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ETHICAL TRADE, INFORMATION AND COMMUNICATION TECHNOLOGIES (ICTs) AND SELF-REGULATION

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ETHICAL TRADE, INFORMATION AND COMMUNICATION TECHNOLOGIES (ICTS) AND SELF-REGULATION

1. INTRODUCTION

This paper deals with issues surrounding ethical trade, self-regulation and the information and communication technology revolution. The practice of ethical trade is increasingly moving into the main stream of development thinking, through programmes such as the Ethical Trade Initiative (ETI) sponsored by The UK Department for International Development (DFID).¹ Ethical trade is a form of market intervention practised through self-regulation, which is being pursued largely in the absence of binding national and international agreements covering workplace standards in the export sectors of developing countries.

Self-regulation is considered to be particularly suited to a rapidly liberalising international trade environment. It allows stakeholders, including government (from developed and developing countries), the private sector, non-governmental organisations (NGOs), and workers' representatives to work together in order to set voluntary standards governing developing country workplaces, and communities, involved in the global supply chain. Ethical trade initiatives represent a new regulatory mechanism for mediating between producers and consumers. Ethical trade is seeking to encourage voluntary codes of conduct amongst developing country producers that will benefit workers' rights, human rights, social and environmental development goals. The values and choices of consumer groups are also represented collectively within such systems, whilst the power of individual customers continue to be exerted in the market place.

The exchange of information is critical to the self-regulation of ethical trade. Data collection forms the basis of independent monitoring and new forms of social auditing. Accordingly, information must be processed and made available to stakeholders, and critically, disseminated and publicised in order to inform consumer choices. Such information handling is increasingly dependent on the implementation of information and communication

¹ The Ethical Trade Initiative (ETI) is an alliance of companies, non-governmental organisations (NGOs) and trade union organisations committed to working together to identify and promote good practice in the implementation of codes of labour practice, including the monitoring and independent verification of the observance of code provisions. The aim of the ETI is to ensure that the working conditions of employees in

technology (ICT) systems throughout the production-marketing chain. Large companies already utilise complex management information systems and global communications to control their supply chains, whilst consumers are increasingly using global networks (such as the Internet) to access product-related information and conduct transactions. Global information and communication networks also embody many of the characteristics associated with self-regulation, rendering governments largely powerless to control the flow of digital information across national boundaries. This has not only benefited large trading corporations, but also campaigning groups seeking to promote ethical trade, enabling new forms of global networking between NGOs and the rapid exchange of campaign-based information.

With this context the paper has the following objectives.

- Firstly, to identify a range of underlying issues which are pertinent to ethical trade and self-regulation.
- Secondly, to emphasise the critical importance of information-flows to the design, operation and evaluation of systems of self-regulation, such as represented by ethical trade.
- Thirdly, to suggest that ICTs are likely to play an increasing role in supporting information flows within market-based self-regulatory systems, and to identify a number of issues concerning their application to ethical trade.
- Fourthly, to identify gaps in current research concerning ethical trade and self-regulation, and suggest a number of critical research issues that will form the basis of a research plan. (Appendix 1.)

It has been suggested that socially responsible trading will come to seem commonplace in the years ahead.² It is also predicted that ICTs will be central to the operation of supply chains,

companies that supply goods, from developing countries to consumers in the UK, meet or exceed international standards. <http://www.eti.org.uk>

² ETI Annual Report (1999/2000).

and in guiding purchasing decisions of consumers. It is essential, therefore, that a better understanding is obtained, regarding the appropriateness and the efficacy of such systems. It will become increasingly necessary to understand how ICTs might impact on market information flows – such as through e-commerce for example – and to ensure that rapid changes in the global commercial environment can lead to improved social conditions within developing country workplaces. Encouraging socially responsible patterns of developed country consumption will be critical to this process.

2. BACKGROUND: TRADE AND DEVELOPMENT

The current orthodoxy concerning the impact of international trade on the prospects for developing countries states that trade liberalisation helps poor countries to catch up with rich ones, and that this faster economic growth helps to alleviate poverty. A recent report released by the World Trade Organisation (WTO) highlights that trade can play an important role in reducing poverty, because it boosts economic growth and the poor tend to benefit from faster economic growth.³ The WTO study also recognises, however, that many people in poor countries will become net losers in the process of global trade liberalisation, particularly over the short term. In this case, effective adaptation to the new liberalised trade environment (such as through social safety nets and more effective education and training) is the preferred policy option over, for example, a retreat to protectionism.

The rapidly liberalising international trade environment has been characterised by de-regulation of trade on the one hand, and increased global competition for the supply of goods and services on the other. Three important global trends form the backdrop to the ever-increasing role of trade in development.

- First, successive rounds of multi-lateral and bi-lateral trade negotiations have witnessed ever- increasing liberalisation of the rules governing international trade.

The governments of the least developed countries (LDCs) – currently outside of the

³ The study found that, in general, living standards in developing countries are not catching up with those in developed countries, but *some developing countries* are catching up. What sets them apart is their openness to international trade. Countries with more liberalised trade policy environments (concerning regulation and competition) are converging faster with the developed countries, whilst those with closed and protectionist policies are stagnating, and hence trading less. The study also found that poor people within a country generally gain from trade liberalisation, which was found to be a strongly positive contributor to poverty alleviation, allowing people to exploit their productive potential and assist economic growth. (Ben David and Winters, 2000)

WTO – are implementing policies of de-regulation (including the removal of tariff and non-tariff barriers to trade and investment) at the national level. In tandem, they are committing themselves to working within the evolving international framework of multi-lateral and bi-lateral trade agreements overseen by the WTO.⁴

- Second, the process of economic globalisation has already increased the dependence on trade, of many developing countries, for both national income and employment. For example, the New Industrialising Countries (NICs) of East and South East Asia have largely discarded import substitution policies, and have pursued development strategies, that seek to promote economic growth through exporting a larger proportion of their output, by attracting foreign direct investment (FDI) in export-orientated industries.
- Third, globalisation of trade is being accelerated by the revolutionary changes taking place in information and communication technologies (ICTs). This makes it possible for even small or medium-scale local manufacturers to seek out customers in the global marketplace. It also allows inward investors (multinational or large national companies) to establish production facilities, to obtain their components, intermediate products and labour, in developing parts of the world, where costs are appreciably lower.

