Is free trade responsible or a lie?

This essay will explore whether free trade is responsible or whether companies just use ‘ green washing’ to make their products appear responsible. Free trade is where there are no barriers to exchange of goods or services allowing them to pass from country to country (Dunkley 1946). This essay will explore the argument that free trade is not responsible and that governments should intervene with the market system to make free trade responsible.

It can be argued by Korten (1998) in his seminal work that free trade is only responsible when governments impose regulations to ensure businesses act responsibly. Korten highlights that company directors do not always act in a responsible manner and can sometimes manage situations for their own financial benefit. An example of this is when BHS went into administration. The company director, Sir Philip Green, managed the company in a way in which helped increase his own financial growth and in a news article it discusses that he should be held to accountable due to loss of pensions (Butler & Ruddick 2016). This highlights that sometimes directors do not follow corporate governance procedures and more regulation needs to be implemented in order to aid directors in making responsible decisions.

Munshi & Kurian (2005) discuss that large-scale organisations may use green washing as to make their company appear responsible and socially aware when in reality they are not. An example of this is Volkswagen as they developed software in order to cheat the emissions test for their cars, so they appeared to the public that they cared about the environment as this is a growing concern for consumers (Rushe 2018). This is an example of how businesses sometimes may appear to be doing the right thing when they are just hiding that they are not so they are able to keep production costs to a minimum for the pursuit of profit and highlights the fact that in some cases it may be better for heavy regulation to rule out bad corporate governance within an organization's management.

Companies sometimes move factories to low cost regions of the globe building factories which put employee's health at risk. Often employees are exploited they are made to work long hours for low wages (Irwin 2015). This is evident in the 2013 factory collapse that was supplying labour intensive goods for Primark in Bangladesh killing 1, 100 people this highlights the wider issue that allowing businesses to trade without any restrictions encourages businesses to try anything to reduce production cost in order to maximise profit which maybe sometimes maybe at the cost of their employees (Burke 2013).

Blowfield & Murray (2014) discuss that allowing businesses to act freely without restrictions in a free market system may increase poverty as it may fail to generate wealth if the correct mechanisms are not in place to make sure the business is acting in a responsible manner. This shows that businesses sometimes use the size of their company in order to have power over governments helping to keep running costs low by maintain poor factory conditions and low wages. Businesses may choose to exploit the rights of workers in order to increase their profit margins. Some businesses do not act responsible when you give them the freedom therefore, governments should intervene and govern the free market system to make the free market system responsible.

Merchant (2017) discusses that Foxconn employees who produce products for the global recognizable phone company ‘ Apple’ reports of the suicide attempts by some of the employees as a result of poor working conditions. This further highlights this underlining issue. The larger large-scale corporations are able to grow the more power they have over less economically developed countries governments allowing them to become heavily deregulated putting the health and safety of employees at risk.

It is evidenced in the example of Adidas that in the free market system companies take advantage over workers in poor regions maintaining low wages and even sometimes sexual harassed in order, so they achieve very difficult manufacturing targets. The conditions in the factories are poor. This is evidence that more needs to be done to protect the wealth fare of people living in these less economically developed countries otherwise large corporations will exploit them and use them for their cheap labour costs.

Free trade may not always have a negative impact on the poor countries of the globe as argued by Bhagwati & Jagdish (2002) in their seminal work that trade may help in the reduction of poverty to those poor regions of the globe and may help in the economic development of the country helping to maximize the financial growth and prosperity. Free trade does not always pose as a negative to the global economy and sometimes it can help to elevate poverty especially in the poor countries of the world. Helping the country create a market system which is fundamental to any economic development and growth. Large-scale corporations are able to provide employment opportunities to people that would otherwise struggle to find work in these countries.

Adam Smith refers to trade as an, “ engine of growth” (Adam Smith 1776 [1937 p. 81])what is meant by this is that free trade is fundamental to generating a successful market system in which can help to elevate poverty in less economically developed regions of the world. (Ravallion 2005) in his seminal work argues that free trade may help in poverty reduction in the low-cost regions of the world as evidenced in the example of the trade reform in China used in this journal article and how this has affected poverty in the country. In the case study it shows the importance of trade helping in the reduction of poverty. (Ravallion 2005) An example of a business which is supporting the poor regions is Starbucks they are involved with various charities which help increase the prosperity of people living in poor areas of the world (Starbucks 2019).

Frankel & Rose (2005) in their seminal work argue that free trade may have a positive impact on the environment as consumers are becoming more environmentally concerned. Argued is that the more open a market this causes an increase in financial income for countries which means they are able to implement measures to protect the environment and are able to afford to do so. Trade may have a positive impact on the environment due to with an increase in technological development this means companies are able to produce products which are adapted and future proof addressing future environmental concerns such as climate change which is a future challenge which businesses are unable to change but consider this factor when developing future products.

An example of this is the development is the fully electric car by Tesla which has taken into consideration the issue of global warming when it has been developed. Also argued is the fact that the larger a company has the more standards and guidelines they have in order to make sure that their company is having a minimal impact on the environment. Businesses have been forced to act in a way which takes into consideration environmental issues as the consumer is more concerned about these issues than ever (Vaughan 2018a). A further example is when the drinks company coca cola realised that its delivery trucks were polluting the environment and they created the objective to reduce the businesses overall carbon footprint by the year 2020. The company has chosen to refuse to buy fridges which contain hydrocarbons and may have a negative impact on the environment. Its factories use new fridges which use new technology to save energy and they are powered of environmentally friendly sources of energy (Wills 2013).

