Fair Trade and Development

A Historical Analysis of Alternative Trade

by

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ABSTRACT

Despite a wealth of academic literature critiquing current tensions within the Fair Trade (FT) movement, very little work has focused on examining the birth and evolution of the FT movement within the broader context of the international political economy (IPE), specifically in reference to the ideological and policy changes that ushered in an era of free trade and deregulated markets for both trade and finance. From such an optic, it is no longer enough to merely question the extent to which the market should be engaged. Rather, one must question whether the engagement of the market strips the movement of its power to affect long term development in local economies. Drawing upon the historical record, this thesis focuses attention on the complexity of the linkages that exist between political ideology, trade policy, and development. While Fair Trade is commonly understood to be a responsive effort to create more equitable trade relations with producers in the least developed countries, less emphasis is placed on understanding the state-centered political structures that contributed to a capitalist pushback and the implementation of today’s liberalized trade policy, and yet to do so is absolutely critical if we are to gain a deeper understanding of the limits and constraints of Fair Trade. Full engagement with mainstream markets has led to robust growth in the FT market per annum, yet countries that are heavily engaged with the FT market show little evidence of development or poverty reduction at a macro-level. Thus, Fair Trade must define itself as more than principled opposition to labor exploitation if it is to present itself as a credible instrument of economic development.
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Chapter 1

INTRODUCTION

1933...United States passes the Agricultural Adjustment Act

1945...Creation of International Monetary Fund and Bank of Reconstruction and Development

1968...UNCTAD launches “Trade not Aid” campaign

1988...Max Havelaar Foundation launches the first Fairtrade labeling initiative

1989...Collapse of the International Coffee Agreement (ICA)

1995...World Trade Organization (WTO) is established

1999...Vietnam surpasses Colombia as the world’s second largest producer of coffee

2001...International coffee crisis

2003...World Bank begins selling Fair Trade coffee in its headquarters in Washington D.C.

2010...Revenue from Global Fair Trade commodities exceed 3.5 billion US dollars

The above chronology would seem to require explanation. The listed events would not appear to be linked in any direct causal relationship and yet I will argue that these events provide the outline of a story, a story that is most frequently told as two distinct stories rather than an interconnected historical narrative of free trade and Fair Trade (FT). There is a clear consensus among scholars that the origins of Fair Trade as we understand it today can be traced back to grassroot responses to the perceived inequities that were inherent to the system of capital exchanges in commodity markets. Indeed, the principled differences between free trade and Fair Trade practices have been well documented from multiple vantage points,¹ yet historical accounts of Fair Trade

¹ A good overview of these multiple perspectives is provided by Gavin Fridell, 2006. He groups the varying perspectives into three broad categories: the shaped advantage perspective, the alternative perspective, the decommodification perspective.
rarely examine the profound influence that free trade policy has played in dictating FT initiatives. Within any critical analysis of Fair Trade, it is widely accepted that the launching of the first certified Fair Trade Label by the Max Havelaar Foundation in 1988 marked a clear transition in the FT movement to a more ‘market oriented approach’ (Fridell 2004; Murray, Raynolds, and Taylor 2006; Reed 2009). This transition is premised to have been a response to the ‘neoliberal policies’ that were implemented in the 1980’s and accelerated through the 1990’s (Fridell 2006). Yet such critical analyses rarely delve into the specifics of such claims. Despite the wealth of academic literature critiquing the current tensions within the Fair Trade movement, very little work has focused on examining the birth and evolution of the FT movement within the broader context of international political economy (IPE), specifically in reference to the ideological and policy changes that ushered in an era of free trade and deregulated markets for both trade and finance. Political Scientist, Gavin Fridell, who has written extensively about the emerging perspectives of Fair trade, points out that “little has been done to situate the fair trade network within a broader historical context” (2004, p. 412). He notes that one exception to this is the work of Michael Barratt Brown (1993), which will be examined in greater detail in a later chapter; however, Brown’s work does not include an analysis of the reorientation of Fair Trade that began in the late 1980’s, nor does it account for more recent developments in international trade. Nonetheless, the true importance of Brown’s work is that it serves as a foundational platform for examining the interplay between trade policy and development theory, as well as the social and political responses to hegemonic narratives.