Within an interdependent world, increased trade between the developing countries and the industrialised world (such as through the export of manufactured goods and primary products) is generally regarded as positive for development goals. Of concern, therefore, is the comparative lack of such trade – particularly with respect to the least developed countries (LDCs). The economic problems of LDCs (in Africa, for example) have been largely defined according to their inability, both to participate in and to benefit from, expanding international trade. The reasons for this are complex and country-specific, but are primarily due to a

⁴ For example, Trade Ministers from over 50 African countries recently reaffirmed their commitment to integrating more effectively into the multi-lateral trading system as laid down through the WTO. They also emphasised the need to make trade a priority within their national development plans. This was the substantive point from a joint communiqué issued from the African Trade Ministers meeting in Libreville from 13th to 15th November 2000. (WTO News, 2000, Press Releases)
http://www.wto.org/english/news_e/pres00_e/pr197_e.htm

steady deterioration in the prices of the commodities, and considerable supply side constraints (infrastructure, human and institutional) to developing new productive capacity for export.⁵

Overcoming barriers to increased trade, therefore, has become a critical goal of development policy for most developing countries. It is recognised, however, that over-dependence on external trade also creates dangers for both individual developing countries and firms (and their employees) within those countries (UNCTAD, 2000). These dangers have been felt primarily in economic terms. For example, in East Asia, financial crisis has been exacerbated due to vulnerability to external shocks when local economies rely excessively on foreign resources and markets.⁶ Also of concern are the non-economic negative consequences of external trade. These are expressed primarily in terms of the unfair trade practices of multi-national companies, and the negative socio-economic and environmental affects of increased trade between the developed and the developing world.

These concerns cover a broad spectrum of issues including human rights, labour standards (including child labour and forced labour), conditions of employment and minimum incomes, issues of non-discrimination and gender, and environmental impact (both local and global) throughout the production/consumption lifecycle.

It is concern about these ‘negative aspects of globalisation’ that have given rise to renewed interest in the concept and practice of ethical trade.

⁵ World exports of goods and services expanded rapidly between 1990 and 1998, from 4.7 trillion dollars to 7.5 trillion dollars (Constant 1995 prices). Twenty five countries had export growth averaging more than 10% per annum (including Bangladesh, Mexico, Mozambique, Turkey and Vietnam), but exports declined in other countries – including Cameroon, Jamaica and Ukraine. In 1998, LDCs with 10% of the world’s population accounted for only 0.4% of global exports, down from 0.6% in 1980, and 0.5% in 1990. (Human Development Report, 2000, p82)

⁶ The fundamental lesson of the financial crisis in East Asia is that excessive reliance on foreign resources and markets leaves growth prospects vulnerable to external shocks. A recent UNCTAD report concludes that it would be wrong to allow global market forces to dictate future growth and development (in East Asia). It concludes that greater attention needs to be given to domestic sources of growth, such as rising wage shares and higher social spending – with a major role for public investment, and the re-involvement of the developmental state, within new policy agendas. (UNCTAD, 2000)

3. ETHICAL TRADE

Ethical trade has deep historical roots, and is said to have emerged from the Victorian philanthropist entrepreneurs who founded some of the worlds most successful trading companies. More recently, it has become a catch-all phrase, used to describe the shared goals and approaches of non-governmental organisations (NGOs), encompassing a wide range of disparate initiatives around which private, public and campaigning initiatives have coalesced (Blowfield, 1999). The principal goal of ethical trade is to provide a vehicle for promoting internationally recognised labour standards and fundamental human rights in developing country workplaces. In practice, ethical trade has been taken up and implemented primarily by the private sector – as individual companies in North America and Europe have adopted voluntary codes of conduct to cover labour conditions of their suppliers in developing countries. Large multi-national companies have participated in ethical trading initiatives, not only due to humanitarian concern about adverse labour conditions, but also for direct commercial reasons. Ethical codes of conduct have been embraced by companies, primarily in reaction to direct consumer pressure, or in reaction to criticism from organisations campaigning on behalf of producer groups. Ethical trade has also been used to form the basis of a positive corporate image, and as a means of creating increased stability within the commercial environment of large multi-national companies – particularly within supply chains (Barrientos, 2000).

In recent years, the definition of ethical trade has been widened to include protection of the environment. This has added a further degree of complication to the arguments.

Environmental objections to trade tend to be single-issue concerns and do not necessarily have developing country goals – of growth and welfare – as their primary campaigning objective (For example, the protection of endangered species or restrictions on the exploitation of natural resources). There is, however, increasing awareness of the relationship between underlying socio-economic and environmental trade issues. This common interest has found expression in models that emphasise the development of sustainable human and environmental resources, giving rise to a multi-dimensional approach to development.⁷ In

⁷ It has now been widely accepted that a multi-dimensional approach is required for defining poverty profiles, explaining the causes of poverty and enacting poverty reduction strategies (UNDP, 1999; Hanmer, Pyatt and White, 1999; World Bank, 1999/2000). The multi-dimensional approach states that the provision of economic means (income), whilst essential, is insufficient to ensure long term relief from poverty. Also essential are the provision (or ownership) of economic and social assets and capabilities, relating to property rights, access to education, the provision of healthcare services, access to physical infrastructure services and the sustainable use of environmental assets. This approach is reflected in the policy statements of major international donors: such

practice, however, socio-economic and environmental ethical trade objectives may well conflict.

Ethical trade also encompasses fair trade. Fair trade is primarily concerned with encouraging increased participation of developing country producers in global trade, by providing market (export) opportunities and direct assistance for small-scale producers that would otherwise find it difficult to participate in international trade. Fair trade initiatives have also endeavoured to ensure that developing country producers receive fair recompense and are provided with benefits and sustainable employment.⁸

In practice, the promotion of ethical trade has operated through three main channels.

