, it would drive up the cost of labor-intensive exports, bringing in more money from developed countries who buy the products.⁴² Finally, for developed countries, trade with countries who have low-wages has been one of the key drivers of rising unemployment for low-skilled workers domestically.⁴³ By protecting labor rights around the world, both developed and developing countries benefit.

Women's Rights

The connection between women's labor force participation and international trade should be straightforward: international trade increases the number of jobs available and women should be able to take up any number of those jobs. A new or better job helps a woman to expand her capabilities through increased purchasing power, bargaining power, social standing, and general individual empowerment. Further, as more women are employed their societal visibility is raised. Their ability to communicate with one another also increases, because they have a venue for expression outside of the home. This increased visibility and communication leads to organization, which in turn translates into political rights, and an overall better position for women in society. The theoretical knock-on benefits of international trade to women should be substantial.

Unfortunately, as it stands currently, there are a number of structural barriers that prevent women from realizing the benefits of international trade. Empirical evidence does demonstrate that international trade *has* helped to create jobs for women. Burgeoning export sectors, especially in manufacturing, tend to employ women in substantial numbers.⁴⁴ There are two issues with this, however. One reason that these export sectors tend to make use of women's labor is that women tend to be less unionized than men, and thus they have less bargaining power over wages and working conditions.⁴⁵ Further, as export sectors continue to develop towards technology-intense production, firms require more highly-

⁴² Drusilla K. Brown, "Labor Standards: Where Do They Belong on the International Trade Agenda?," *Journal of Economic Perspectives* 15, no. 3 (August 1, 2001): 102.

⁴³ Brown, 98.

⁴⁴ Gurushri Swamy, "International Trade and Women," *Economic and Political Weekly* 39, no. 45 (November 6, 2004): 4885.

⁴⁵ "Gender Equality and Trade Policy," United Nations: Women Watch, accessed July 29, 2018, <http://www.un.org/womenwatch/feature/trade/Effects-of-Trade-on-Gender-Equality-in-Labour-Markets-and-Small-scale-Enterprises.html>.

skilled workers, which tend to be men. Thus, the initial positive effect of trade liberalization on women in developing countries tends not to be sustained.⁴⁶

A Capabilities Approach to International Trade can help aid in addressing these issues. First, we can make sure that the educational opportunities brought about by international trade, discussed above, are available to women so that they can acquire skills necessary to continue to reap the employment benefits of development. Second, improving labor standards, again discussed above, will substantially benefit women, since they are disproportionately employed in sweatshop-style jobs.⁴⁷ Third, an increased ability for a country to provide social services such as childcare and transportation should benefit working women. Ultimately, a Two-Tiered Capabilities Approach should help women to realize the benefits of international trade that they currently have difficulty realizing due to imbalanced and discriminatory social structures.

Democratization and Governance

I briefly discussed the connection between economic growth and governance in Chapter 4 above, but it is worth drawing out here. Stable economic growth tends to be a common denominator amongst countries who have successfully democratized. While there are numerous factors that must be present in order for a country to successfully democratize, economic growth is almost always cited among these factors.⁴⁸ Indeed, few countries with low socioeconomic development are democracies, and most with high levels of socioeconomic development are.⁴⁹ The transition to democracy usually occurs at a middle level of development.⁵⁰

Economic growth, empirically, seems to lay the foundations for democratization by allowing a citizenry to see that an authoritarian regime is no longer necessary to sustain the country and its economy. Further, countries with weak economies tend not to be ready to sustain democracy, as a weak economy usually includes a large gap between social classes, meaning a factionalized citizenry. Further, developing countries usually contain a substantial uneducated, illiterate population as the government is not able to provide education, meaning that citizens are less likely to be able to participate in democratic processes such as voting or being able to read political literature from the candidates.⁵¹

⁴⁶ “Gender Equality and Trade Policy.”

⁴⁷ “Gender Equality and Trade Policy.”

⁴⁸ Seymour Martin Lipset, *Political Man: The Social Bases of Politics* (Johns Hopkins University Press, 1981), 48.

⁴⁹ The Gulf countries are a notable exception to this trend.

⁵⁰ Juan J. Linz and Alfred Stepan, *Problems of Democratic Transition and Consolidation: Southern Europe, South America, and Post-Communist Europe* (JHU Press, 2011), 77.

⁵¹ Linz and Stepan, 78.

Economic well-being, on the other hand, generally positively affects the attitudes of a population, by helping to foster values such as “interpersonal trust, life satisfaction, and competence,”⁵² all of which are values necessary for the survival of a democracy. If citizens do not trust one another or are simply competing for survival, it certainly seems unlikely that they will want the power of the government entrusted in the hands of the masses. As noted above, economic development helps to promote a better-educated society. If the government is wealthier, it can provide public education which allows everyone an education.⁵³ Education also helps to promote the values noted above which are so important to the success of a democracy. Furthermore, a literate population will be able to educate themselves about the issues and candidates on which they are voting. This, in turn, can spur the discussion of political topics among citizens which Tocqueville noted was crucial for the survival of democracy.⁵⁴

According to Collier, economic growth “gradually increases income to the level at which checks and balances are secured, an improvement in them eventually becomes self-sustaining.”⁵⁵ Democracies tend to be more stable and predictable due to their institutions, so other countries are more willing to trade with them, meaning that economic growth can be sustained better in the long run, creating a cycle of development. Thus, trade that produces economic growth can have a positive holistic effect on the overall levels of democracy and governance within a country. Trade can thus contribute to the country capability of governance, which also serves as a social conversion factor for individuals, because the country is a more politically stable and free place in which individuals can develop and flourish.