Brown’s historical account draws our eye back to the ideological rifts from which the free trade and Fair Trade initiatives were spawned. While Fair Trade is commonly understood to be a responsive effort to create more equitable trade relations with
producers in the least developed countries (LDC’s), less emphasis is placed on understanding the state-centered political structures that contributed to a capitalist pushback and the implementation of the current trade policy, and yet to do so is absolutely critical if we are to gain a deeper understanding of the limits and constraints of Fair Trade. Any analysis of Fair Trade which confines itself only to the ideological tensions within the interior of the movement and ignores the exterior parameters of ‘free trade policy’ in which Fair Trade is located, fails to recognize the intrusive power of hegemony which once institutionalized through the market, essentially redefines itself as the ‘invisible hand’ of the market. Thus, the first half of this paper sets out to retell the story of Fair Trade but within the broader spectra of an international political economy that was still reeling from the effects of two world wars and a global economic recession. In such an arena, Fair Trade becomes less of a defined movement and more representative of the conceptual differences concerning the development of Southern states. Equal space will be given to the story of free trade, for I do not believe one can be told without the other. The intention of this paper is not to provide an exhaustive historical timeline of either trade system but rather to highlight how both free trade and Fair Trade evolved according to a broader set of circumstances within the IPE and draw attention to the interplay that has existed between the driving ideologies that shape both narratives. By telling the two stories in tandem, I hope to shed some light on the political processes that have shaped the global market with which Fair Trade is engaging to better determine the structural constraints which may impede more equitable distribution of resources and consequently the development of economies in LDC’s.

The Question of Development

Ironically enough, it is the issue of ‘development’ which has been largely ignored within academic writings on Fair Trade since the turn of the century. As Fair
Trade sales have ballooned through greater market penetration and corporate partnerships, the majority of the critical writing has focused on the issue of the corporatization and possible cooptation of the movement; the issue of development has been pushed to the periphery as Fair Trade has become engaged in an ethical struggle for its soul. Mukherjee and Reed note that, “One surprising feature of the discussions surrounding the increasing role of corporations in FT is that for the most part they have not drawn upon development theory to frame the debates and analyze the consequences” (2009, p. 1).

A critical aspect of this paper which must be addressed at the outset is the intended usage of the word ‘development’. Open to broad interpretation within IPE, ‘development’ is commonly associated with multiple facets of the social, political, and economic spheres. As a historical analysis of alternative trade, this paper focuses only on economic development as it pertains to business activity, poverty reduction/employment, income distribution patterns, and the overall fiscal solvency of the state. An important distinction to be made is that economic development and the policies that it entails, varies in meaning from community development, which tends to be the focus of much FT literature and of current Fair Trade Organizations (FTO’s). Community development focuses on those things which make local communities healthier and better places to live, which includes business opportunities, but can also include factors such as infrastructure, education, sanitation, and health services. While in no way dismissing the dire importance of such things, the position of this paper is that economic development is more foundational and must structurally precede community development in any state that seeks to provide a sufficient standard of living for its citizens in an autonomous manner.

It is through the pursuit of development that Fair Trade must re-articulate itself if it hopes to be an agent of structural change rather than a poverty relief mechanism. Hence, the latter chapters of this paper will examine the logic of current trade policies as they relate to the development of LDC’s within a historical context of development theory. Drawing upon the historical record of post-World War II development, I present the case that current global trade policies as promoted under the auspices of the International Monetary Fund (IMF) and the World Bank, and implemented through the World Trade Organization (WTO) are fundamentally designed to benefit the wealthy countries in the North\(^3\) and require the Southern states to adhere to policies that run contradictory to historical lessons of development. This adds a layer of complexity to the questions that proponents of Fair Trade must address. From such an optic, it is no longer enough to merely question the extent to which the market should be engaged. Rather, one must question whether the engagement of the market strips the movement of its power to affect long term development in local economies.

Rather than providing a micro-analysis of how Fair Trade is benefiting particular communities around the globe, this paper provides a macro-analysis of the structural confines of Fair Trade as it has come to rely on mainstream markets to provide the engine for economic development. The body of this paper draws attention to the complexity of the linkages that exist between political ideology, trade policy, and development. Within such a context, Fair Trade must define itself as more than principled opposition to labor exploitation if it is to present itself as a credible instrument of economic development. The final chapter highlights how successful development has never occurred through a one size fits all system. Likewise, the level to which Fair Trade can affect certain