- Firstly, through attempting to influence the actions of large producers (often multinational companies) exporting goods from developing countries. Pressure for improvement of socio-economic standards has been exerted through encouraging either internal company codes of conduct and greater corporate responsibility, or by bringing external pressure to bear on inward investors by seeking to influence developing country government policy to such investment.
- Secondly, through attempting to influence the actions of (largely developed country) consumers either through direct campaigning or indirect means such as social and environmental labelling at point of sale.
- Thirdly, through advocacy, by aid and development organisations, to push issues of ethical trade into the mainstream of trade negotiations and agreements, seeking for

as contained in the World Bank's Comprehensive Development Framework (World Bank, 2000) and the approach of UK DFID to sustainable development (White Paper on International Development, 1997) which emphasises the management and maintenance of different sorts of capital, 'created, natural, human and social'.

⁸ Fair trade organisations such as Traidcraft and PEOPLink have already been successful in promoting and selling the produce of small-scale enterprises and co-operatives using Internet-based marketing tools, predominantly in Asia and Latin America. See for example, fair trade initiatives in export areas such as arts and crafts and the distribution natural foodstuffs from small-scale producers at: <http://www.traidcraft.co.uk> <http://www.peoplink.org>

example, to include social clauses or to integrate existing voluntary codes of conduct into binding multi-lateral or bi-lateral trade agreements.⁹

The option of a social clause in international trade agreements has been criticised by both the proponents and objectors to ethical trade (for example those governing workers' rights in developing countries). It has been rightly pointed out that the issues are complex and the outcomes uncertain. For example, trade sanctions arising from the failure to adhere to agreed standards would further constrain access to global markets for the poorest countries. Trade standards (and possible sanctions) would apply to the export sector only where only a small proportion of human/workers' rights violation may be taking place. Social clauses would not attack poverty – the root cause of many human/workers' rights violations. It is also unlikely that poor countries will have the resources and the legal/institutional instruments to effectively settle trade disputes involving social issues (Human Development Report, 2000).

The effectiveness of social clauses at the multilateral level would depend upon the benefits of trade 'trickling down' from the international to national level and finally to enterprises and workers. There are also strong objections from developing countries themselves, which emphasise the counterproductive affects of possible sanctions, and the negative impact of such non-tariff barriers to trade - assuming standards were enforced. Enforceable standards would generally have the affect of removing the comparative advantage that developing countries are able to derive from their absence. In this respect, such universally applied standards are often construed, by developing countries, as thinly veiled protectionist measures designed to favour producers in developed countries, whose existing cost base already reflects adherence to basic standards. (Such as those laid down by the International Labour Organisation, for example)¹⁰

⁹ Of most significance in this respect is the desire to integrate social clauses, such as defined by the International Labour Organisation (ILO), into the multi-lateral framework for trade. The ILO already has a range of non-binding conventions designed to promote core labour standards. These include: freedom of association and the right to organise and collective bargaining (No. 87/98); equality between men and women and freedom from discrimination (No.100/101); the abolition of forced labour and child labour (105/138). The social clause would work by making WTO member privileges conditional on compliance with a set of fundamental workers' rights, and thereby provide enforcement powers that the ILO currently lacks. Governments failing to comply would lose WTO benefits or, as a last resort, suffer trade sanctions. (Mayne and Le Quesne, 1996)

¹⁰ Developing countries have brought a number of cases before the World Trade Organisation concerning objections to non-tariff barriers to trade. This has resulted in the development, by the WTO, of a code of good practice within the Technical Barriers to Trade Agreement, which suggests how 'voluntary standards' can be employed without being interpreted as a non-tariff barrier. The code of good practice is applicable to

Actions for ethical trade at the international level may well continue to be important for setting a moral agenda and providing leadership, but without binding agreements, are unlikely to impact on the business practices of individual employers in developing countries. Attention is switching, therefore, to acting more directly upon producers on the one hand, and consumers on the other.

- Firstly, and most importantly, programmes seeking to gain the co-operation and involvement of developing country governments and employers to improve workers' rights, to implement basic standards and act in areas such as child labour.
- Secondly, initiatives to tighten the accountability of multi-national corporations, and to promote the use of codes of conduct and social and environmental accounting.
- Thirdly, consumer action such as social and environmental labelling, awareness campaigns and boycotting, to create market incentives in order that producers may unilaterally raise labour, human rights and environmental standards in developing country workplaces.

4. REGULATION, COMPETITION AND ETHICAL TRADE

Ethical trade is concerned primarily with acting directly either at the point of production or consumption. Ethical trade initiatives seek to use consumer power to directly affect the policies of large corporations and their suppliers. In this respect, ethical trade constitutes a regulatory mechanism that has the power to influence individual consumers as well as patterns of consumption. It also has the power to change and regulate conditions of production and supply of goods and services of developing country producers. In both of these respects (production and consumption) ethical trade has the potential to impact significantly on the competitive process. It is important to recognise, however, that although ethical trade purports to challenge trading relationships between the north and south, the main thrust of ethical trade initiatives (such as ethical sourcing) has focussed on managing production, and not addressing trading relationships *per se*. (Blowfield, 1999)

governmental and non-governmental voluntary standards. (See for example, Caldwell (1998) in relation to developing country objections to eco-labelling.

Ethical trade constitutes what might be described as an informal regulatory environment. In fact ethical trade has evolved in a largely informal manner. Many companies have adopted corporate codes of conduct unilaterally, largely specific to individual sectors and with a wide degree of variation in codes between firms and sectors. (Ferguson, 1998; Seyfang, 1999) More recently in the UK, for example, there have been moves to consolidate disparate codes, auditing and verification procedures within an agreed common benchmark standard.¹¹

The regulatory function of ethical trade continues, however, to evolve outside the framework of formal regulation (such as through binding bi/multi-lateral trade agreements and national legal frameworks). It can be inferred, therefore, that ethical trade is seeking to fill a regulatory void that has arisen due to the failure of governments and open competitive markets to create a basic framework of rules that reflect the concerns and interests of both consumers and producers. Most surveys suggest that consumers do not want to consume products that derive from unethical practices, whilst producers (for both economic and non-economic reasons) also wish to conform to common standards that are not a threat to fair competition. (Tallontire and Blowfield, 1999) It is argued that this apparent alliance between producers and consumers may be giving rise to a new form of ‘self regulation’ that will be more applicable to the evolving liberalised international trade environment.