Environmental Conversion Factors

In addition to contributing to social conversion factors, international trade can also help to provide various environmental conversion factors for individuals.

Infrastructure

The need for strong infrastructure plays a huge role in the success of international trade. Indeed, Collier credits Africa’s poor infrastructure as among the top reasons that Africa has lagged so far behind Asia in terms of development.

⁵² Samuel P. Huntington, *The Third Wave: Democratization in the Late 20th Century* (University of Oklahoma Press, 2012), 65.

⁵³ Huntington, 65–66.

⁵⁴ C.f. Alexis de Tocqueville, *Democracy in America* (Library of America, 2004), pt. I.I.4, I.II.4.

⁵⁵ Collier, *The Bottom Billion*, 147.

Although Africa is the centre of the universe on the area-accurate Peters Projection Map (occupying a much-coveted proximity to the industrialized hubs of Europe and America), it takes way too long to transport goods on its unnavigable rivers, impassable bridges and pot-holed roads. Besides, to state the obvious, no profit-seeking company can afford to bet on Africa's unreliable power and erratic telecommunications as the source of its manufactured inputs. Of course, were Africa's dire infrastructure predicament remedied, its chance for higher-value trade (thereby distancing itself from the tag of commodity exporter) could dramatically improve.⁵⁶

However, coupled with appropriate policy, trade can actually actively improve infrastructure.

First of all, international trade can incentivize infrastructure improvements. Firms require improved infrastructure to ensure competitiveness, so they invest in infrastructural improvements, such as ports, internet and wireless technologies, or even renewable energy. Second, countries are also incentivized to improve infrastructure to help trade occur because of the benefits that international trade brings into the country. In other words, countries thus have more of a reason to improve transport links, roads, power supplies (where nationalized), etc. in order to ensure that trade can take place and the benefits can be reaped.

These infrastructural improvements have beneficial effects for individuals, though, as well. Increased power supplies to an area can benefit individual households by making powering their houses less expensive. Improved road qualities or transport links, additionally, help them to be able to travel more easily contributing to individual capabilities. Additionally, as firms benefit from improved infrastructure, they should improve their production, which should, in turn, allow them to offer more jobs, benefitting the local population.

Indeed, Collier is hopeful about the possibility of infrastructure improvements in Africa, thanks to foreign direct investment from China, the United States, and the European Union.⁵⁷ For example, in 2017, Nigeria unveiled plans to build a coastal railway to connect three of its largest cities. A Chinese company, China Railway Construction Corporation Ltd., won the contract which has a total value of \$11.97billion USD. Chinese companies have also recently won similar construction projects for roads and bridges, as well, in countries such as Ethiopia and Angola.⁵⁸

⁵⁶ Moyo, *Dead Aid*, 121.

⁵⁷ Collier, *The Bottom Billion*, chap. 7.

⁵⁸ Yabin Wu and Xiao Bai, "China's Infrastructure Development Strategy in Africa: Mutual Gain? | International Centre for Trade and Sustainable Development," International Centre for Trade and Sustainable Development, March 21, 2017,

Environmental Sustainability

Immediately, international trade and environmental standards seem to be at odds with one another. Because of the vast distances between various trading nations, transporting these goods internationally causes high levels of carbon emissions. Increased demand for goods can cause additional factories to be built further polluting the air. Further, consumerism, while spurring trade, also increases waste and environmental pollutants.

The relationship between the environment and international trade need not be so negative, however. Indeed, as noted above when discussing Fair Trade, the current trading regime follows a liberal ideology that prioritizes individualism. As William's writes "liberal theorists assume that the free market economy is responsible for an optimal and efficient allocation of resources."⁵⁹ Indeed, Shiva argues that on this perspective, "'development' becomes a strategy to 'combat scarcity and dominate nature' to generate material abundance."⁶⁰ Conversely, a Capabilities Approach to Trade encourages us to remember that trade policy is tantamount to environmental policy. International trade policies will have a huge impact on the environment, so the two cannot be looked at in isolation from one another. Further, placing identical environmental regulations on all countries around the world is not only discriminatory due to their varying levels of ability to take on the costs, but it also is not appropriate due to their capacity for environmental absorption and their natural resource endowments.⁶¹ A Capabilities Approach to Trade allows individual countries to set their own environmental policies while remembering that sustainability in the long run contributes to development levels overall.

Indeed, international trade can help to spread clean energy research and technologies and make them cheaper to produce and pursue. Further, Low lists several reasons that we have to be optimistic about the future of international trade and the environment, provided we take both together. First, where economic growth is prioritized alongside environmental policy, such as 'environmentally friendly' technology or where liberalization is able to increase efficiency in an environmentally friendly way, the effects of growth on the environment have been positive overall.⁶² Second, 'pollution intensity per capita' tends to fall as incomes

<https://www.ictsd.org/bridges-news/bridges-africa/news/china%E2%80%99s-infrastructure-development-strategy-in-africa-mutual-gain>.

⁵⁹ Marc Williams, "International Trade and the Environment: Issues, Perspectives and Challenges," *Environmental Politics* 2, no. 4 (December 1, 1993): 88.

