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The Rise of Market Approaches to Social Problems: The Case of Fair Trade and Its Uneven Expansion Across the Global South

Kristen Shorette

Department of Sociology, Stony Brook University, Stony Brook, New York, USA

ABSTRACT

This study examines international market formation and expansion with a focus on the social regulation of economic activity. I use fair trade as a strategic case because of its centrality in the growing field of civil society–based initiatives that address social and environmental problems via market mechanisms as well as its comparatively long history that encompasses a substantial change in organizational structure. Using a comprehensive data set of current and former World Fair Trade Organization members, I conduct a series of fixed effect zero-inflated negative binomial regression analyses. Results reveal the variable significance of macro-historical conditions and organizational structures that underlie the market's uneven growth across the global South. I find that organizational linkages to world society, a history of British colonization, and the presence of Peace Corps volunteers enable market formation and expansion. By contrast, French and Portuguese colonial ties have a constraining effect. Additionally, I find that the organizational structure of the market itself is both directly and indirectly consequential for its growth. The shift from idiosyncratic direct sales networks to a formalized labeling system facilitates market expansion and amplifies the importance of global institutions but diminishes the impacts of international political domination.

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In the context of increasingly complex global commodity chains that systematically disadvantage the global South, consumers are increasingly concerned with the social and environmental consequences of the production and exchange of goods (Bair and Palpacuer 2015; Bartley 2007; Chiputwa, Spielman, and Qaim 2015; Tsutsui and Lim 2015). State failure to effectively promote equality, human rights, and environmentalism makes way for nongovernmental responses (Kulin and Sevä 2019; Sonnenfeld and Mol 2002). The understanding that such objectives are best realized via market mechanisms facilitates the rise of new international markets (Koos 2021; Shorette 2014). From corporate social responsibility to anti-sweatshop initiatives to conflict-free diamond and sustainable rainforest campaigns, civil society's role in international market regulation is on the rise (Bartley 2018; Brammer, Jackson, and Matten 2012; Lim and Tsutsui 2012; Lim 2020).

CONTACT Kristen Shorette Kristen.Shorette@stonybrook.edu Department of Sociology, Stony Brook University, Stony Brook, NY 11790, USA

Together, these initiatives represent a new organizational form of market governance that is rooted in civil society and based on alternative standards and voluntary enforcement mechanisms. Market formation and expansion and its relationship to society is a foundational object of inquiry in economic sociology. Previous work within the field finds for the relevance of social forces in economic processes generally and of markets more specifically including their institutional preconditions (Fligstein 2001), embeddedness in social processes (Granovetter 1985; Hoang 2018), and the importance of their governance structures on a variety of outcomes (Gereffi 2005; Bair 2009). Using the strategic case of fair trade, I draw on these literatures to investigate the diffusion of market approaches to social problems across the global South.[1]

Since its emergence in the early 20th century, fair trade has become the predominant civil society–based initiative to govern economic activity (Melo and Hollander 2013; Raynolds 2018). Fair trade organizations establish and enforce standards for the production and exchange of goods that participants volunteer to adopt. Exchanges between consumers in the global North and producers in the global South were initially organized around idiosyncratic direct sales networks. In the late 1980s, the organizational logic of the market transitioned with the introduction of labels to indicate compliance with a formal set of fair trade standards (Koos 2021). This formalization of market governance presents an opportunity to assess the role of the organizational structure of markets—in addition to the macro-historical contexts in which they are embedded—in explaining the proliferation of this new form of market governance.

I use a comprehensive cross-national data set of all current and historical members in the World Fair Trade Organization (WFTO) to analyze the uneven formation and expansion of fair trade production across the global South from 1970 to 2017. These producer organizations provide the infrastructure that supports the production of fair trade goods in the global South. Results of fixed effect zero-inflated negative binomial regression analyses indicate that rather than simply niche components of traditional international markets, fair trade markets are outcomes of international political domination, cultural understandings of legitimate societal goals and how best to achieve those goals, and the reorganization of market relationships.

The strategic case of fair trade

Fair trade is a market-based social justice movement that facilitates the production and exchange of goods. It is based on an alternative set of trade relationships that are intended to benefit those at the beginning links of commodity chains (Jaffee 2014; Fairtrade International 2019). The market emerged in the early 20th century and has since expanded considerably (Linton 2012; Shorette 2014). Beyond its centrality in the growing field of civil society–based markets, the characteristics and historical development of the fair trade market present substantial analytic value. The fair trade market has a long history that includes a substantial shift in its organizational structure that also corresponds with the emergence and expansion of other nongovernmental market initiatives. As such, it represents a strategic case for assessing the macro-historical and organizational drivers of socially regulated economic activity.

Fair trade originated as a market based on direct sales networks in the form of an informal set of interpersonal transnational ties. Participants in the global North, typically affiliated with religious institutions, traveled to the global South where they met producers of various goods. They then returned to their home communities to sell those goods at a premium for the benefit of producers. The value of the fairly traded goods to consumers during this time period lied primarily in the consumers' (perceived or actual) contribution to alleviating international inequalities.[2] The standards for meeting these requirements were not formalized until the introduction of the Max Havelaar label in 1988. Additional fair trade labeling and certification schemes soon followed (Raynolds and Long 2007).

The first fair trade labels indicated compliance with fair trade standards at the product level. Following the success of product labels, fair trade organizations that were operating under the original fair trade framework organized to develop a formal system to indicate their own place within the market based on organization-level standards.[3] The WFTO, whose member organizations represent the object of this study, is the flagship organization-level screening body. The detailed requirements of what each label conveys vary somewhat. However, they reflect the common goals of improving the social and environmental conditions of producers in the global South.