‘ Green washing’ is the upselling of a product based on the benefit is has to the environment sometimes companies use this to make them seem like they are been responsible when in fact they are not (Lyon & Maxwell 2011) An example of green washing is when Starbucks was promoting that they are encouraging the use of environmentally friendly lids for their drinks when in reality lids contained more plastic than previous product. It is clear that they used this in order to appear environmentally friendly (Mahdawl 2018).

Baron & Lyon (2011) argues that a free trade system does not have the mechanisms in place in order to assist in protecting the environment and that an increase in free trade movement may cause more natural resources been used to make goods. The journal article discusses that it should be the role of government to intervene to make sure there are appropriate regulations put in place to protect the environmental impact of free trade and to reduce the chances of it having a negative impact on it. The article addresses that governments need to create laws to ensure the future concerns of the world are dealt with appropriately as giving businesses the freedom may mean they choose the cheapest option rather than the most environmentally friendly method of production. Blowfield & Murray (2014) argue that free trade its self may not be responsible in protecting the environment, but corporate governance strategies can be used as a framework to aid businesses in becoming socially and environmentally responsible.

An example that follows excellent corporate governance strategy is the retailer John Lewis as they have taken into consideration every staff member when writing the business strategy rewarding the employees equally with a staff bonus every year which is not discriminative to any specific age, gender or job title. The company has also taken into consideration about how to maintain an excellent mental health of each individual employee by offering them leisure benefits they also have an appropriate business structure which addresses all the interests of all stakeholders involved. The corporate governance strategy includes a board of directors who are held responsible for the final companywide decisions. The directors are elected by the partnership council in which everyone who works for the company is able to vote making a fair decision. Councillors from the various stores attend partnership council meetings so the board of directors are able to address and issues and concerns or considerations of the employees working for the company. (Paranque & Willmott 2014).

A stakeholder is anyone that is affected by the operational decisions of a business and various academics have discussed the importance of the need for businesses to take responsibility for not just the internal business concerns but looking at all the stakeholders involved. The stakeholder theory has been created as a framework to help businesses care for stakeholders involved in a company. It is up for debate whether businesses follow this or not as it is not a legal regulation but something that a business participates in at their own will. Sometimes businesses do not follow this framework and make business decisions in order to increase their own personal financial gain. An example of this is the sports retailer Sports Direct as the company director, Mike Ashley made poor management decisions which included making staff work long hours without a toilet break and paying low wages. He has since been held accountable for these decisions and it has damaged the reputation of the retailer for some consumers (Vaughan 2018b).

An extended version of the stakeholder theory was created which looked at all of the stakeholders involved not just the initial ones. It is evidenced that these frameworks are only effective if businesses choose to follow them (Donaldson & Preston 1995). Others may also argue that focusing on anything other than the pursuit of profit may have a negative impact on a business financially and that is why the corporate governance structure has been created to make the corporate social responsibilities easier to manage. (Friedman 1970).

The stakeholder theory can be used in order to aid business decisions to take into consideration all stakeholders involved making it a responsible business which is open and fully accountable for the decisions made so if the directors make any negative decisions which have a negative impact on people then they can be held to account. Corporate governance strategies involve boards which are separate to the company and are able to take a more independent standpoint on the management of the organisation. In the company if something negative was to occur the board could choose to fire the CEO. Companies will often choose to recruit a CEO externally to ensure they are not biased or influenced by anyone internally in the decisions they make (Kakabadse et al. 2011).

The extended stakeholder theory discusses key suggestions for management processes for the analysis and the management of all stakeholders involved whether they are internal or external. The extended stakeholder theory is designed so that businesses take a more responsible ethical standpoint on the strategic decisions in which they make. The theory discusses both the internal stakeholders of businesses such as employees which are within the business and then goes onto discuss external stakeholders such as suppliers.

Then discusses the wider stakeholders in the social political group involved such as local communities and what it the company is doing to give back to the local community. The stake holder theory requires analysis of all stakeholders involved this is the initial stage in the theory. The next stage to the analysis process is the analysis of stakeholders involved and what their interest in the business is. An example of where this has been implemented was in the 1990s when economist said that the world bank should encourage less developed regions of the globe to become more environmentally conscious and should take steps in addressing the pollution which has various health related issues. In the case of the world bank there are not just the people directly affected by the policy created by the World Bank but the future generations as well that are affected by any policy which is created. Identified as the most important stakeholder is people living in more developed regions of the globe which are concerned about the environment. The case study explores the impact of if the World Bank chose to moving factories to low cost regions of the globe as they do not have the appropriate policies in place in order to protect the environment and this could be detrimental for future generations (Zsolnai 2006).

To conclude it should be the role of governments to create regulation in order to make sure businesses take corporate social responsibilities into consideration and the interests of all stakeholders. It is demonstrated in the case studies that businesses do not always act responsible even when they are provided with the framework to aid them and act in a way to increase financial growth and sometimes use green marketing techniques to make them appear to the public that they care about been socially aware when in fact they are focusing more on financial success and nothing else. Giving businesses the freedom means they are not always compliant and more often than not they will not take into account the interest of all stakeholders.

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