⁶⁰ Vandana Shiva, *The Violence of the Green Revolution: Third World Agriculture, Ecology, and Politics* (University Press of Kentucky, 2016), 14.

⁶¹ Williams, "International Trade and the Environment," 96.

⁶² Patrick Low, "International Trade and the Environment," *UNISIA*, no. 30 (2016): 95.

rise, so there is reason to hope that this positive trend can continue as countries around the world become more developed. Third, countries where firms invest in environmental controls and green energy technologies have not empirically suffered a loss of international competitiveness overall. Fourth, firms in developed countries have incentives not to transfer ‘dirty’ technologies to developing countries when they invest overseas. Multinational firms should have an interest in sustaining the local environment so that they can continue to benefit in the years to come. Further, as green energies become more affordable and ubiquitous, the cost of replacing the old ‘dirty’ technology would be more than updating the green technology.⁶³

Ultimately, although international trade and environmental sustainability seem to be at odds with one another under the current international trading regime, it need not be that way. A Capabilities Approach to Trade reminds us that trade and environmental policy cannot be separated, due to the way in which trade affects the environment, as well as the ways in which a healthy environment is necessary for both country and individual development in the long run.

Section III – The Role of Corporations

A latent theme throughout the thesis has been about how many of the gains of trade, especially in terms of efficiency, apply to either individual firms or sectors of the economy, rather than the country or individuals. Economists argue that firm- or sector-level gains can lead to country-level gains, but overall it would be a mistake not to address the role of firms in terms of productive capacity and development. While I have said that countries have a responsibility to use the gains from trade as conversion factors for individuals, I argue here that corporations have a moral responsibility both to the country, because their infrastructure supports the corporations, and to individuals, because individual productive capacities make the firm function. This moral responsibility can be conceived of in terms of a responsibility to provide conversion factors, for both levels of development, as well.⁶⁴

Some examples of corporate moral responsibilities might include ensuring that efficiency gains from international trade are reinvested in employees so that they can develop their individual capabilities. Another might be the responsibility to pay taxes so that country capabilities can continue to flourish. Finally, we might say that corporations have an environmental responsibility to minimize

⁶³ Low, 95–96.

⁶⁴ For a comprehensive look the debate surrounding the moral responsibility of corporations, see Eric W. Orts and N. Craig Smith, *The Moral Responsibility of Firms*, First edition. (Oxford: Oxford University Press, 2017).

emissions. This will contribute to both individual and country capabilities. For individuals, it can improve health through a lack of pollutants. It can also enhance country capabilities by providing a cleaner environment throughout the nation, and also it means that national environmental concerns are not the sole responsibility of the state, easing the strain on national resources.

Here, it is also worth addressing why I did not propose a ‘three-tiered’ capability approach to trade instead, incorporating corporations into the framework, given that corporations play important roles in international trade and can contribute to capability development at both levels. There are a few reasons to give in response. First, I do not want to over-emphasize corporations as moral agents. While they do have some responsibilities that I outlined above, I think ascribing duties to them is a problematic path that I do not wish to go down. Second, corporations are not the only intermediaries between the individual and the state. A three-tiered capabilities approach would also have to look at the role of non-profits, interest groups, unions, etc., which unnecessarily complicates the schema. Instead, it is easiest to look at these intermediary institutions as instruments of justice, rather than subjects of it.

Multinational Corporations

Multinationals (MNCs) pose a slightly bigger problem for my two-tiered capability approach since they operate in several countries and therefore complicate the idea of a country’s responsibility to its people. It is fair to say that MNCs have obligations to people and states in each of the countries in which they operate. But by virtue of being a multinational, they also have additional responsibilities. Gooderham posits that we can view MNCs as transnational knowledge networks. “MNCs are no longer simply developing products at home and transferring these innovations to foreign subsidiaries, they are increasingly seeking to optimize their global innovative capabilities by incorporating subsidiary-specific advantages in different countries, sometimes engaging in major research at the subsidiary level.”⁶⁵ Thus, it seems fair to ascribe responsibilities of development to corporations, through their knowledge capacities.⁶⁶ Additionally, while corporate theory used to posit that knowledge transfer in MNCs was unidirectional, from the headquarters in the home country to their subsidiaries, knowledge transfer is

⁶⁵ Paul N Gooderham, “Enhancing Knowledge Transfer in Multinational Corporations: A Dynamic Capabilities Driven Model,” *Knowledge Management Research & Practice* 5, no. 1 (March 28, 2007): 36.

⁶⁶ Gooderham actually uses the term ‘capabilities’ when talking about subsidiaries of multinationals, although he means it in the sense that these firms have the capacity to develop new technologies or products. Still, the parallel case to Senian capabilities can be made, because technologies and products can serve as conversion factors for capability development.

increasingly becoming ‘bi-directional’ and even ‘multi-directional,’ which means that firms in other countries are learning and sharing information with the headquarters.⁶⁷ Empirically, this is a positive trend, as it means that headquarters of MNCs, which are almost always in rich countries, are learning and gaining information from traditionally ‘knowledge-poor subsidiaries.’⁶⁸ This additionally means that subsidiaries are developing their own productive and inventive capacities.