In line with Koos (2021), I argue that the widespread adoption of fair trade labels indicating compliance with formal regulations represents a fundamental shift in the organizational logic of the market. Under the labeling system of governance, the label itself, rather than an individual advocate, conveys information regarding the conditions of production of a commodity. Additionally, that information is highly formalized. In order to qualify for any particular label, participants must regularly demonstrate compliance with a standard set of requirements. The use of certification and labels allows for wider distribution of fair trade goods as they are no longer confined to specialized boutiques (Jaffee 2014). With fair trade labels, goods can appear in mainstream retail outlets alongside state-regulated products including agricultural goods like coffee, tea, flowers, and olive oil, which represent an increasingly large portion of the fair trade market (Nicholls and Opal 2005).

This transition of governance models from loosely organized interpersonal direct sales networks to formalized impersonal labeling systems provides a unique opportunity for testing the effects of the structure of economic governance. This study focuses on one subset of fair trade in pursuit of this objective: producer organization members of the WFTO. The exclusion of product-level certified goods is regrettable. Beginning in the 1990s, fair trade sales on the whole accelerated at a faster rate than WFTO members. As a result, a focus on this segment of the market will underestimate the importance of the market's formalization. However, sales data are not consistently available, especially prior to this transition.[4] Using WFTO member organizations as a proxy for the fair trade market has the significant advantage of including the pre-labeling period of the fair trade market.

Additionally, it is important to note that there is a rich and growing body of work that examines the complex dynamics within fair trade organizations, the extent to which they achieve their objectives, and the broader political economic and cultural contexts in which they are situated (Linton 2008, 2012; Jaffe 2012, 2014; Keahey 2016; Keahey and Murray 2017; Raynolds 2014; van Rijn et al. 2020). From coffee to bananas to Ecuadorian flowers, South African wine, Malawian sugar, and Palestinian olive oil, case studies of fair trade commodities proliferate (Shreck 2005; Raynolds, Murray, and Wilkinson 2007; Bacon et al. 2008; Meneley 2011; Raynolds 2012; Phillips 2014). However, by design, this study takes a bird's-eye view of the field at the expense of such rich analysis. The objective of this study is to identify the macro-historical conditions and organizational structures that underlie the market's uneven growth across the global South.

Macro-historical and organizational drivers of market expansion

Previous research finds for the importance of social movements in affecting markets for products as varied as grass-fed meat and dairy products (Weber, Heinze, and DeSoucey 2008), microbreweries (Carroll and Swaminathan 2000), and recycling programs (Lounsbury, Ventresca, and Hirsch 2003). As a market-based social movement, fair trade is an example of a social organization directly creating and facilitating a new market. Fair trade practitioners cite extreme economic, social, and environmental inequalities that are perpetuated by traditional international trade as the catalyst for their activity (Brown 2013). While social movements and participation in moralized markets such as fair trade are commonly understood as altruistic responses to particular grievances, they are better explained by broader social forces (Meyer and Rohlinger 2012; Davis and Zhang 2019; Koos 2021).

Despite the movement's framing, fair trade is not a problem-driven phenomenon. The market first emerged after centuries of economic and ecological unequal exchange (Abu-Lughod 1989; Arrighi 1994; Foster 1999; Wallerstein 1974). Its worldwide expansion is better understood in terms of shifting world cultural trends. Fair trade expanded dramatically alongside a large field of nongovernmental organizations, many of which also cite states' failure to enforce world cultural principles as their motivating purpose (Boli and Thomas 1999). Increasingly salient human rights and environmental norms problematize the consequences of economic liberalization and catalyze worldwide fair trade market growth (Shorette 2014).

However, these global trends cannot explain the uneven concentration of fair trade activity cross-nationally. This begs the question, what explains the emergence and expansion of fair trade production in some locations over others? Below I consider a variety of forces that may enable or constrain fair trade production across the global South.

Domestic context

Sociological theories of development focus on average income—typically measured as per capita gross domestic product (GDP)—as the primary indicator of development. From these perspectives, economic resources contribute to solving social problems and are often assumed to be analogous to well-being (Brady, Kaya, and Beckfield 2007; Firebaugh 1992). Research finds that development - conceptualized in terms of GDP - is a determinant of a wide variety of outcomes. Likewise, the fair trade system focuses, although not exclusively, on economic development conceptualized in terms of income. Given the positive effects of presence of fair trade on income levels of participating and proximate producers (Levi and Linton 2003; Bacon 2005; Ruben 2009) and the primary objective of the fair trade system to improve the economic well-being of producers in the global South (WFTO 2010), low-income countries should attract fair trade production.

In addition to economic growth, a democratic national context will likely facilitate the emergence and expansion of the fair trade market. Fair trade aims to promote democracy as well as economic, social, and environmental development within its host communities (WFTO 2010). However, the market is likely to benefit from a democratic political environment. Just as democratic contexts facilitate the positive benefits of nongovernmental organizations (Shandra et al. 2004; Shandra, Shandra, and London 2010a, 2010b), they may also facilitate the growth of fair trade markets.

> Hypothesis 1: The domestic context of a country will shape its fair trade market size and presence where low levels of average income and high levels of democracy enable the market.

International economic relationships

The exchange of goods across political borders has been a defining characteristic of world systems for centuries (Wallerstein 1974; Abu-Lughod 1989; Arrighi 1994). All fair trade goods—coffee, tea, bananas, handicrafts, and so on—have long histories of exchange under these traditionally state-regulated markets. One explanation for the rise of fair trade is that it represents a niche component of these existing international markets (Bissinger and Leufkens 2020). From this perspective, fair trade builds on the existing scaffolding of traditional market relations. If this is the case, existing international economic relationships will be closely associated with emerging and expanding fair trade markets. Where there is more exchange in general, we will find more exchange of fair trade goods in particular.

In addition to the quantity of existing economic ties, an emerging line of work finds that the *quality* of ties matters (Mosley and Uno 2007; Greenhill, Mosley, and Prakash 2009). This work suggests that only a portion of the existing market may be relevant for the expansion of fair trade. From this perspective, the existing scaffolding of traditional market relations over which fair trade builds is a specific part of the whole network. We therefore should only examine the relevant portion. Specifically, we should expect those countries in the global South that export more goods in general to top fair trade–-consuming countries—rather than to any country at all—to produce and exchange more fair trade goods in particular.