“Ethical trade is evolving at a global/local rather than national level, facilitated through both the global supply chains of large corporations and through collaboration with non-governmental stakeholders in the north and south. It reflects the search for new means of facilitating the relationship between market and society.” (Barrientos, 2000, p564)

At its core, this form of self-regulation seeks to engender a value system throughout the production-marketing chain, which reflects both consumer and producer interests. There are a number of attributes that can be assigned to such voluntary regulatory frameworks that appear to distinguish them from formal state-administered legally binding regulatory systems.

¹¹ These include the Council on Economic Priorities (SA8000/USA), Verite (France) and the Ethical Trading Initiative (ETI) in the UK. The ETI represents a benchmark in the development of ethical trade. It brought a wide range of stakeholders together with the support of the UK Dept for International Development (DFID). It aims to work jointly toward the development of an agreed approach to ethical trade. Accordingly, a baseline code has been established, which creates a common standard around which companies can structure their own codes of conduct. See: <http://www.eti.org.uk>

- Such systems are de-centralised and participatory rather than centralised and authoritarian. Ownership of rules and regulations is not confined to a single regulatory body, but tends to be dispersed amongst market actors and non-governmental stakeholders.
- Rules are designed through participation and consensus of stakeholders, which largely bypasses the political process. In this respect, self regulation constitutes a dis-intermediated form of regulation (i.e., although government may act as facilitator or even stakeholder, they no longer retain control of the rule making process)
- Non-governmental stakeholders have a direct influence on rulemaking, implementation and compliance procedures. In some cases – such as through fair trade initiatives – NGOs are able to implement and ensure compliance with value-based codes of conduct throughout the production-marketing chain.
- Adherence to rules and regulations is obtained exclusively through voluntary compliance and is based largely on trust between market actors. Consumers voluntarily incorporate values into their individual purchasing decisions, whilst producers are adding ethical criteria to their business decision making, not because they are externally obliged to, but because they wish to.

New forms of ethical consumption, such as provided through ethical trade, suggests a new relationship between producers and consumers. This new relationship stems partially from the unwillingness of governments to effectively inter-mediate market-based processes. As previously mentioned, within a liberalised trade environment, it is unlikely that governments (in developed and developing countries) will be inclined to administer rules and regulations that either adversely affect the existing competitive environment or diminish comparative advantage. It is likely, therefore, that the regulatory environment governing ethical trade will continue to evolve in an informal and voluntary manner.

A substantial growth in ethical consumption, inter-mediated through self-regulation, may have a significant impact on the nature of competition amongst producers in developing countries. Ethical trading initiatives require that labour (including minimum wages and

conditions of work) and /or environmental standards are raised amongst producers and their sub-contractors (which often includes home workers or small enterprises). Inevitably, this will lead to increased costs of production that will then need to be absorbed – either by the producers themselves or by consumers. It may be the case that increased costs of production will stimulate producers to improve overall efficiency and productivity, and thereby absorb costs through increased production or other non-labour cost savings. It is also possible that displacement of labour might take place through increased mechanisation. It is more likely, however, at least in the short term, that increases in costs will be felt in the marketplace, amongst the consumers of developed countries.

It is suggested that ethical consumers are voluntarily willing to pay a premium when purchasing goods that have been given the stamp of ethical approval. This suggests that consumers are increasingly open to considering non-price factors when making purchasing decisions. Such non-price factors are already at the forefront of many consumers' minds when considering questions of quality, safety and hygiene, for example. This is not only because formal, and usually binding, regulatory standards already govern such issues, but also because consumers are in receipt of vast amounts of information which govern their purchasing decisions. This information comes in many forms, but includes labelling, in-store advertising, media advertising, consumer protection campaigns and media reporting. Both producers and consumers accept this type of information as essential for mediating purchasing decisions. Such information, therefore, is likely to play an equally important role in ethical consumption.

5. SELF REGULATION, ETHICAL TRADE AND INFORMATION FLOWS

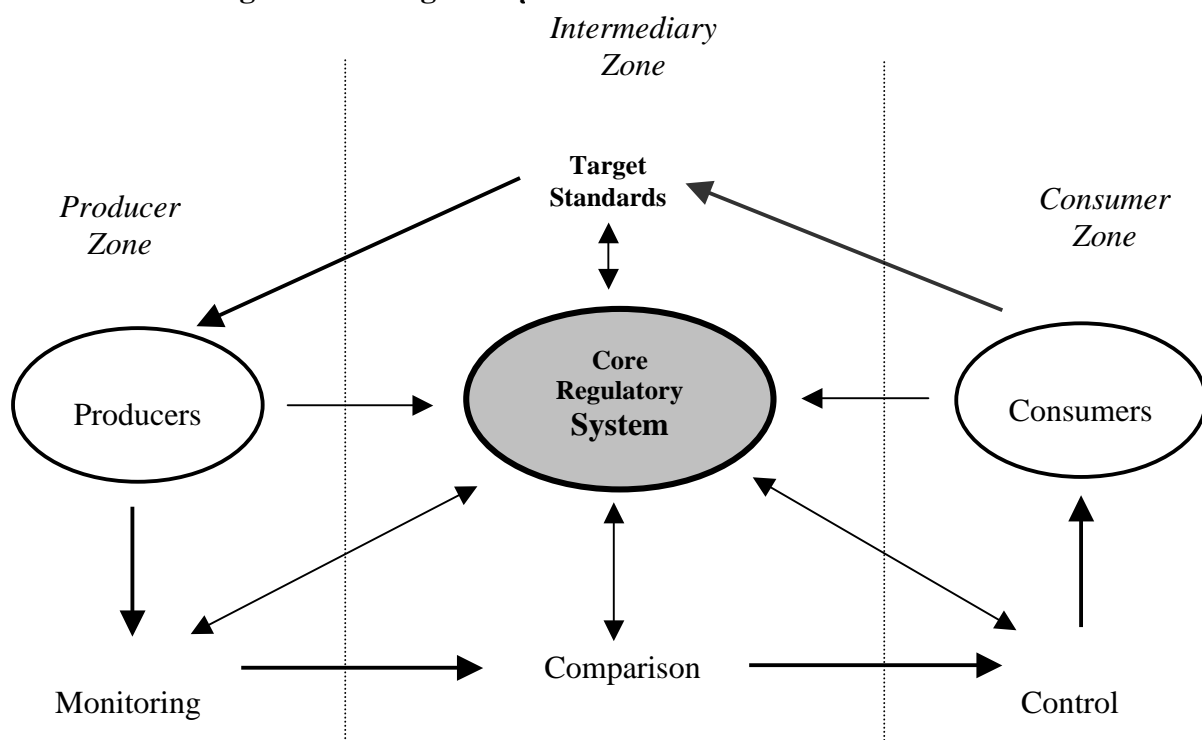
Information is the lifeblood of any system of market regulation. In broad terms, regulation has been described as the use of public authority to set and apply rules and standards (Hood et al, 1999). Regulation is based on the application of rules, which may be binding and supported by sanctions, or may be broadly enabling in ways that permit further negotiation, or concede discretion over detailed application (Minogue, 2000). However, all regulatory systems (whether formal or informal) that seek to govern the behaviour of market actors (producers and consumers) will be dependent upon the production, transmission and dissemination of information. Information will be the key ingredient throughout the regulatory process. For example, the process of understanding the requirements of rule-based systems necessitates information gathering and consultation with all stakeholders. The task