Additionally, as Andersson argues, local relationships are integral to the success of multinational corporations: “local business context in terms of its customers and suppliers, constitutes an important source of its capability for contributing to the development of capability in the MNC as a whole.”⁶⁹ In other words, a subsidiary will be able to absorb more knowledge, the better its relationships are with the local community. A hostile environment will prevent a corporation from thriving. Further, the more knowledge that a subsidiary can absorb, the better it can contribute to the development of the corporation as a whole, in terms of capabilities, knowledge, and competencies.

In this way, MNCs help to play a role in capability development by transferring knowledge from richer countries to poorer ones. Further, they can contribute to the democratization of capabilities by employing and spreading local knowledge in production. The ultimate worry here, of course, is that MNCs eventually become so powerful that they supersede the role of the state. However, addressing the future of corporate power is not a concern of this thesis, and at the present time, MNCs have the opportunity to meaningfully contribute to capabilities.

Section IV – Consequences for the International Trading Regime

I argued above that when an institution is supposed to produce a social good, and the institution is no longer bringing about that good, it is a matter of justice. My Capabilities Approach to Trade ensures that trade is producing growth and development, in a holistic sense. As demonstrated above, international trade does not just bring about economic growth but can contribute to the flourishing of both countries as a whole, as well as individuals.

⁶⁷ Paul N Gooderham, “Enhancing Knowledge Transfer in Multinational Corporations,” 36.

⁶⁸ Paul N Gooderham, 36.

⁶⁹ Ulf Andersson, “Managing the Transfer of Capabilities within Multinational Corporations:: The Dual Role of the Subsidiary,” *Scandinavian Journal of Management* 19, no. 4 (2003): 426.

Further, just as a traditional capabilities approach maintains that individuals have a right to develop and flourish, a Two-Tiered Capabilities Approach maintains that countries have that same right (for the ultimate end of individual development). It would be easy enough to say that the rules of the international trading regime should be so to allow these developments of capabilities. I have defined growth in a way that makes it more holistic, but this does not solve the problem of how to allow for this growth to be realized. The implementation of a Capabilities Approach to Trade then means, as referenced in Chapter 2, that the rules of the international trading system will have to be drastically restructured so as to allow and provide for the development of country capabilities. Attempting to give a full list of policy recommendations to bring these structural changes about is outside the scope of this project; nevertheless, there are certain *prima facie* changes that need to be made in order for a Two-Tiered Capabilities Approach to Trade to be fully realized.

Just as Sen argues that individual freedom is of the utmost importance for individual development, the same is true for country development. Right now, developing countries in particular, are constrained by forces of dependency, unfair international trading rules, and unequal bargaining power that prevents them from implementing and realizing development goals.

First, developing countries need to be free from dependence on developed countries. This does not mean that they cannot utilize goods and services from developed countries to aid in their own development. It does mean, however, that the current imbalanced power structures in the international arena must be addressed. A capabilities approach can help with this. Through the development of country capabilities, countries become stronger nationally. This usually translates to better international standing, because countries desire both political and trading relationships with countries who have more to offer. That said, capabilities alone cannot provide for independence. The process will be cyclical. As the international regime allows countries independence in terms of development agendas, their development levels will improve, translating to further development, etc.

Second, international trading rules need to be rethought. One way to go about this is to ensure that developing countries have equal bargaining power in determining the rules of international trade. A WTO development round that actually prioritizes the needs and concerns of developing countries might be one place to start. This then helps to ensure that capability development is a more democratic process instead of dictated by outside influences. In this way, as well, capability development, in addition to being democratic, helps to enhance the role of consent in international trade—a concern raised by several of the authors discussed in Chapter 4.

Although this is a huge problem that this thesis cannot do justice to, here, I offer a few specific policy recommendations as a start to examine how these proposals might be achieved:

- 1) **Improve countries' bargaining power** by improving the bargaining skills of the individual countries' trade negotiators. Emily Jones, director of Oxford's Global Economic Governance Programme, has published various books on ways in which developing or small countries can improve their bargaining capabilities.⁷⁰ Proposals include strengthening human resources, working together with the country's private sector and civil society to build capacity and strengthen the countries' united front, and improving negotiation strategies.⁷¹ This leads to the second proposal:
- 2) **Developing countries should develop stronger coalitions and voting and veto blocs.** Though there are a number of barriers to this, in the past countries have made successful stands against more powerful countries by forming coalitions. Jones, et al. write that the countries who are most successful in doing this are those regions with a strong history of integration, communication, and trust.⁷² Thus, helping countries to facilitate communication and trust across borders would be a good starting point to help them develop the tools necessary to stand up for each other's mutual interests on the international stage, and specifically during WTO negotiations.
- 3) **The WTO should host a true development round that truly prioritizes the needs of developing countries.** Ways to ensure that this happens might be not to include developed countries in the negotiations, or only allow them to enter into discussions once the priorities have been set. Whereas the Doha Round started as a collection of powerful countries agreeing to help developing countries, a true development round would need to use developing countries' priorities as a starting point. And the best way to ensure that happens is to give developing countries a priority voice in agenda-setting and policymaking.

Harmonization and The Political/Economic Divide

Harmonization has been called the ultimate goal of international trade.⁷³ It refers to a process by which trading nations standardize various policies. Of particular

⁷⁰ C.f. Emily Jones, *Negotiating Against the Odds: A Guide for Trade Negotiators from Developing Countries* (Springer, 2013).

⁷¹ C.f. Jones, Deere-Birkbeck, and Woods, *Manoeuvring at the Margins*.