> Hypothesis 2: Countries with larger amounts of total exports and exports to top fair trade–consuming countries will have larger fair trade markets.

International political ties

Another possibility is that political domination shapes the structure of emerging markets. Networks of power across nations can both enable and constrain the development of new socioeconomic relationships such as fair trade. Previous work suggests that colonial ties (Mahoney 2001) and Peace Corps presence (Shorette 2011) may play a particularly important role in the development of fair trade markets across the global South.

Colonial ties

Immediately following World War II, the British and French were the largest colonial powers, with over 40 colonies combined. The subsequent wave of decolonization, therefore, primarily affected their ties of political domination to Africa and South Asia. International political ties formed during colonization continue to shape domestic outcomes of former colonies via institutional legacies. Divergent rates of economic development following independence, for example, are largely explained by the transferal of different institutions from colonial power to colony prior to independence (Mahoney 2001).

The processes of decolonization varied greatly by colonial power. The British took steps to promote economic and social development in their colonies. For example, the Colonial Development and Welfare Acts of 1940 and 1945 provided institutional support for soon-to-be-independent states. In general, British decolonization was a peaceful process in which they acknowledged the end of their colonial reign and took measures to prepare their colonies for independence (Springhall 1999). British colonization has since had relatively positive developmental consequences within its former colonies (Lange, Mahoney, and Vom Hau 2006).

The French, in contrast, sought to reaffirm their national strength by maintaining their colonies following the end of the Second World War, entering into two wars—in Asia and Africa—to this end (Hargreaves 1996). One result is stunted economic development in East Asian former French colonies as the inherited colonial institutions were unfavorable to domestic investment and education (Kwon 2011). Portugal likewise clung to its African colonies despite international disapproval and only ultimately relinquished colonial control following national uprisings within Mozambique, Guinea-Bissau, and Angola combined with international intervention (Hargreaves 1996).

In addition to the processes of decolonization themselves, there is an important difference in the structure of postcolonial relationships that distinguishes the British from other colonizers. The Commonwealth of Nations (formerly the British Commonwealth) connects Britain and the majority of its former colonies. Member states of this intergovernmental organization are bound by the Charter of the Commonwealth which espouses the values of equality and human rights among others. Following independence, the Commonwealth of Nations provides an infrastructure that connects former British colonies under a framework that is normatively aligned with fair trade principles. Comparable transnational networks connecting other former colonies with their colonizers are absent.[5]

The Peace Corps

Previous work in economic sociology finds for the importance of social relationships in explaining economic activity. For example, patterns of foreign investment locations are not based on the characteristics of countries that make them more attractive but relationships between investors and hosts (Bandelj 2002; Hoang 2018). Likewise, I expect that when establishing fair trade market relationships, producers and consumers draw on their previous social relationships. One avenue through which these relationships develop within the fair trade market is the Peace Corps. The Peace Corps was established in 1961 in order to promote "world peace and friendship." Funded by the United States government, it connects American volunteers to various projects—including education, sustainable development, and health care—throughout the world (Peace Corps 2012; 2019). While technically a subset of the United States government, the Peace Corps acts autonomously from the state as it transmits its core values and ideas, and consequently affects domestic policy, across the global South (Drenzer 2000).

Further, the Peace Corps promotes ideas of human rights, social justice, equality, and environmentalism, along with the idea that these goals can be achieved via international markets (Peace Corps 2012). Such ideas are consistent with the goals of fair trade (WFTO 2010). While the Peace Corps is a transnational organization in the sense that it is based in the United States and operates around the world, the primary agents of the organization are individual volunteers who often work without close contact with other volunteers. These volunteers, while acting within a largely insulated institution (Drenzer 2000), establish connections with communities abroad and often maintain long-term organizational and financial ties (Shorette 2011). In doing so, they transmit the ideas of the institution to the host communities.

In sum, as the legacy of colonial institutions and the processes of decolonization continue to affect socioeconomic outcomes within former colonies following their independence, they may also affect the formation and expansion of new markets. Likewise, the ideas promoted by the Peace Corps are potentially consequential for the emergence and expansion of fair trade markets. Accordingly, I consider the possibility that overlying the skeletal framework of colonial and neocolonial relationships is the new set of institutional domains and structures that is the fair trade market.

Hypothesis 3: International political connections will affect fair trade markets.

H3a: A history of colonization by the British will enable fair trade markets.

H3b: A history of colonization by the French or Portuguese will constrain fair trade markets.

H3c: Peace Corps volunteer presence in a country's recent history will enable fair trade markets.

Global institutional embeddedness

Next, I draw on neoinstitutionalism in sociology, or world society theory, to consider the role of global institutions in providing a potential skeletal framework over which fair trade market structures may expand. This perspective is distinct in that it highlights the institutional character of global processes. Rather than interest-motivated actors, it emphasizes the social context that constitutes actors embedded within it (Schofer et al. 2011). An increasingly global political culture comprises legitimate societal goals and legitimate means of pursuing them.

Equality, human rights, and environmentalism are among the most salient post–World War II world cultural norms (Boli and Thomas 1997, 1999; Frank, Hironaka, and Schofer 2000). Market logic is also prominent in this period, especially following the collapse of the Soviet Union (Bromley, Schofer, and Longhofer 2020; Simmons, Dobbin, and Garrett 2008). The expansion of civil society in market regulation, especially via certification or labeling systems, is indicative of these normative trends (Bartley 2007; Raynolds 2012).