of designing rule-based systems requires detailed assessment and application of information gathered. Implementation of rules requires continual processing of information provided, through feedback of data relating to levels of acceptance and compliance by market actors.

It has already been suggested that ethical trade is representative of a self-regulatory system. Such a system has been described as decentralised and participatory, relying upon consensus, but also influenced by the self-interest of a wide range of non-governmental and private stakeholders. Above all it is based on voluntary compliance and trust between market actors. Within such an informal regulatory environment, it could be argued that information becomes an ever more critical component.

This is because consumers, making purchasing decisions, need to be in receipt of reliable and detailed information about the source of products and the conditions under which they are produced. Conversely, there needs to be some form of compliance upon producers to make that information available, either themselves or through independent third parties. Producers also need to receive information relating to the ethical concerns of consumers – either directly through traditional marketing techniques or indirectly through intermediaries such as ethical trade or fair trade organisations.

Fig 1. A self-regulatory information system for ethical trade.



The schematic representation of a self regulating information system for ethical trade (Fig 1.) suggests that overall control of such a system is exerted primarily by the purchasing decisions of consumers. Inputs to the system initially consist of agreed targets and standards, governing ethical practice, which arise from consensus amongst stakeholders. The most critical information input concerns monitoring of agreed standards, which as the diagram suggests, should take place in close proximity to centres of production – most likely carried by producers themselves or through collaboration with independent arbiters.

This type of re-intermediated model of (ethical) consumption already operates within a range of existing campaigns and programmes assembled under the banner of ethical and fair trade, concerning working conditions in developing countries, human rights campaigns and environmental protection. Within all these initiatives, information collection, processing and dissemination have been central to campaigning objectives. In fact, most ethical trade initiatives (and to a lesser extent fair trade) have been foremostly information campaigns. The types of information systems utilised have varied between initiatives and according to which point along the production-marketing chain those seeking to apply self regulatory models have attempted to intervene. The main regulatory-information tools utilised can be summarised within the following categorisation:

- Enterprise Initiatives – focussing of acting at the source of production. Enterprises themselves are generating large amounts of information concerning the ethical dimensions of their activities in developing countries. These are primarily large multi-national corporations who source much of their manufactured or primary products from subsidiaries or sub-contractors in country. This information is increasingly being generated through formal corporate channels, utilising accepted business accounting and auditing tools, to quantify and report the social and environmental aspects of corporate operations. This information is used to inform codes of conduct and to carry out social and environmental auditing.¹² These two

¹² Recent studies of codes of practice have identified many hundreds of companies (US and European) that have adopted codes of practice concerning the social and environmental aspects of their business in developing countries. Codes have either been developed independently or have drawn upon model codes developed within specific business sectors. For example, codes of conduct have gradually been introduced in agrofoods, forestry, chemicals and the textile, clothing and footwear industry. The most active sector has been the apparel industry, which, under pressure from organised labour, NGOs and consumer organisations, has been at the forefront of moves to reduce the level of sweatshop labour (including child labour) in the industry. In this respect, codes of conduct have proven to be a success. In 1996, The US Dept of Labour published a study that confirmed that

instruments are now widely used in the corporate sector and would represent a critical source of raw data within any system of self-regulation seeking to disseminate information more widely – principally to consumers.

- Trade Initiatives – focussing on acting on terms and conditions of trade. Trade initiatives have taken a more direct approach to regulating both production and consumption – generally described as fair trade. The fair trade model is also a regulatory model, but it attempts to exert control throughout the product lifecycle – including production, trade and consumption. In fact, fair trade initiatives have attempted to go a step further, not only seeking to improve workers conditions, but also to ensure that production has a positive knock-on affect within the wider society and cultural environment outside the place of work. Within this model, there is likely to be greater access to information, and greater ability by intermediaries (fair trade organisations) to disseminate information directly to consumers, given that influence and control is exerted throughout the manufacturing-marketing chain.¹³
- Consumer Initiatives – focussing on changing patterns of consumption. Both fair trade and ethical trade initiatives seek to influence consumer behaviour and change patterns of consumption. In many cases they are also responding to consumer pressure for change. A wide range of information dissemination tools have been used including publicity campaigns, direct marketing, and labelling at the point of sale. Thus far, labelling has had more impact in the environmental sphere – commonly referred to as eco-labelling. This represents a direct method of informing and seeking

child labour, particularly in Central America, had reduced significantly after the adoption of voluntary codes of conduct by US apparel companies operating in those countries. (Blowfield, 1999; Sajhau, 2000)

¹³ A good example of this is Cafedirect, which is probably the most successful fair trade initiative in the UK. Cafedirect is an example of a fair trading partnership that purchases coffee from small-scale coffee producers in Latin America and East Africa. A range of co-operating ethical trade NGOs are responsible for acting as intermediaries within the producer-marketing relationship (these include Oxfam Trading, Equal Exchange, Traidcraft and Twin Trading). The development of direct trading relationships between coffee farmer organisations and the ethical trade organisations (also known as alternative trade organisations) was presented as a solution to the problems of small-scale producers in relation to accessing export markets, unstable and low prices, difficult relationships with mainstream market intermediaries and lack of access to credit. The approach of the fair trade organisation, therefore, was to effectively bi-pass mainstream markets, and offer an alternative market solution. (Tallontire, 2000)

to influence consumers to make environmental decisions (just as they would product quality or safety decisions) at the point of sale.¹⁴

The aforementioned examples are illustrative of information tools that are currently being used within self-regulatory systems governing ethical trade. Since information is of such critical importance within such systems, it is not surprising there is considerable interest in how information and communication technologies (ICTs) may change, or even revolutionise, the self-regulation of the ethical dimensions of production, trade and consumption.