⁷² Jones, Deere-Birkbeck, and Woods, 45.

⁷³ Michael Faubert and Amy Wood, "Regulatory Harmonization in International Trade: A Categorical or Conditional Imperative?" | Global Policy Journal, Global Policy Journal,

concern tend to be legal regulations, economic institutions and structures, and environmental and health standards. Standardizing these institutions across countries helps to ensure that international trade flows smoothly. Similar laws make it easier for goods and services to flow between countries since they will be subject to the same regulations (or lack thereof). Parallel economic cycles mean that imports and exports will not be as susceptible to unpredictable market forces, leading to increased economic stability. Finally, goods and technology that are subject to the same health and environmental standards can flow directly across borders without the need for major changes to ensure compliance with domestic laws.

A Capabilities Approach to Trade can help to bring harmonization about in a more straightforward way than the current standard system of international bargaining. There are certain capabilities that will be important to all countries, no matter their demographic composition, natural resources, or level of development. Clean air might be one of these.⁷⁴ Eradication of certain human and agricultural diseases might be another. Countries can agree on capabilities that should be promoted everywhere and use harmonization as ways in which to realize these capabilities.

Additionally, recall that in Chapter 1, I discussed the political/economic split over international trade that divides trade economists, policymakers, negotiators and business owners. This debate is over whether or not political issues unrelated to international trade should be tacked on to trade agreements. Some critics argue that non-trade initiatives (NTIs) are used as coercive or extortive forces against developing countries. Others maintain that these are necessary pre-conditions for international economic relationships to be successful, especially in terms of harmonization. My Two-Tiered Capabilities Approach to Trade subverts this debate by building political and social issues into the very fabric of what international trade means.

Alleviating the Need for Aid

As discussed above, as we are seeing more and more NTIs attached to trade agreements today, similar ‘conditionalities’ apply to aid. Moyo identifies three ways in which donors attach conditions to aid transfers:

July 26, 2016, <https://www.globalpolicyjournal.com/blog/26/07/2016/regulatory-harmonization-international-trade-categorical-or-conditional-imperative>.

⁷⁴ There is, of course, the debate over whether or not developing countries should be allowed to pollute more in order to catch up, developmentally speaking, to developed countries, who have the resources and capital to implement green technologies. My claim here is simply that clean air and environmental standards benefit everyone in terms of capability development.

1. Aid is tied to procurement. Countries receiving aid have to spend it in certain ways, often on particular goods or services that come from the countries giving the aid. Unfortunately, this also often means that developed countries operating locally employ their own citizens, instead of hiring appropriately skilled local candidates.⁷⁵
2. Aid has to go to sectors or projects nominated by the donor country. This means that developing countries lack agency when pursuing development with aid money.
3. Aid is conditional upon agreement to a set of political and economic policies set by the donor country. For example, aid to African nations is often contingent upon reducing central economic planning, or democratic policies, in the hope of limiting corruption.⁷⁶

The problem is that these conditionalities have not tended to work. Moyo cites a World Bank study showing that up to 85% of aid transfers do not go to their intended purpose.⁷⁷ A Capabilities Approach to Trade alleviates the need for these conditionalities and indeed eventually the need for aid. Instead of monetary transfers, developing countries should be benefitting from the exchanges that they undertake. As noted above, development specialists tend to promote the motto of ‘trade, not aid.’ A capabilities approach to trade would largely supersede the need for aid through its promotion of holistic development. Further, political and governance concerns of many aid donors can be allayed by the ways in which trade contributes to political stability, discussed above.

Conclusion

Just as we cannot expect trade to bring about wholesale global justice, we cannot expect trade to give human beings (or countries) a full set of capabilities compatible with a flourishing life. What it can do is show us how these capabilities can be expanded. Just as Sen argues that development has more dimensions than increased income, the benefits of trade are more numerous and widespread than GDP growth. In this chapter, I explored several ways in which international trade can contribute to capability development at both the individual and country tiers.

The most important takeaway from this chapter is the way in which a Two-Tiered Capabilities Approach makes trade just. Many of the problems with the international trading regime can be remedied through the implementation of a Two-Tiered Capabilities Approach to Trade. Further, A Capabilities Approach to Trade encourages *sustainable* growth and development that invests in human

⁷⁵ Moyo, *Dead Aid*, 38.

⁷⁶ Moyo, 38–39.

⁷⁷ Moyo, 38–39.

beings as well as country capabilities. This chapter has examined ways in which markets and states can contribute to both levels of capabilities. I looked at specific examples of ways in which trade can contribute to individual capabilities, country capabilities, as well as personal, social, and environmental conversion factors. I then explored the mediating role that firms play between the two levels of capabilities and their subsequent moral obligations to both states and individuals. Finally, I looked at some of the consequences of a Capabilities Approach to Trade for the current international trading regime, which ranges from the promotion of harmonization to the alleviation of humanitarian aid.

Conclusion

“No society can surely be flourishing and happy of which the far greater part of the members are poor and miserable. It is but equity, besides, that they who feed, clothe and lodge the whole body of the people, should have such a share of the produce of their own labour as to be themselves tolerably well fed, clothed and lodged.”