One of the primary mechanisms by which world culture is transmitted to national contexts is via memberships in international nongovernmental organizations (INGOs) (Boli and Thomas 1997, 1999). INGOs serve as carriers of world culture linking highly embedded nation-states to world society. A large body of prior research demonstrates that national embeddedness into global institutions shapes domestic policy in a wide range of fields including the adoption of development models (Taniguchi and Babb 2009) and neoliberal (Fourcade-Gourinchas and Babb 2002; Henisz, Zelner, and Guillén 2005), environmental (Frank et al. 2000), and human rights (Hafner-Burton and Tsutsui 2005; Frank et al. 2010) policies. There is also evidence that national embeddedness in global institutions is consequential for practical outcomes such as carbon dioxide emissions (Schofer and Hironaka 2005), frequency of human rights abuses (Cole 2012), and the spread of higher education (Schofer and Meyer 2005), for example. These findings demonstrate the link between changing understandings of legitimate societal goals, state policies, and the concrete outcomes to which such policies address.

Recent research shows that the effects of global institutions extend far beyond the state. For example, individuals in highly embedded states tend to show greater concern for the natural environment (Givens and Jorgenson 2013) and to be more supportive of women's freedoms and human rights (Boyle, McMorris, and Gómez 2002; Pierotti 2013). In addition, previous work finds for the relevance of global institutions in the diffusion of neoliberal markets (Simmons et al. 2008). Finally, others have gone as far as to theorize their role in the spread of fair trade markets in particular (Raynolds 2012). It follows that global institutional embeddedness should enable the growth of the fair trade market as national connections to INGOs provide an institutional framework over which fair trade markets will grow.

> Hypothesis 4: Countries with more connections to global institutions, specifically, INGOs, will have larger fair trade markets.

Market formalization

The shift from idiosyncratic direct sales networks based on personal knowledge of market participants to a globally regulated system where labels communicate compliance with production standards to consumers marks an important reorganization of institutional arrangements in the fair trade market. The implementation of a certification and labeling system to indicate compliance with formalized fair trade standards represents the institutionalization of a formalized and rationalized governing system.

The structuration, or "formation and spread of explicit, rationalized, differentiated organizational forms" (Meyer et al. 1997, p. 156) of world society has been shown empirically to affect a wide range of social processes. For example, the introduction of highly rationalized organizational forms facilitates the expansion of higher education (Schofer and Meyer 2005), environmental regulation (Frank 1997), and the understanding of health as a social, rather than purely a medical, concern (Inoue and Drori 2006). In much the same way, the formalization of the fair trade market is likely to enable its expansion.

The reorganization of market relationships within fair trade moves the heart of this economic exchange from interpersonal, international networks to an impersonal, global market. The communication of production standards via labels is a much more efficient means of connecting producers and consumers with fair trade principles. Compared to direct sales networks which frequently involve the recounting of producer stories to potential consumers, the labeling system has potential to reach a much more expansive consumer base and shorten the exchange distance between global North and South (Shreck 2005). Notably, the World Fair Trade Organization (WFTO)—which relies on voluntary enforcement—situates itself in direct contrast to the World Trade Organization—which has the most effective enforcement mechanisms of the United Nations agencies (Hopewell 2016). In this regard, the formalization of the WFTO market represents a move toward traditional, state-based global governance of economic activity.

The market's formalization may have consequences beyond simply enabling its growth. Recent work reveals that the shift in the organizational logic of the market impacts fair trade consumption patterns in Western Europe (Koos 2021). This suggests that it may change how political and institutional forces enable and constrain fair trade production across the global South. Because the certification system abstracts the market from direct, interpersonal ties, international political networks are likely to become less relevant as global institutions, and national embeddedness within them, grow in salience. While prior neoinstitutional work is largely ahistorical, there is evidence that the impact of national ties to global institutions is historically contingent (Schofer 2003).

Hypothesis 5a: Formalization of fair trade market governance will enable its expansion.

Hypothesis 5b: Formalization of fair trade market governance will mitigate the effects of international political forces—historical colonial ties and recent Peace Corps presence—while enhancing the effects of global institutions.

Data

For these analyses, I use an unbalanced panel of longitudinal cross-national data on the national-level yearly size of the production component of fair trade markets. Analyses include all countries eligible for hosting fair trade producer organizations, which comprise the infrastructure for fair trade markets, where data are available (Table 1). I focus on the global South to account for the WFTO's eligibility requirements. Producer organizations must be located in the global South, conceptualized in geopolitical terms. While some products have recently become available to consumers in the global South, the overwhelming majority of fair trade goods are exported to the global North (WFTO 2019).

I focus on WFTO members because of the consistency of those data over time. Data on fair trade sales are widely available beginning in the mid-1990s but not before. Analyses over such a time frame would preclude the opportunity to assess the relevance of the organizational structure of the market.

Table 1. Descriptive statistics of all variables (N = 3,444).

Variable measurement	Source	Mean	SD	Min.	Max.
Fair trade market					
Fair trade producer organizations	World Fair Trade Organization Membership Directories and Archives	.9430	3.293	0	44
Domestic context					
GDP per capita	World Bank World Development Indicators	3,140.45	4,726.04	34.741	28,704
Democracy scale	Polity IV Project Regime Authority Characteristics and Transitions	4.330	3.821	0	10
International economic relationships					
Total exports, billions of USD	World Bank World Development Indicators	11.765	34.756	.004	841.85
Exports to fair trade consumers, billions of USD	World Bank World Development Indicators and Fairtrade Labeling Organization Annual Reports	1.315	5.749	0	145.80
International political ties					
Colonized by Great Britain	Correlates of War Colonial/ Dependency Contiguity	.3416	.4743	0	1
Colonized by France or Portugal	Correlates of War Colonial/ Dependency Contiguity	.2490	.4325	0	1
Peace Corps volunteers, previous 5 years	Peace Corps Congressional Budget Justification	203.65	374.4	0	3,927
Global institutional embeddedness					
International nongovernmental organizations	Union of International Association Yearbook of International Organizations	412.22	462.03	0	3,162
Market formalization					
Years 1990–2017	World Fair Trade Organization and Fairtrade Labeling Organization	.5920	.4915	0	1
Controls					
Population size, millions	World Bank World Development Indicators	41.377	144.231	.0002	1310

GDP = gross domestic product.