6. INFORMATION, ICTS AND ETHICAL TRADE

Ethical trade has largely arisen due to the success of interest groups (such as consumer groups and NGOs) in exerting pressure on producers, both to acknowledge the existence of ethical considerations and to take action to improve conditions.

As indicated, this process has been largely information driven. Increased information has created increased awareness about adverse employment conditions, infringements of human rights and environmental degradation. Accordingly, this information has stimulated producers and consumers to question their activities and their preferences, and to voluntarily adopt new standards of behaviour or, for consumers, change their patterns of consumption.

The rapid expansion of information technology and global information systems are creating instant access to knowledge and information relating to diverse situations in any part of the world. Global networks of organisations and individuals (such as those concerned with ethical trade) are able to communicate directly with each other and with producers and consumers instantaneously. Given that regulatory systems governing ethical trade also operate on a global scale, this suggests that information technology and modern

¹⁴ Eco-labelling is the most widely used current method of conveying information about environmental or social conditions of production to consumers. Both social, and particularly, environmental, labelling schemes have become well established in Europe and the USA. Labelling standards are usually implemented by non-governmental organisations representing environmental concerns, by trade associations representing the interests of producers, or by alliances of the two, often overseen by government or international agencies. Eco-labelling has achieved success in changing consumer behaviour, but has also been criticised as merely a symbol that gives little detailed information concerning conditions in developing countries. In many cases, it has been used merely as a marketing tool, designed to project a misleading environmentally friendly image that might have no substance in reality. In many cases, it has been indicative of a weak system of self-regulation that has not been subject to effective independent monitoring or verification. (Childs and Whiting, 1998)

communications are likely to be particularly appropriate tools for managing such systems of self-regulation.

The production-marketing chain itself is becoming increasingly dependent on ICTs. Modern corporations use advanced information and communication systems to control supply of goods and services, allowing them to establish complex global sub-contracting relationships, which are integrated into production and distribution chains. High technology systems (bar coding, for example) are able to track the movement of individual items from source to market, even to the extent of identifying individual factories and groups of employees who were responsible for their manufacture. Given the ability of the technology to assemble, process and transmit detailed production-related data, it would not seem unreasonable to suggest that associated data/information – concerning the social and environmental aspects of production – could also be made available, and transmitted through intermediary networks, or directly to consumers.

The growth of use in ICTs, itself, is described as an innovation associated with a reduction in formal systems of regulation. Emerging global information and communication systems embody many of the characteristics that are associated with self-regulatory systems, such as previously outlined with regard to ethical trade. These can be summarised as follows:

- ICTs are distributed systems that are largely non-regulated and come under no centralised control. The whole ethos of the development of the Internet, for example, was based on free access and exchange of information across national boundaries, without censorship or interference through state control.
- The development and application of ICTs has taken place largely independent from regulatory intervention by governments. National and international systems of regulatory action have, thus far, concentrated on the regulation of infrastructure networks (telecommunications and technical standards) rather than application and content.
- ICTs have the potential to provide dis-intermediated systems of communication and information exchange. They are able to facilitate direct communication between

producers and users of information, unlike the news and broadcast media, for example, which is a regulated medium that controls the supply of information through such means as pre-selection, scheduling, editing and censorship.

- ICTs enable non-governmental organisations to create autonomous (private) global networks of communication and information exchange. This, in turn, enables increased levels of participation and co-ordinated action on behalf of NGOs across national boundaries.
- Trust also becomes an important variable when information is mediated through ICTs. Lack of proximity, however, will generally lead to lack of trust in relationships between providers and recipients of information, due to lack of personal contact. In this respect, ICTs, used as a mediating tool between producers and consumers, will require the re-intermediation of trust. (Mansell and Wehn, 1998)

Increasingly, however, these characteristics are representative of an idealised view of how ICTs have operated, rather than how they are likely to operate in the future. ICTs do not exist in a vacuum, but are rapidly being absorbed into existing social and economic structures. The utilisation of ICTs increasingly reflects the existing unequal distribution of economic and political power within and between societies. Of most concern is the growing ‘digital divide’ between rich and poor countries.¹⁵ By all accepted measures, inequalities in access to infrastructure, knowledge, skills and ICT resources are widening between the developed and developing countries. Of increased significance for trade relationships are the capability gaps between large and small firms within developing countries. These particularly favours large multi-national corporations that are able to mobilise massive information and communication resources, as against small firms, most of which, in developing countries, remain

¹⁵ The negative affect of knowledge gaps and information problems on socio-economic environments in developing countries are now major themes of development policy (Okinawa Charter on the Global Information Society, 2000; World Bank, 1998). Rising inequality between north and south, resulting from rapid ICT diffusion (the digital divide) has been identified by current research (Rodriguez and Wilson, 2000). There has been less focus, however, on gaps within LDCs, and the potential impact of ICTs on the life chances of the excluded. Specifically, there is little evidence relating to practical examples of ICTs bridging the digital divide. Ethical trade is one area that might provide such a case study.

unconnected to global networks. Inequality of access and usability, therefore, is an increasing feature of ICTs.