–Adam Smith, *The Wealth of Nations*

The majority of existing theories of justice in trade, from the Fair Trade movement to Wenar’s Clean Trade, look at the negative impacts of international trade and attempt to correct for them. This thesis has taken a different approach. Here, I have looked at the benefits that trade can bring about and built a positive theory of capability development through international trade around them. My goal has been to emphasize the positive aspects of international trade, rather than the harms. Indeed, a Capabilities Approach to Trade helps to mitigate against the harms of trade. It ensures that the development process that international trade aids in is a holistic process that helps both countries and individuals develop into flourishing agents that can fulfill their respective ends.

I have argued that international trade has a function, which is the production of the social good of growth and/or development. The current rules of international trade coupled with problems of underdevelopment mean that trade is hindered from fulfilling this function. In order to rectify this, I propose that we understand the function of international trade through the lens of a Two-Tiered Capabilities Approach, where the purpose of undertaking trade is to develop both individual and country capabilities. This approach, in addition to serving as a normative way to depict the ends of trade, also serves to tell us how international trade should be structured. International trade that pursues the development of capabilities on both tiers is just.

More specifically, in Chapter 1 ‘A Functionalist Understanding of Trade,’ I examined functionalist institutional theory in-depth. Functionalist theories argue that institutions have functions, which is the production of some type of social good. I then looked at several of the most important theories of international trade throughout history to demonstrate that a plausible interpretation of the function of international trade is the production of the social good of growth and/or development. That is, while many of these models predict that international trade produces growth, many others additionally predict political and social benefits of trade such as increased quality of life and more peaceable international relations.

Chapter 2 ‘Harms of Trade,’ began with a return to functionalist theory and its moral ramifications. Because institutions are meant to produce a social good, it is of moral concern to us when they no longer produce this good. I then offered several reasons to think that the institution of international trade was actively producing harms and was out of line with its normative potential. Several of the reasons that international trade cannot properly fulfill its function of bringing about growth or development were examined. First, developing countries have fragile economies that cannot or do not promote growth or development. While engaging in international trade should theoretically help with this problem, the current regime has created dependency of developing economies on developed countries, as well as erected barriers that have prevented the gains of trade from being realized. Second, both WTO and preferential trade agreement rules tend to be stacked against developing countries so that even if there were not dependency and barriers to trade, the rules would still not allow them fully to benefit.

Chapter 3 ‘We have to do Better than Fair Trade’ looked at the Fair Trade movement which is a real-world activist movement to bring about greater fairness in international trade. In this chapter, I examined the goals of the Fair Trade movement and subsequently tried to classify them philosophically. In other words, I tried to determine what the Fair Trade movement was trying to bring about. Whereas Walton argued that Fair Trade was ‘justice promoting’ or ‘emulating’, I suggested that we instead see Fair Trade as ‘partial justice.’ There are several drawbacks to the Fair Trade movement, such as it not being fully scalable or helping the worst-off, which is why we have to do better. Ultimately, however, due to the positive aspects of the movement like promoting fair wages and environmental sustainability, it does seem to be aiming at bringing about partial justice to the international trading regime.

Chapter 4 ‘Political Theories of Just Trade’ examined four philosophical proposals to bring about justice in international trade. Frank Garcia argued that consent was the defining factor for just trade. I argued that it must be *one* of the defining factors, but not the only one. Similarly, Leif Wenar argued for a Clean Trade regime where developed countries do not buy ‘stolen’ resources from developing countries. I argued rather that a model that first prioritizes capability development could incorporate property rights concerns. Aaron James proposed ‘Structural Equity’ as a model for fairness in trade, which includes various distributive measures to ensure that the burdens and benefits of trade are equitably distributed. I argued that not only is promoting development a concern primary to redistribution, but also that on a Capabilities Approach to Trade we can also build distributive mechanisms into the nature of international trade. Finally, Matthias Risse and Malgorzata Kurjanska gave us the ‘Weak Westphalian View’, a principle for fairness in international trade that raises concerns about fair wages

and unfair subsidies. I argue that a Capabilities Approach to Trade is an effectual way to fulfill their proposed principle. (I look at the interaction between my Capabilities Approach to Trade and these theories in-depth below.)

Chapter 5 ‘A Two-Tiered Capabilities Approach’ critiqued GDP as the current international standard for measuring and assessing growth, as well as the way in which GDP is often conflated as a standard of well-being. Consequently, I proposed that we could instead use what I have called a ‘Two-Tiered Capabilities Approach’ to assess growth and development through international trade. Whereas traditional theories of capabilities look only at individual development, I proposed that this is insufficient to capture the benefits of international trade, because while they can benefit the individual, gains from trade can also aid countries as a whole. Thus, instead, it makes sense to think of both individuals and countries having capabilities that can be developed through international trade. Whereas individual capabilities are means by which individuals can fulfill their ends of well-being, country capabilities are means by which countries can fulfill their ends which is providing for their people.

Chapter 6 ‘Just Trade as Development, Broadly Construed’ gave several examples of ways in which gains from international trade could contribute to capability development on both levels. Gains from trade can go directly to contributing to individual capabilities by providing individuals with increased income and access to goods. They can also aid in country capability development directly by helping to increase national income, which can then be spent on social welfare programs, infrastructure, and community investment. Finally, gains from trade can also be seen as conversion factors. For example, international trade can directly improve infrastructure through FDI, which then serves as an environmental conversion factor by providing individuals with increased access to power and transport. Additionally, growth through international trade can aid in the democratization process, which is a social conversion factor for individuals in that it allows them a freer political and social environment in which they can flourish.