Dependent variable

Fair trade market

This research focuses on one segment of the complex institutional field that is the fair trade market. I measure this portion of the fair trade market across the global South as the total number of fair trade producer organizations per country-year from 1966, when all covariates become available, to 2017. This measure includes current and former producer members of the WFTO, which is the only body screening for fair trade practices for producer organizations. I compiled the data from the WFTO's 2011 membership directory and historical archives and used the membership directories to update the database through 2017. The inclusion of organizations that disband prior to data collection mitigates the risk of survival bias.

The number of fair trade organizations located in each country is an imperfect measure of that country's fair trade market. Members of the WFTO vary in the number of employees and the amount of products exchanged, for example. However, in this case as in many others, the advantages of organizational count data outweigh their limitations. Organizational counts are commonly used to measure various components of societal infrastructure in the absence of more nuanced data availability (Schofer and Longhofer 2011). While these data fail to indicate the precise size of the market, they do well in capturing the very large differences in the size of the fair trade market cross-nationally and over time. Further, data in this study are not subject to survival bias as historical members that no longer exist or adhere to fair trade standards are included in the data set. Ultimately, while imperfect, organizational count data allow for the systematic analysis of the cross-national and longitudinal trends in the fair trade market which is otherwise impossible.

Independent variables

Domestic context

First, average income is measured as per capita GDP in constant 2000 US dollars. Data are from the World Bank's World Development Indicators. Next, level of democracy is measured on an 11-point scale where zero corresponds to complete lack of democracy. Data are from the Polity IV project Political Regime Characteristics and Transitions, 1800–2010 database.

International economic relationships

I test two measures of international economic relationships. First, total exports are measured as the sum of all exports of goods and services to all countries in constant 2000 US dollars. Next, exports to fair trade consumers include only those exports of goods and services to countries that consume the vast majority of fair trade products.[6] Data for both measures are from the World Bank's World Development Indicators.

International political ties

First, I measure British and French or Portuguese colonization as a time-invariant dummy variable for having been colonized by the British or French or Portuguese, respectively. All other countries are included in the reference category.[7] Data are from the Correlates of War Colonial/Dependency Contiguity database. Next, I consider the role of Peace Corps presence measured as the total number of volunteer-years per country-year in the previous five years. Peace Corps volunteers typically serve two years. Data are from the Peace Corps' Congressional Budget Justifications.

Global institutional embeddedness

Next, I consider the role of national ties to global institutions. Following the tradition of neoinstitutionalism in sociology, I measure national ties to global institutions as the total number of INGOs with citizen members per country-year. Data are from the Union of International Associations' *Yearbook of International Organizations.*

Market formalization

In order to test the relevance of the shift to a governance system based on formal certifications and labeling, I create a dummy variable for all years following the transition to fair trade labeling (1990–2017). This operationalization is consistent with longitudinal trends in market growth indicated by the rate of change in the number of fair trade producer organizations. Those data show that—following initial acceleration—the market growth slowed considerably between the mid-1970s and late 1980s. Growth then accelerates sharply through the 1990s and subsequently stabilizes.

Analytic strategy

In order to model cross-national, longitudinal count data in which most outcomes are zero, several factors must be taken into consideration. First, observations are clustered by case and also highly contingent on observations at previous points in time. In order to account for this clustering, I within transform all time-variant variables. That is, the mean value of each time-variant value within each country is subtracted from each yearly observation within that country. This procedure approximates a fixed-effect model and accounts for unmeasured heterogeneity between countries. Two theoretically key variables, former British and French or Portuguese colonization, are time-invariant and therefore not within transformed. In addition, controls for year in every model account for clustering over time.

Next, negative binomial models account for the unique distribution of count data, including non-symmetric distribution of errors, non-constant variance, and the impossibility of negative outcomes. The zero-inflated technique is used in the case of overdispersion, or the large number of zero outcomes in the data. Since approximately 75% of country-years have no fair trade market over this time period, the data are substantially overdispersed, making the zero-inflated negative binomial model most appropriate. Vuong tests of each model confirm the appropriateness of the zero-inflated over the regular negative binomial model. A series of robustness checks indicates model appropriateness and stability.[8]

The zero-inflated negative binomial model is represented by the following equation:

$$P(y|X) = \frac{\Gamma(y + \alpha^{-1})}{y!\Gamma(\alpha^{-1})} \left(\frac{\alpha^{-1}}{\alpha^{-1} + \mu}\right)^{\alpha^{-1}} \left(\frac{\mu}{\alpha^{-1} + \mu}\right)^{y}$$

With the overdispersion parameter, α, the model assumes that there are two qualitatively different types of cases: one that has a high probability of a zero value and one that has some probability of a non-zero value. A single zero-inflated negative binomial analysis essentially consists of two models. A logit model separates cases into two groups based on their probability of having a zero versus non-zero outcome. A count model then estimates the impact of each specified predictor variable on the size of the outcome *for the group with some probability of a non-zero outcome*. The result is two coefficients for each predictor in each model.

These unique characteristics of zero-inflated analyses can make interpreting the results somewhat difficult. To account for this, I proceed in two steps. First, I estimate the impact of each independent variable net of all other independent and control variables. This base model assesses hypotheses 1 through 5a without the complication of interaction terms. Second, I assess the mediating impact of the organizational structure of the market (hypothesis 5b) by adding the interaction terms between each independent variable and the market formalization dummy variable.

Findings

I present results of zero-inflated negative binomial regression analyses in Table 2. Each analysis yields two coefficients per predictor. A count model estimates each predictor's relationship to the *size* of the fair trade market. A logit model produces a coefficient for each predictor that indicates the likelihood of observing a *zero* outcome, or the formation of no fair trade market at all. To ease interpretation, both sets of coefficients can be exponentiated to yield a relative risk ratio. One subtracted from the relative risk ratio and multiplied by 100 yields the estimated percentage change in the dependent variable for every 1% change in the respective predictor.