The real world also dictates that levels of regulation will grow with respect to the utilisation of ICTs. This will likely result from two largely separate trends. Firstly, demands for increased regulation, (of the Internet, for example) have arisen from concerns about protection of the public interest and the rights of the individual over the free exchange of information. Binding regulations (both national and international) are increasingly coming into force, to increase data protection, data security and to protect minors from harmful content (such as pornographic material). Secondly, motivation to extend regulation has resulted from the increased commercialisation of cyberspace. The growing need to develop a governance system for electronic commerce becomes highly relevant for ethical trade, and reflects the desire of governments to more effectively mediate relationships between producers and consumers, and hence exert increased levels of regulation over cyberspace.¹⁶

Business, itself, largely favours self-regulatory models for cyberspace that are market/industry-led (IITF, 1996; Global Action Plan for Electronic Commerce, 1999). A recent Global Action Plan produced by industry representatives of some of the world's largest multi-national companies urges government to:

“Rely on business self-regulation and the voluntary use of empowering technologies as the main drivers behind the creation of trust across the whole spectrum of users and providers of e-commerce goods and services. Governments should focus on the provision of a stable and predictable environment enabling the enforcement of electronic contracts, the protection of intellectual property and safeguarding competition.” (GIIC, 1999)

This suggests, in the future, purveyors and users of the technology may increasingly dominate the regulatory environment surrounding global e-commerce networks. The principal users of the technology will be the large corporations that control global networks

¹⁶ National governments and international regulatory institutions have for some years been seeking to design and implement a governance system for electronic commerce. In fact, the future expansion of the virtual market is seen to be dependent on successfully establishing such a framework of internationally binding regulations. For example, in critical areas such as intellectual property, the introduction of electronic money, privacy and security of transactions, technical standards, and a wide range of infrastructure based regulations. There is also concern over fraud, terrorism and criminal activity, as well as seditious material. There is also the need to establish new forms of trust between market actors – touching on issues of data integrity and access control. (Mansell and Wehn, 1998)

associated with the exchange of goods and services across national boundaries. It is essential, therefore, that as information and communication resources become increasingly concentrated within such corporations (not just manufacturing, but also financial, media and business services, for example) that the interests of developing country producers are protected.

7. E-COMMERCE-BASED MODELS OF ETHICAL TRADE

The extent of the impact of e-commerce on ethical trade is uncertain. At the present time, ethical trade represents only a fraction of the total trade between developed and developing nations. Equally, e-commerce has yet to impact significantly on overall patterns of trade, particularly business to consumer (B2C) commerce, such as in the retail sector. This would suggest that the coming together of ethical trade and e-commerce is yet to present an appropriate and effective vehicle for promoting the social and environmental concerns of developing countries. At present, there are only limited initiatives to promote ethical trade using e-commerce, such as through fair trade portals.¹⁷

Potentially, however, electronic shopping provides a highly appropriate environment within which ethical trade can take place. Purchasing decisions can be immediately informed by establishing links with consumer/product-related websites or directly with manufacturers and suppliers, to view information concerning the social and environmental impact associated with specific products or production processes. In this way consumers can directly exert control over purchasing decisions whilst referring directly to material (evidence) relating to monitoring and evaluation taking place in production centres in other parts of the world. It is even conceivable, using current technology, that exchange of information can take place in real time, allowing a potential customer to directly observe production, or receive oral evidence (testimonies) from production workers. This type of direct link between production and consumption may only be of interest to the dedicated ethical shopper. However, such self-regulatory 'technology-based' systems may also be of interest to large producers that wish to give credence to their ethical codes of conduct.

There are a large number of e-commerce business models that could provide a suitable vehicle for implementing ethical trade. Currently, e-commerce is in an early stage of

¹⁷ See for example: <http://www.PEOPLink> <http://www.Traidcraft.org.uk>

evolution. The future growth of business to consumer (B2C) e-commerce is largely dependent on the growth of network use and network transactions by individual customers, which at present, is constrained by a wide range of cultural, social and trust related factors. Business-business (B2B) e-commerce is predicted to achieve faster growth, due to the significant impact of ICT-based systems on the automation of workflow and supply chain processes, that are fundamental to business operations. B2B e-commerce is rapidly becoming integrated into all stages of the production-marketing chain, and is becoming an integral part of contracts and transactions in areas such as purchasing, procurement, sub-contracting, tendering and business collaboration (Timmers, 2000). E-commerce models applicable to ethical/trade consumption may include the following:

- *E-Shops*. Individual websites that can provide an additional marketing tool for existing small and medium size enterprises or trading companies located in developing countries.
- *E-Malls/Trading Portals*. These would provide gateways to a wide range of sellers that are adopting ethical/fair trade principles. These might include direct links to developing country producers, or a platform from which fair trade organisations can market goods supplied from developing country producers.
- *Third-party marketplaces. (market-organisers)* These are run by commercial organisations that will organise all aspects of the supply chain – including branding, payment, logistics, ordering and implementation of secure transactions.
- *Virtual Communities*. These describe market places that encourage membership and participation. (In conventional retailing they may be akin to loyalty cards.) Virtual communities are already practised by e-retailers such as Amazon.com, which operate advanced customer information management systems in order to build a community of loyal customers. These systems are potentially highly applicable to ethical trade/ethical consumption.
- *E-procurement*. Procurement (primarily by local and national governments – but also the private sector) represents a business area where ethical criteria may be most easily applied. Government procurement, for example, already lays down a wide range of contractual obligations, many of which have an ethical dimension. E-procurement may also be applicable to international organisations and developing country governments purchasing either in country or on the international market.

These represent just a small number of the e-commerce models that are currently under development. They are all representative of emerging ‘electronically-mediated’ market-based systems. They all offer considerable potential for self-regulation that embody ethical principles. Essentially, this is because an electronic marketplace gives the user (or customer) greater power to access information concerning the source of the product or service they are purchasing. However, the extent to which electronically re-intermediated models of production and consumption can directly benefit the socio-economic conditions of developing country producers, and their terms of trade, is not yet known.

8. PRIORITY RESEARCH ISSUES

This paper has discussed a wide range of interconnecting issues concerning ethical trade and new regulatory models for mediating between developing country producers and developed country consumers. It has emphasised that information provision is a critical component in a system of self-regulation that is non-binding and relies upon voluntary action. Further, information and communication technologies (ICTs) have been identified as increasingly relevant to information collection, processing and dissemination.

There is a need to reach a better understanding of new forms of regulation and how they can be applied to development goals. Ethical trade will present an important and relevant case study in understanding the processes by which self-regulation can positively impact on producers in developing countries. There is also a need to understand the role of information exchange within such regulatory systems, and to assess how emerging information and communication technologies and systems will impact on the regulatory process.

