Critical Thinking about Fair Trade Nations:
Evaluating Fair Trade’s contribution to economic development

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Introduction: Fair Trade in Wales and in Scotland

Around ten years ago, a small group of grass roots Fair Trade activists sought to capitalise on the achievement of Cardiff in obtaining recognition as the world’s first Fairtrade accredited Capital City – under the Fairtrade Towns accreditation scheme offered by the Fairtrade Foundation, the UK’s national representative of the Fairtrade International certification system.

As a logical extension, the group – made up of representatives from Fair Do’s, a local dedicated Fair Trade shop, Tearfund, Oxfam Cymru, CAFOD, Christian Aid and the Co-op Group – developed the idea of pushing Fair Trade networks across Wales to undertaken practices that would allow for the country as a whole to claim the status of the world’s first Fair Trade Nation. Wales was soon joined by communities in Scotland who set the same objective even as part of their International Development Policy. As a result of much hard work, Wales was declared as having been achieved on the 6th June 2008 – and Scotland followed suit in March 2013.

In follow up, a set of second stage requirements have been developed in Wales – and likewise Scotland is currently in the process of deciding how the campaign will be developed – and headed by Fair Trade Wales, supporters of Fair Trade in both the private and public sectors continue to work towards improving the contribution of the Welsh economy to fairer outcomes from the international trade system.

Despite this great commitment in Wales, Scotland and across Europe and North America however, Fair Trade activities are not above criticism: either for specific failings or more universally as a well intended yet entirely inappropriate response to the problems of global economic inequalities.

In critique of fair trade: argument that it accentuates long term decline for developing countries

One of the most persistent critiques of Fair Trade is that by artificially pushing prices upwards, the movement incentivises producer activities which are not beneficial to long-term economic development. Prices are manipulated through either the agreement of
above market minimums as required by Fairtrade International certification or efforts to pay more by dedicated Fair Trade intermediaries who are often members of the World Fair Trade Organisation. This is a significant criticism because Fair Trade products (and particularly those promoted through the Fair Trade Nation programme and the Fairtrade Town’s scheme) are mostly agricultural commodities. Due to the economic characteristics of these goods and the system in which they are traded, it has been understood that the 'real' price (adjusted for universal inflation) of these goods has been declining vis-à-vis more highly processed or service based exports usually purchased by developing countries from wealthier more developed economies in Europe and north America (See Graphs 1 and 2). Therefore, it is argued that extending agricultural production will only accentuate the problems of long-term decline in the 'terms of trade' between wealthy and less economically developed countries. Instead, it is argued that southern economies must diversify out of lower and into higher value economic exports; and therefore, in place of bothering with Fair Trade activities, those in the north should preoccupy themselves with facilitating this change. According to some the message is clear: we should stop buying Fair Trade goods because retracting the medicine now is what the patient needs to motivate them to get better in the long term.

On this basis the people of Wales and Scotland might be concerned that their efforts have been misplaced. Should in fact these communities and activities retract from their support of the Fair Trade movement? Ultimately, the issues raised by critiques of Fair Trade are
complex and only further research and understanding is likely to yield appropriate answers. However, in the meantime, there is good reason to defend Fair Trade activates, and research and analysis undertaken at Cardiff University’s School of Planning and Geography has uncovered both theoretical and empirically derived evidence to make such a case.

**In defence of Fair Trade: incremental improvements in resource poor contexts supports risk taking and diversification into more profitable crops**

To begin with it is suggested that ‘The Economist’s Critique’ of Fair Trade, presents a false choice: producers cannot realistically switch overnight from growing coffee to producing cars or providing international accounting services, and the same goes for the wider national economies as well. Instead, transition has to be incremental at all levels. Before long-term strategic investments can be made it is necessary to accumulate sufficient resources to execute them. This means that where current productive activities have been strongly conditioned by historical precedent to focus agriculture, it becomes necessary in the short term to increase returns from these agricultural crops in order to generate the additional resources needed for more fundamental economic changes.

Fortunately, current knowledge identifies that irrespective of the scale of analysis, three broad options are available:

1) **improving quality and efficiency** (e.g. producing better quality oranges for less),

2) **processing raw goods** at source (e.g. making apples into juice), and,

3) **shifting to higher-value agriculture** goods (e.g. shifting from growing bananas to avocados).

Having said this, it is still necessary to stimulate such diversification into higher income sectors within agriculture and it is primarily on this question that pro- and anti-Fair Traders fundamentally disagree. Critics argue that upward price manipulation will incentivise producers to remain in low-value sectors. However, Fair Trade organisations recognise that prices are not set simply by the ratio of producers to end consumers – and therefore, recognise that prices are not an irrefutable naturally occurring fact. Instead, international and local buyers use ‘oligopolistic’ markets (where there are many sellers and few buyers) to drive down prices for their own advantage (and for the members of northern consumer societies in general). In addition to this, price ‘incentives’ are clearly not the only factor considered by developing world producers when making decisions about the diversification of production: and there are three well established microeconomic realities, widely supported in empirical research across the developing world, that explain this.

Firstly, while low earnings and poverty are clearly what economists refer to as ‘push’ incentives to leave low-value sectors, it cannot be assumed that there are ‘pull’ factors attracting producers towards other livelihoods. While we might know prices for avocados in European supermarkets are higher than coffee for example, this will not be known by
producers. Even if it was, there is no guarantee that they have an opening to export avocados as commercial channels tend to be strongly historically conditioned, and the same can be said for downstream inputs such as seeds and appropriate tools.