First, largely consistent with hypothesis 1, I find that both indicators of domestic context—average income and democracy—significantly shape fair trade markets. However, the relationships are more complex than hypothesized. The first analysis indicates that a 1% increase in average income results in marginally reduced market size ($\beta = -.004$; $p < .05$). However, that same increase yields an 11% reduction in the probability of no market formation ($\beta = -.112$; $p < .001$). In other words, fair trade markets are less likely to emerge in low-income countries. But those that do emerge are larger than those in higher-income countries. In addition, the logit model estimates that the probability of a market forming in a country is unrelated to its level of democracy ($\beta = -.050$; $p > .05$). However, a 1% increase in democracy results in a 4% increase in market size ($\beta = .041$; $p < .05$). Only the effects on market size remain with the inclusion of the market formalization interaction terms.

I find weak support for hypothesis 2, that higher volumes of exports in general and especially exports to top fair trade–consuming countries in particular enable market formation and growth. Analysis 1 indicates a significantly decreased likelihood of no fair trade market forming in countries whose economies are more dependent on exports ($\beta = -.176$; $p < .05$). However, the size of the market is unaffected by exports in general or exports to top fair trade consumers ($\beta = .003$; $p > .05$ and $\beta = .026$; $p > .05$ respectively). Likewise, exports to fair trade consumers have no effect on market formation ($\beta = -.054$; $p > .05$). Analysis 2 shows that, once the market is formalized, there is no relationship between exports and either the formation or expansion of fair trade production markets.

Next, I find strong support for hypothesis 3, that international political connections will affect fair trade markets. Results indicate that historical colonial ties enable and constrain fair trade market development depending on a country's colonial history. Consistent with hypotheses 3a and 3b, respectively, I find that a history of British colonization facilitates fair trade market growth, whereas a history of French or Portuguese colonization constrains market emergence and expansion. In analysis 1, this is indicated by count model coefficients of .246 ($p < .001$) and $-.974$ ($p < .05$) for countries with British and French or Portuguese colonial ties, respectively. The same analysis estimates a substantial likelihood of no fair trade market forming in former French or Portuguese colonies ($\beta = 3.732$; $p < .001$). Further, consistent with hypothesis 3c, I find for the

Table 2. Results of zero-inflated negative binomial regression analyses of fair trade producer organizations, 1970–2017.

	Analysis 1		Analysis 2	
	Count Number of Orgs.	*Logit* Likelihood of 0 Orgs.	*Count* Number of Orgs.	*Logit* Likelihood of 0 Orgs.
Market formalization, 1990–2017	.277*	−1.532	.358*	−.780**
	(.137)	(6.654)	(.152)	(.279)
International nongovernmental	.147***	−.104***	.130***	−.103**
organizations (INGOs) (ln)	(.047)	(.021)	(.021)	(.042)
Colonized by Great Britain	.246***	−.236	.347*	−.358
	(.084)	(.299)	(.146)	(.216)
Colonized by France or Portugal	−.974***	3.732***	−.304***	2.120***
	(.121)	(.318)	(.084)	(.386)
Peace Corps volunteers (ln)	.111***	−.121***	.113**	−.118***
	(.001)	(.004)	(.001)	(.002)
Total exports (ln)	.003	−.176***	.003	−.078**
	(.003)	(.037)	(.011)	(.027)
Exports to fair trade	.026	−.054	.056	−.116
consumers (ln)	(.018)	(.071)	(.063)	(.183)
Gross domestic product (GDP),	−.004*	−.112***	−.016***	−.012
per capita (ln)	(.002)	(.031)	(.003)	(.039)
Democracy	.041*	−.050	.088**	−.006
	(.019)	(.045)	(.026)	(.045)
Population size (ln)	.005**	−.514***	.001	−.001
	(.002)	(.085)	(.002)	(.005)
Year	.097***	−.148***	.022	−.049**
	(.009)	(.026)	(.011)	(.017)
Interaction terms				
INGOs X market formalization			.213***	−.204***
			(.001)	(.001)
Colonized by Great Britain X			−.322	.402*
market formalization			(.179)	(.186)
Colonized by France or			.363	−2.033***
Portugal X market			(.405)	(.445)
formalization				
Peace Corps volunteers X			−.106***	.102***
market formalization			(.001)	(.013)
Total exports X market			.002	.075***
formalization			(.011)	(.011)
Exports to fair trade consumers			−.038	.283
X market formalization			(.062)	(.192)
GDP per capita X market			.014***	.111***
formalization			(.003)	(.018)
Democracy X market			−.103***	.092
formalization			(.033)	(.062)
Likelihood ratio χ^2	609.83***		725.13***	
Vuong Z test	10.70***		11.62***	
N_{total}	3,444		3,444	
$N_{non\text{-}zero}$	920		920	
$N_{countries}$	120		120	

Org. = organization.
Unstandardized coefficients are flagged for statistical significance. *** $p < .001$, ** $p < .01$, * $p < .05$. All time-variant predictors are within-transformed by country. Robust standard errors are shown in parentheses.

importance of Peace Corps presence in a country's recent history in enabling fair trade markets. Analysis 1 indicates that a 1% increase in volunteer presence corresponds with a 12% increase in market size ($\beta = .111$; $p < .001$) and a 112% reduction in the likelihood that no market forms ($\beta = -.121$; $p < .001$).