This understanding of just international trade does not recommend a fundamental change in the nature of international trade. Indeed, I argue that it captures its essence and potential in a more meaningful way than the current system. On a Capabilities Approach to Trade, trade is still undertaken for the purpose of mutual benefit. Trading nations need not normatively aim to enrich each other, but they do undertake trade with the recognition that the relationship will provide benefits to both partners. Further, this theory of trade still leaves room for bargaining and market mechanisms, and it does not try to remove those from the understanding of international trade. However, while on the current system bargaining is used by powerful countries as a tool of coercion, this is no

longer the case on a Capabilities Approach to Trade. Instead, bargaining serves solely as a reflection of different preferences and valuations.

I noted in the Introduction that a Capabilities Approach to Trade allows us to identify functions of international trade and then subsequently assess whether or not trade is fulfilling its purpose and where exactly it falls short. The major way in which international trade is falling short is of course in terms of being an engine of capability development for developing countries. However, in its current form, international trade can also hinder progress in terms of labor rights, environmental sustainability, global healthiness, and women's rights. A Capabilities Approach to Trade suggests a model of international trade where the market and these social goals are no longer in such discord.

This thesis contributes to the literature in several ways. First, it is part of a growing body of contemporary philosophical work on ins and outs of global economic interactions. While economic institutions have long been a concern of philosophers, it is only recently that we have seen a resurgence in literature that philosophizes about the institutions themselves. Given the recent debates over vast global inequalities, persistent global poverty that has not been eradicated despite the United Nation's goal to eradicate it by 2015, as well as a way in which global economic institutions contribute to a looming environmental crisis, this seems to be an important move for political theory.

Second, although the relationship between trade and growth is well established in the economics literature, the philosophical and ethical connections between the two, as well as their importance for wider development, are vastly underexplored. There is a dearth of philosophical literature on economic growth in the first place, and the burgeoning literature on justice in economic trade has almost ignored the topic of growth, and its subsequent impact on development, completely. This thesis has sought to remedy this by proposing capabilities as a way to link international trade and growth or development.

Thirdly, global justice philosophers join the debate quite late in the cycle: they tend not to look at the first steps of the process between trade and growth, and instead only look at correcting for the (negative) effects of globalization through principles of distributive justice. By attempting to provide a more holistic and ethical idea of what growth and globalization mean, we can negate some of the necessity for redistribution and pre-empt the problems identified by global justice theorists.

Responses to Existing Theories

I argued in Part II of the thesis that A Capabilities Approach to Trade can substantially supplement many of the existing theories of justice in international

trade. Here, I want to further substantiate these arguments now that I have discussed my proposal for a Two-Tiered Capabilities Approach in-depth.

Fair Trade

Fair Trade can be seen in many ways as a scaled-down version of A Two-Tiered Capabilities Approach to Trade. The goals of the Fair Trade movement are similar to a Capabilities Approach to Trade. It aims to provide local producers with fairer wages, so they can live a better life. Fair Trade also endeavors to improve human rights, labor standards, and even, to a certain extent, environmental standards around the world. It aims to ensure market access so that marginalized producers can reap the benefits of international trade, it hopes to promote equitable and sustainable trading relationships, and it encourages viewing trade as a social contract between those selling and those buying goods. All of these are goals that a Capabilities Approach to Trade also endorses.

One of the key problems with the Fair Trade movement, however, is that it is not scalable. The Fair Trade model, as it currently stands, cannot apply to trade in all sectors; manufacturing is a key example, due to the complexity of supply chains entailed therein. Further, Fair Trade does not help the people at the very bottom, because they tend to have nothing to produce for sale internationally. Thus, my model takes the best aspects of Fair Trade, such as the focus on development and wages, and shows how the benefits of international trade can help all individuals in all sectors. For example, a Two-Tiered Capabilities Approach emphasizes that country-level gains from trade must be used towards the development of individual capabilities. This includes all people, not just producers and exporters.

Consent in Trade

In Chapter 4, I discussed two theories of consent in international trade: Garcia's attempt to ground a theory of just trade in consent and Wenar's proposal that individuals must consent to the sale of resources within their borders. On any capabilities theory, consent plays a vital underlying role in by ensuring that development is not *forced* upon individuals. Development is a means by which to free people from constraints. In this way, they are more easily and freely able to consent to any number of proposals or situations. Likewise, then, on a Two-Tiered Capabilities Approach, consent is fundamental to ensuring that development through trade occurs in a way compatible with the wishes of both the country as a whole and its people. Consent to trading interactions is necessary, as well, then, because otherwise, development through trade occurs in a way not in line with the

well-being of the country and its people, which on my model, is the ultimate goal of international trade.

Structural Equity

Aaron James proposed three principles of fairness in international trade, which when taken together, he labelled 'Structural Equity.' These principles entail distribution to protect against the harms of trade as well as to equitably distribute the benefits of trade. James's three principles are 'Collective Due Care' which ensures protection against the harms of trade, 'International Relative Gains' and 'Domestic Relative Gains' both of which concern distributing the benefits of international trade. A Capabilities Approach to Trade is primary to these three principles. A Two-Tiered Capabilities Approach makes sure that individuals are protected against the harms of trade by arguing that this is the entire point of ascribing capabilities to countries—a country develops its social structure through international trade in order better to provide for its people. This should eventually make *post hoc* redistributive mechanisms obsolete, because mechanisms to protect against the harms of trade are already built into the nature of international trade. In terms of distributing the benefits, once again, the point of developing capabilities through trade is that they are shared widely throughout the state.