The following questions form the priority areas for research:

- What are the institutional arrangements for rulemaking within self-regulatory systems? **In the case of ethical trade this will involve examining the ways in which business and development community stakeholders come together in the process of establishing voluntary codes.**

- What are the processes by which rules are designed? For ethical trade, market processes will form the context within which rules are designed. **It will be necessary to more fully understand how market processes inform rulemaking.**
- By what means are rules implemented? Self-regulating systems rely on voluntary action for implementation. Within ethical trade, implementation of rules rests primarily with producers. The level of transparency associated with the process of implementation, however, will largely determine its success. **The research will need to determine how access to information can aid transparency.**
- How is compliance ensured? Compliance should not be measured in terms of successful implementation, but according to desired outcomes. In the context of ethical trade, this entails monitoring and evaluation of social and environmental conditions in developing countries. Within a market-based regulatory system, the ultimate arbiter of such ethical considerations is the consumer. The consumer, however, is acting upon information received. **A central question for the research, therefore, will be to assess issues of reliability and trust between producers and consumers within such self-regulating systems.**
- Where does accountability lie within self-regulating systems? Within such systems it is likely that accountability will be distributed amongst stakeholders, producers and consumers. Accountability will be based on consensus and practical partnerships. For ethical trade, this may confer advantages, such as shared responsibility. **It will be necessary to understand how accountability can be built in to such systems and what support role information can play.**
- What regulatory principles are most appropriate for governing information and ICTs in the context of ethical trade? **What should be the relative influence of government, the private sector and non-governmental organisations? In essence, who should control ethical information?**
- What should be the balance between formal and non-formal systems of regulation? Are enabling self-regulatory systems sufficient or should they represent a stepping-

stone to formal systems including adherence to universal binding regulations? **In essence, to what extent should regulations governing ethical trade be formalised, and what role might information/ICTs play in that process?**

Assessing the role of information, therefore, will be critical to understanding all the above processes. Accordingly, the role of information and communication technology can also be assessed, given its centrality as a means of accessing, processing and disseminating information, within the market and the regulatory environment. It will be necessary to understand the role of information, and ICTs, for the purposes of rule making, rule implementation, compliance and accountability. Additionally, the effectiveness, and relative importance, of public and private rulemaking can be assessed, whilst also gauging the role of information, and applicability of information and communication technologies, in each case.

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Appendix 1. Research Plan

Research Context.

Socially responsible trading is increasingly moving into the mainstream of development thinking. There is a need to develop new regulatory mechanisms that can govern the ethical components of trade between developing and developed countries. Such a system of international governance is needed to protect the interests of producers and consumers, as well as give rise to improved social and environmental conditions in developing countries.

In recent years, systems of self-regulation have evolved within a wide range of ethical trade programmes. Within all these initiatives, the collection, processing and dissemination of information has played a critical role. In fact, in many ways such self-regulatory frameworks can be considered as information systems. Data collection is an essential component for monitoring and evaluation. Information needs to be processed and distributed to stakeholders, and critically, consumers need to be in receipt of accessible and reliable information at the point of sale.

Information handling, is increasingly dependent on the implementation of information and communication technology (ICT) systems. Large companies already utilise complex management information systems and global communications to control their supply chains, whilst consumers are increasingly using global networks (such as the Internet) to access product-related information and conduct transactions.

Global information and communication networks also embody many of the characteristics associated with self-regulation, rendering governments largely powerless to control the flow of digital information across national boundaries. This has not only benefited large trading corporations, but also campaigning groups seeking to promote ethical trade, enabling new forms of global networking between non-governmental organisations (NGOs) and the rapid exchange of campaign-based information.

Research Overview

This research will help to understand how systems of self-regulation operate in market-based environments, taking ethical trade as a case study of development practice. Understanding information processes, and increasingly, the role of ICTs, will be central to understanding the relationships between market actors and intermediaries within the regulatory environment. Critically, the research will seek to establish to what extent such self-regulating systems can fulfil their objectives, measured according to the real benefits accrued by developing country producers, and in comparison with other forms of regulation.

Research Objectives.

1. To map existing systems of self-regulation as applied to ethical trade, and to assess their appropriateness and efficacy with regard to the stated objectives of programmes.
2. To understand the relative merits of systems of self-regulation compared with directive approaches, and to understand through what mechanisms formal and informal systems of regulation may coexist within a market environment.

3. To establish the impact of information processes with regard to design, implementation, compliance and accountability of systems of self-regulation, as applied to ethical trade.
4. To assess the role information and communication technologies (ICTs) may play in supporting information flows within market-based systems of self-regulation, as applied to ethical trade.
5. To help developing country policy makers better understand the interplay between systems of self-regulation, market processes and new information and communication technologies, as applied to ethical trade.

Research Methods

Initially, a detailed survey of current programmes of self-regulation in the area of ethical trade will be undertaken. By surveying a wide range of current programmes it will be possible to identify common elements concerning design, implementation, compliance and accountability within a practical development-related context. The research will also adopt a case study approach, targeting individual ethical trade programmes for analysis. This will enable detailed data to be collected concerning information and ICT-related issues concerning the variables specified. It is hoped that a combination of wide-ranging and detailed research data will contribute to building a generic map of self-regulation, as applied to ethical trade and consumption, and to specify the areas where information and ICTs are critical components.

Research Implementation, Beneficiaries and Outputs

The research will produce both practical and theoretical outputs. Practical outputs will be aimed at informing policy makers and ethical trade practitioners on the best practice associated with design, implementation, compliance and accountability within ethical trade programmes. Additionally, outputs can be directed at developing country governments in order to increase understanding of issues related to self-regulation of ethical trade, market processes, information and ICTs. Theoretical outputs will be aimed at constructing a conceptual framework for understanding the relationship between information processes, self-regulation and the impact of ICTs, taking ethical trade as a case study.

Research outputs would include:

A concept paper constructing a conceptual framework relating to information flows and the impact of ICTs on self-regulatory processes. This would be aimed primarily at development researchers, but also intended for policy advisers.

A background paper outlining the impact of growth in self-regulation due to growth in ethical trade, market processes and use of ICTs. This would be aimed primarily at policy advisers, but also of interest to development researchers.

A guidance handbook on best practice in the design and implementation of ethical trade initiatives, with a particular emphasis on the role of information and ICTs. This would be aimed primarily at policy makers, producer and consumer groups and other ethical trade system stakeholders.