In addition, results indicate support for the relevance of global institutions in providing a framework for the foundation and expansion of fair trade markets. Consistent

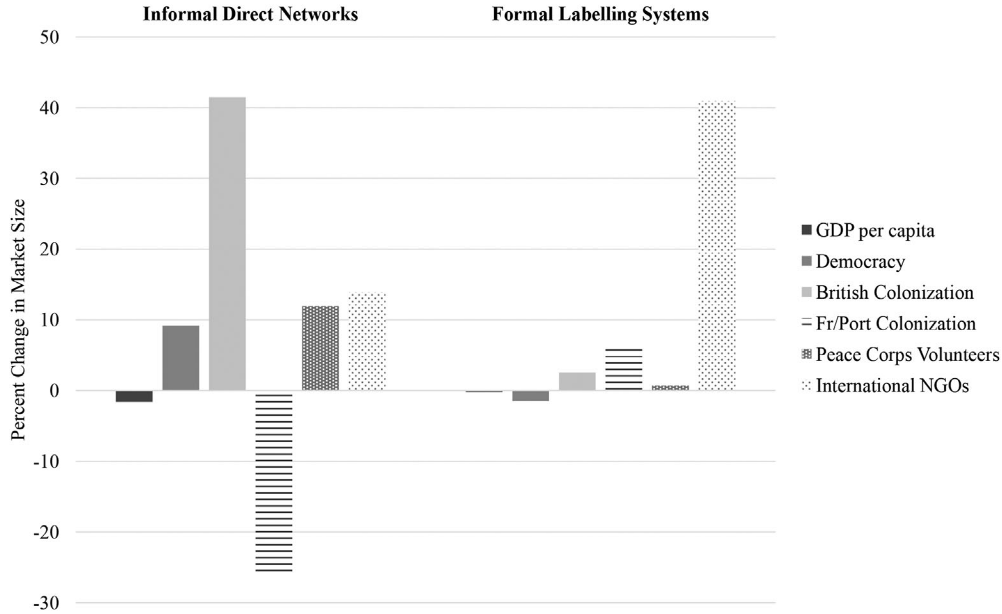

Figure 1. Estimated effects on fair trade market size before and after market formalization in 1989. Note: All values are calculated based on unstandardized coefficients presented in Table 2; the percentage change in market for a 1% change in select IV $= [(\beta_{IV} + \beta_{IV \times Formalization})^{e} - 1\,] \times 100$.

with hypothesis 4, greater embeddedness into global institutions, specifically citizen memberships in INGOs, is associated with larger fair trade markets. Analysis 1 indicates that a 1% increase in citizen INGO memberships results in a 16% increase in the fair trade market size ($\beta = .147$; $p < .001$) and a 110% reduction in the odds of having no market at all ($\beta = -.104$; $p < .001$).

The remaining results evaluate the importance of the organizational structure of the market on its formation and expansion both directly and indirectly. First, results are largely supportive of hypothesis 5a. Analysis 1 estimates that the market is significantly larger following its formalization ($\beta = .277$; $p < .05$). Reorganization of market relations from direct interpersonal ties to a rationalized certification system significantly enables expansion of the fair trade market net of domestic context, international economic and political ties, and embeddedness in global institutions. That interpretation is supported by descriptive trends which show decelerating growth prior to 1990 and accelerating growth afterward. However, it is notable that the logit model estimates that the likelihood of market formation in a given country is not significantly related to the market's formalization ($\beta = -1.532$; $p > .05$).

Moving to analysis 2, interactions between each of these indicators and the certification era reveal how the reorganization of the fair trade market shapes its social underpinnings. In order to determine the effect of the formalization of economic governance, or the transition to certification, on each indicator I sum the main and interaction effects. A post-estimation Chi-square test then determines the significance of the summed coefficients. Figure 1 illustrates these values for the count model estimates of the size of the fair trade market.

I find strong support for hypothesis 5b, that the formalization of market governance mitigates the effects of international political ties while enhancing the effects of global institutions. The main effects of colonial ties on the size of the market have are significant in their expected directions: 0.347 for British colonial ties and −0.304 for French and Portuguese colonial ties, which corresponds to a 41% increase and 26% decrease, respectively. However, the formalization of the fair trade market diminishes the effect size of both types of colonial ties to the point of statistical insignificance. Former British colonization is not predictive of an absence of a fair trade market. However, previous colonization by the French or Portuguese increases the odds of finding no fair trade market by over 700%.

Likewise, I find that the effects of recent Peace Corps presence are negated with the introduction of certification. In contrast, market formalization amplifies the effect of national embeddedness in global institutions from a 14% increase to a 41% increase in fair trade market size for each 1% increase in the number of INGO ties. Finally, a 1% increase in INGO ties yields a 10% reduction in the odds of having no fair trade market in general and a 26% reduction following market formalization. Consistent with hypothesis 5b, all international political effects are negated with the formalization of the market while the effect of global institutional ties is substantially amplified.

Discussion

Results of this research point to the enabling effect of the formalization of market structure via the implementation of labeling on fair trade market expansion. This can be understood as a reciprocal process where the growth of the fair trade market in its earliest years catalyzes its formalization that in turn facilitates massive growth. The significance of market formalization is particularly remarkable given that the portion of the fair trade market analyzed in this study was not a part of fair trade labeling at its onset in 1990. Rather, the WFTO label was launched in 2004, 15 years following the first introduction of labeling in the fair trade market generally. The growth of fair trade goods labeled at the product level has outpaced that of the WFTO's members. Notably, the underrepresentation of agricultural products among WFTO producer organizations does not undermine the main findings. Thus, the results of this study suggest that changes in the organizational structure of the fair trade market are centrally influential beyond the particular segment in which the change occurs.

The expansion of the fair trade market and the benefits it affords participating producers is the goal of its participants. However, it should be noted that market growth is not necessarily an entirely positive outcome for fair trade practitioners. On the contrary, the goals of the fair trade system itself may be undermined by its expansion via certification and labeling. While certification enables market expansion, it also enables greater risk of cooptation of the fair trade market by large corporate interests (Jaffee 2012). In the case of fair trade, market growth potentially undermines its objectives. The ability of the certification system to regulate the fair trade market to the same standards as the direct sales network model is a primary concern of fair trade practitioners (Shorette 2011).