The Weak Westphalian View

Matthias Risse and Malgorzata Kurjanska propose the following principle of justice in trade, which they label the Weak Westphalian View.

Every country's trade policy is subject to constraints in fairness that limit how it can determine the social costs of production. First, the production processes themselves must not harm other countries. Second, the effects of trade must be distributed in such a way that no negative rights are violated. Violations of this condition on the distribution give rise to claims in fairness by those who lose out in the process to trading partners. They constitute *pro tanto* reasons to suspend or restrict trade and conceivably also for interference through non-trade-related measures by the trading partners; however, it is a separate question whether these reasons are conclusive. Third, world market prices of goods from other countries may, under certain conditions, give individuals claims in fairness to protection by their government. This would occur if such prices negatively affect these individuals' interests and if they have arisen in ways that are at odds with domestic social standards. However, these claims to protection would have to be weighed against competing economic interests in free trade and may not be conclusive either. Fourth, trade policies must be devised in such a way as to be consistent with duties to poor countries. Therefore, countries

have *pro tanto* reasons to determine prices in such a way that they take into account their effects on third parties.¹

A Capabilities Approach to Trade deals with the four concerns that Risse and Kurjanska list in this principle. First, A Capabilities Approach to Trade constrains production processes from harming other countries by depicting trade as a mutually beneficial endeavor. Harmful production processes like environmental pollution are thus curbed under this approach. Second, it protects against the violation of negative rights because capabilities cannot be promoted while rights are simultaneously being violated. Third, while Risse and Kurjanska tend to warn against protectionism in general, there are certain instances where they argue that individuals may be owed protection from their governments. I have said before that A Capabilities Approach to Trade is perfectly consistent with some levels of protectionism, so long as the trading interactions are capability-promoting overall. Finally, according to the Weak Westphalian View, trading interactions must be consistent with duties to poor countries, which trade is on A Two-Tiered Capabilities Approach, because the theory argues that countries and individuals are owed the opportunity to develop, and trade must help to promote that. Overall, then, A Two-Tiered Capabilities Approach to Trade seems not only to be consistent with the Weak Westphalian View, it also seems to be an elegant way of understanding and operationalizing it.

National Welfare and Collective Ends

In this thesis, I have tried to revive the idea of national welfare from classical political economy, and indeed political theory. A Capabilities Approach to Trade relies heavily on a sense of country well-being as well as a sense of community responsibility. As noted in Chapter 1, the idea of national welfare gains from trade, where the entire country benefits, has largely been erased from contemporary economic theory. Instead, economists today largely focus on the effects of trade on individuals or individual firms. This trend that occurred with the positivist shift in economics around the turn of the 20th Century, is concurrent with an ideological shift in mainstream political thought towards liberalism, whose primary focus is also on the individual. While the ways in which the individual is affected by trade are clearly very important, for my model of international trade to work, it is also important to recognize the idea of national welfare benefits through trade. I argue that this is not only important for making my model function, but also important ideologically for us as political theorists.

¹ Kurjanska and Risse, “Fairness in Trade II,” 42.

This thesis has broken with contemporary political theory canon in not calling for a form of distributive justice. Tim Hayward, in his forthcoming book *Global Justice and International Finance*, calls these philosophical theories of distributive justice ‘tax and fund’ recommendations. These proposals tend to evoke the idea that individuals get taxed, and that money is then redistributed to individuals. The liberal theorists who recommend a form of ‘tax’ as a remedy to global poverty, in my mind, seem to forget the purpose of the tax in the first place, which is not for *individual* redistribution, but is rather for *social* goods. Domestic taxes go towards funding education, roads, defense, which are all things that society as a whole benefits from. The problem with giving poor individuals money, in addition to being a problematic solution, also reiterates and reinforces the problem of individuality within modern liberalism and undermines social responsibility and collectivity.

A further point to be made about the current problems with the international trading regime has to do with the entrenchment of the capitalist system and mentality and how it can prevent a realization of collective ends. Capitalism, in theory, should bring about a mix of competition and cooperation. The competition mentality, as we saw above in Chapter 2, has largely taken over in terms of the rules and regulations that govern markets. Yet, as Miller notes, “contra much economic theory, human beings are not always and everywhere motivated by self-interest, albeit self-interest is a powerful and pervasive driver; moral beliefs and, specifically, doing one’s moral duty for its own sake...are an important additional motivation for action and one not reducible to self-interest.”² This thesis has attempted to reiterate these motivations and find a place for them in contemporary international trade theory.

Capitalism is further damaging the climate and its proliferation is worrying for the future of our world. Climate change is something that will affect all of us, and that we are all collectively responsible for mitigating. Capitalism and the financialization of the economy also contribute to structural injustices like the patriarchy and ingrained racism, in addition to contributing to poverty and climate change. Financialization causes structural injustices all over, through consolidating wealth and power that pre-date liberal democracy, and through the self-perpetuating nature of these power structures. Reform of the global economic system must address all of these concerns and power imbalances. This thesis has proposed one way in which we can begin to improve the current power imbalances, both internationally as well as domestically, brought about by the global capitalist system.

² Miller, *The Moral Foundations of Social Institutions*, 4–5.

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