Secondly, even if the international pricing system was transparent and could be interpreted by producers, farmers require resources and assets to respond to incentives – just as we would recognise is the case in our own lives. In the example of moving from the production of raw coffee beans to roasting the final product, farmers will need both financial capital and knowledge. Unfortunately however, the very definition of poor producers means that they are unlikely to have such resources to hand – and it is unlikely that they can get a bank loan and the necessary training at the local agricultural college, as these services are part of the condition of working within an area of low economic capability.

Thirdly, even where farmers can access the resources necessary to respond to price incentives, they will factor in the ‘risks’ associated with the investment. The price for any product is only realised when it can be sold. The developing world is prone to a myriad of natural (landslides and droughts) and human (political and economic volatility) disasters which bring great probability of failure. Also, producers will rightly not assume that they will necessarily be effective in new livelihoods, and there will always be a time lag between diversification into a new product and economic remuneration for its sale. For these reasons, plus the fact that the cost of failure is so high for those in poverty (as captured by the theory of declining marginal utility), developing world producers are renowned for being conservative in their investment decisions as they accept lower remuneration for greater stability. Indeed, much of the diversification that takes places everyday by highly entrepreneurial actors in developing countries is primarily concerned with risk reduction and not capital accumulation.

If you have trouble seeing how other factors inhibit diversification, why not think about the principles in terms of your own life and experience. Ask yourself:

Do you earn the most money out of anyone that you know directly or have reliably heard about?

- If the answer is no, and yet you did not instantly switch your career when you find out about the possibility to earn more, you are living proof that motivating profitable diversification is more complex than price structure. So now think about why this is the case?
  - The chances are that part of the reason is that you done not consider yourself to have the necessary capacity to do other higher paid work.
  - Another part of the reason is likely to be that even if you know how to build your capacity – through training and experience – the process is risky as you will have to give up security of your current position to invest time and energy in personal development.

- If the answer is yes, then the chances are you were fortunate to have significant initial endowments of capability and (therefore) a relaxed attitude to risk. This
makes you an unfair comparison to poor southern producers and you might have to work harder to understand their situation.

However, as you reflect on the factors contributing to successful diversification in your own life, it should be clear that to promote these important development processes will require more than forcing people into poverty in order to motivate them to make a change – and instead, it is essential that support mechanisms are developed to facilitate the process of value adding diversification at all levels.

Although it would be wrong to claim Fair Trade is the best solution to these issues everywhere and in every case, it can be considered that where such practices work well, they can have good potential. Indeed, the very reason that Fair Trade, which was established to help producers deal with the real life limitations on livelihood development by manipulating prices upwards as well as offering long-term trading relations to provide the necessary stability for long-term planning and eventual diversification into higher-value products and processes. This stable income can also act as collateral for raising loans to carry out business development that would otherwise not be possible for marginalised producers.

Furthermore, the payment of a social premium under some Fair Trade approaches allows for the development of wider human capital in the areas of health and education. While this could theoretically be achieved through simple aid transfer, such an arrangement would not allow economic actors to ‘learn by doing’ in terms of what it takes to be self-sufficient in an internationalised economy.

Beyond this theoretical discussion, not only does empirical evidence demonstrate that some Fair Trade certified producers have increased the quality and hence the price of their products, but also that in some cases they have diversified away from growing basic ingredients into producing more highly processed exports. In the Windward Islands, producers have diversified into other crops and are now developing a high value tourism sector; in Africa producers of cocoa have moved into artisan soap production; and in Mexico, Fair Trade cooperatives have diversified from coffee into marketing of cocoa, honey and organic preserves, and even set up a clothes factory. While these changes might look small they are staggering concrete steps for building local economies and helping the transition towards the export of more highly processed and manufactured goods.

Indeed, many of these successful examples are testimony to ‘gold standard’ Fair Trade organisations (such as Divine Chocolate, Café Direct and Just Trading Scotland), often members of the World Fair Trade Organisation, that go above and beyond requirements of Fairtrade certification, proactively tutoring producers in improving business practices and leveraging support for investment in production capacity. In some cases, they also work hard to build wider development capacity. The work of Twin Trading and Imani Development to invest in the Ari-nut food processing facilities in Malawi, and work by Just Trading Scotland to invest in ice processing facilities are outstanding example of what can be achieved.
Conclusion: Fair Trade alone cannot catalyse universal change in the global economy but it does help poor families plan for the future

In conclusion, Fair Trade will not necessarily have the reach to catalyse universal transitions to the benefits of an increasingly integrated global economy. But what is possible is that where best practices are followed, such governance can help poor producers overcome the obstacles to investments in value-adding diversification and provide the stability needed for long-term planning. However, for this potential to be maximised, organisations involved in the Fair Trade movement must resist using the concept and its discourse as a marketing tool for commercial gain. Weaker interpretations of Fair Trade must work harder to prioritise the needs of producer development and those responsible for setting the standards that embody the values of the movement must remain strong in the face of pressures for commercial co-option.

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About the Author

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About the Article

This article has been adapted for the Wales International Development Hub from a piece written for Open Economy entitled “Fair Trade and ‘The Economist’s Critique’”. A full audio/visual presentation dealing with the issues of diversification and structural change under fair trade governance can be viewed on-line. All these materials are based on on-going research in the School of Planning and Geography, Cardiff University UK, also published through peer review journal articles, including:


Smith, Alastair M. (2009), “Evaluating the Criticisms of Fair Trade: How strong is the argument that consumers and businesses should abandon Fair Trade as a means to socialise their economic decisions?”, Economic Affairs, 19, 62-64.