Once the original fair trade system adopts a labeling system for identifying goods produced in accordance with its strict principles, other groups can easily create their own labels and present their products as fairly traded to customers who many not recognize differences in standards between the original and co-opted labels. Further, labeling allows for the incorporation of fair trade products into traditional retail outlets not completely committed to fair trade practices including large corporations such as Wal-Mart and Starbucks. This may bring fair trade goods to a broader consumer base. However, it also undermines the core principles of fair trade as the vast majority of their traditionally regulated products subsidize the incorporation of a comparatively small collection of fair trade goods.

In addition, the same period of time that the fair trade market undergoes formalization marks a key turning point toward greater liberalization of the global economy in general. The collapse of the Soviet Union spurred a host of newly independent countries that eagerly demonstrated their acceptance of capitalism through agreements to engage in foreign investment relationships (Bandelj, Mahutga, and Shorette 2015). The reduction of trade barriers and growth of World Trade Organization/General Agreement on Tariffs and Trade, which expressly aims to liberalize economies, led to increased international exchange overall. With the newly adopted certification system, fair trade goods grew more plentiful and easily exchanged in this context. The significance of institutional over economic forces in enabling the expansion of fair trade markets in this time period is, therefore, particularly remarkable.

Conclusions

This study highlights the importance of sociopolitical and institutional forces in enabling and constraining international market formation and expansion. The organizational structure of economic governance is of particular note for its large enabling effect on the fair trade market and its mitigation of other social forces. The fair trade market reorganized in a meaningful way during the period of this study. The transition from idiosyncratic, interpersonal networks of producers in the global South with consumers in the global North to a formal set of criteria for inclusion indicated by a fair trade label turns out to be highly consequential for the market. This reorganization of market relationships, specifically, to a formal, rationalized system of economic governance facilitates market growth, mitigates the effects of political domination, and amplifies the effects of embeddedness into global institutions.

Rather than fair trade being simply a niche market following patterns of long-standing traditional economic relationships, we can better understand it as deeply embedded in and shaped by international political and institutional ties. The transition from regulation via direct sales networks to labeling facilitates market growth *and* negates the effect of political ties while enhancing the effect of global institutions. Results from this research indicate that changes in cultural understandings of societal goals and legitimate means by which to achieve them shape the character of international economic exchange. The expansion of global environmental and human rights institutions problematizes long-standing inequalities which in turn facilitates fair trade market formation and expansion.

The institutionalization of the market—where labeling displaces international and interpersonal ties—not only has a tremendously enabling effect on the fair trade market but also changes what matters going forward. Transnational interpersonal networks can lay the foundation for a new market, but only after the implementation of a formal institutional process can the market really expand. The rationalized system of labeling is highly consequential for subsequent market growth. This research demonstrates not only that macroeconomic processes are shaped by social structure generally but that institutional arrangements, or the organizational forms of economic governance, enable and constrain international markets.

Notes

1. For the sake of clarity, I use the term "fair trade" to refer to the market throughout its history. Others have used the term "alternative trade" to describe this market, especially prior to the 1990s.
2. Prior studies of fair trade outcomes find positive, though limited, benefits to producers in the global South (Bacon 2005; Bacon et al. 2008; Fridell 2007; Guthman 2009; Jaffee 2008; Levi and Linton 2003; Ruben 2009; Valkila and Nygren 2010; Duchelle et al. 2014; Bartley 2010).
3. When compliance with fair trade standards is evaluated at the product level, the producer can sell other goods that do not meet fair trade standards. Organization-level screening requires that all goods a fair trade organization produces or sells meets the official requirements. However, labels may appear on the individual goods.
4. There are several obstacles to estimating the size of the fair trade market. There is no centralized repository of fair trade sales and related data. When reported, sales data are typically published by individual certifying bodies. Multiple certifications and overlapping organizational networks are common.
5. Language may also play a role in the spread of fair trade markets across former British colonies. However, it is important to note that a great deal of fair trade takes place outside of the Anglosphere and many organizations operate in languages other than English.
6. Top fair trade consumer countries, based on various WFTO and Fairtrade Labeling Organization reports, are Australia, Austria, Belgium, Bulgaria, Canada, Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Japan, Latvia, Lithuania, Malta, Netherlands, New Zealand, Poland, Portugal, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom, and the United States.
7. Following best practices, these categories reflect substantive distinctions between former colonizers as they relate to market formation and expansion (Johfre and Freese 2021). Because there is no expectation that colonial ties with powers other than Great Britain, France, or Portugal will impact the market, all other cases are included in the reference category. Corollary analyses support this categorization.
8. I perform a series of robustness checks in order to test for the appropriateness of the model and consistency in the findings. I use post-estimation added variable plots to identify any potential outliers; there were none. In order to test for multicollinearity, I run the zero-inflated negative binomial analyses with different combinations of independent variables included. Tests for multicollinearity reveal stable coefficients and standard errors.

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Appendix A. Bivariate correlation coefficients

	FTPOs	INGOs	British colony	Peace Corps	French /Portuguese colony	Total exports	Exports to FT	Market formal	GDP
Fair trade producer organizations	1.000								
International nongovernmental organizations	.2013	1.000							
British colonial history	.2847	−.1104	1.000						
Peace Corps volunteer presence	.0289	−.2045	.0150	1.000					
French/Portuguese colonial history	−.1605	−.1464	−.2014	.0373	1.000				
Total exports	−.1816	−.0687	.0379	−.0044	.0536	1.000			
Exports to fair trade consumers	.0784	.4355	−.1680	−.2156	−.3488	.0179	1.000		
Market formalization	.0816	.2594	.0157	−.0258	.0640	.3990	.0587	1.000	
GDP, per capita	−.1634	.3706	−.1727	−.3245	−.1583	.4197	.5968	.2849	1.000
Democracy	.1506	.2212	.0271	.0628	.1663	.1439	.2923	.2063	.3817

FTPO = fair trade producer organizations; INGO = international nongovernmental organizations; FT = fair trade; GDP = gross domestic product.<AQ: Please confirm expansions in Appendix footnote>