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\(^3\) It is common throughout Development literature to use the term North to refer to wealthier, industrialized, manufacturing-based countries, which tend to be located in the northern hemisphere. The South refers to less wealthy, raw material producing countries whose economies are not yet fully industrialized and tend to be located in the southern hemisphere.
economies will vary from one country to the next depending on wide range of input variables and structural policy constraints. Hence, I would be remiss in following the lessons of history if I were to propose any general solutions to such a complex problem. However, I do hope that this paper will allow me to reframe the discussion of Fair Trade and development in a way that will redirect future conversations to consider the deeper complexities of the constraints facing alternative trade narratives.
Chapter 2

THE BEGINNINGS

Many historical accounts of Free Trade trace its origins back to the 1940’s and 50’s when several religious organizations initiated programs to sell locally made handicrafts from developing countries in an effort to provide income streams for impoverished villagers (Reed 2007). Indeed, these faith-based initiatives were crucial drivers of the first organized efforts to penetrate first world markets with third world commodities strictly for the benefit of the producers. Many of these early organizations evolved into some of the largest contributors of the Fair Trade network of today such as Ten Thousand Villages, SERRV (Sales Exchange for Refugee Rehabilitation and Vocation) International, and Traidcraft (Decarlo 2007). However, if the lens is widened to consider market practices designed to regulate ‘fair’ prices for raw materials in relation to the price of manufactured goods then it is necessary to move the analysis back to the 1920’s when the first commodity control schemes were introduced in an effort to stabilize commodity markets, which were suffering from an inter-war economic recession marked by a sharp decline in demand in the developed countries.

Commodity Control Schemes

From 1921-29 control schemes were established for copper, tin, rubber, coffee, wheat, sugar and cotton, all commodities for which the demand elasticity is low, meaning that even as prices declined overall demand did not change. This increased the vulnerability of Southern producers who found themselves inadvertently outcompeting themselves into poverty through over production. By 1924, most commodity prices had peaked and began to steadily fall in the following years. Moreover, the global recession dramatically affected overall consumption in the North, thus, producers soon found themselves with massive surpluses of commodities that could not be absorbed through
the market (Brown 1993). Control schemes were therefore introduced in an effort to restrict output and keep the prices of these base commodities at a level high enough to discourage the production of alternatives. Governments implored many of the same tactics that they had used during the war time period when they regularly stabilized prices by stockpiling reserves and slowly filtering them into the market when the demand allowed (Brown 1993).

While these regulatory measures did yield some initial success it was relatively short lived as the artificial price floors served to encourage more producers to move into the market, thereby further exacerbating the problem of surplus reserves. This cyclical pressure eventually led to the demise of such control schemes; however, it was by no means the end of government intervention. In fact, the 1930’s was a decade of experimental protectionism, as governments across the globe sought to establish trade policies that would provide stability for its core production base. Price control schemes continued to be introduced in various forms; the Agricultural Adjustment Act of 1933 established the principle of subsidizing farmers which persists even today, and quota systems were introduced into formal trade agreements (Brown 1993, p. 84-87). While the majority of countries displayed a clear commitment to participate in trade at an international level, the overriding sentiment of the political economy was one of nationalism, where domestic politics clearly trumped international commitments. During the reconstruction period of 1945-51, it was these nationalistic sentiments which would be blamed for the larger market instabilities and the rise of fascism which the Allied Powers (dominantely led by the United States) would use to craft a new international economic order designed around the ideal of global participation in unregulated markets.
Towards a New World Order

The post-World War II years were a dynamic time period within the political economy. The task at hand, to rebuild much of the industrialized world, coupled with the political fallout from the fall of fascism and the continuing tensions between capitalist-based economies and the socialist state of the Soviet Union, left the international arena in a state of unprecedented uncertainty and potentiality. Due to its geographical protections from the ravages of war that had left Europe in near ruins, the United States found itself in a position of particular power. As the world’s largest surplus nation it was left in a unique position with the capacity to leverage its economic power to greatly influence the terms of global trade and finance. This is not to say that the United States alone constructed the post-war institutions that would dominate the IPE into the next millennium. In fact, in hindsight it is remarkable to note the level of compromise that was achieved during this era. With the wounds of two great wars fresh in the memories of the older generations, no state, regardless of its economic power, was seeking unilateral solutions. Business interests in the United States were eager to use the reconstruction period as an opportunity to expand their reach into foreign markets; hence, regulatory protective measures within trade markets were frowned upon within US policy circles, as liberalized trade was believed to be the surest and quickest end to economic development. However, such faith in unregulated markets to yield optimal social outcomes was stringently opposed by other states, most notably Great Britain where *laissez faire* free trade policies were viewed as having contributed to mass unemployment, and threatened to lead to both economic and political instability (Tabb 2004, p. 107). At this time, the dominant figure of British economic thought was John Maynard Keynes who as a student of history, recognized how market inefficiencies tended to separate resources to one end of the social spectrum creating vast inequalities...
amongst the working classes which would be detrimental to long term development and social order. Keynes was by no means a socialist, although he believed in a strong role of the state at both a national and international level. He was a strong supporter of international trade but believed that it required architecture in order to yield optimal and equitable results. William Tabb (2003) notes:

Fostering international trade, Keynes thought, required financial order, stable currency relations, and institutional support from an international bank to provide loans to countries suffering balance of payments problems. He saw a fixed exchange rate system as imparting security to the global financial order and suggested provisions penalizing surplus countries (and not simply deficit ones) in order to keep capital flows balanced, a proposal the United States, the world’s dominant surplus nation, rejected out of hand. (p. 108-109)

The Keynesian Counter Balance

From a Keynesian perspective, international order was something in which all states shared equal responsibility, creditor and debtor nations alike. Keynes possessed a historical distrust of markets to alleviate suffering across populations and maintained that international regulation was needed to ensure a cooperative environment in which countries could jointly pursue order and independently pursue development. While most of Keynes’ policy proposals were distilled down to less restrictive institutional structures than he originally proposed, he largely succeeded in establishing a consensus school of thought (outside of the US) opposed to unimpeded multilateralism. The international compromise that was reached is what political theorist John Ruggie (1982) has referred to as ‘embedded liberalism.’

Unlike the economic nationalism of the thirties, it would be multilateral in character; unlike the liberalism of the gold standard and free trade, its multilateralism would be predicated upon domestic intervention. (p. 393)

Hence, the architecture of the international arena would be designed to facilitate liberalized trade between countries, but a strong state presence was to remain central to development policies and issues of national sovereignty were to retain great importance
in determining the degree of market liberalization. Thus, multiple mechanisms were put in place to act as a ‘buffer’ for LDC’s who did not yet possess the capacity to compete against fully industrialized countries (Ruggie 1983). The operative terms of this new international environment were largely dictated by three newly created institutions: the International Bank for Reconstruction and Development which (would later to become the World Bank), the International Monetary Fund (IMF) and the United Nations (UN). While the World Bank and the IMF, often referred to as the Washington Consensus, were both technically specialized branches of the UN they operated autonomously and were often at ideological odds with UN mandates which tended to derive their resolutions from positions of global equity beyond the influence of profit margins.

…the voting strength of the less developed nations [in the UN] meant that the United States and the major European economies saw value in keeping issues of trade, finance, and investment away from UN venues, relegating them to other fora where voting was based on economic strength and not on the one nation-one vote principle and was safe from the Soviet Union’s veto in the security council. (Tabb 2003, p. 185)

**Contrasting Approaches to Trade Policy**

Despite the US-European power nexus which dominated the Bretton Woods Institutions, the Southern States collectively did well to leverage their majority presence in the United Nations. As a result, during the 1950’s and 60’s, the majority of major commodity agreements negotiated by both Northern and Southern states were conducted under the terms of the UN Havana Charter of 1947, where both producers and consumers shared equal voting power on the Commodity Council set up to monitor any agreement (Barratt Brown 1993, Fridell 2010). While the LDC’s sought to normalize more equitable systems of trade through the umbrella framework of the UN, the developed states were countering with an effort to establish the International Trade Organization (ITO) which would take a much more liberal approach to trade, including tariff reductions and the elimination of other such barriers. In effect, the ITO was much more
equitable in design than many of its opponents made it out to be but it was met with a great deal of suspicion from the LDC’s, and in truth the American draft proposal for the organization was crafted in private meetings with no input from the Southern states (Tabb 2003, p.294-295). Ultimately, the terms of the charter were to divisive even amongst the developed countries who desired different sets of rules to favor their respective economic positions, and a stalemate ensued with all countries feeling as if they would be giving up too much. Even the United States, the primary driver of the organization, failed to ratify the treaty on the grounds that the rules would infringe upon sovereignty of the state (Tabb, p. 297).

**General Agreement on Tariffs and Trade**

This was by no means the end of the liberalized effort which had diligently been seeking a reduction in trade barriers. One key instrument that was established during this time frame that had a lasting impact on international trade relations was the General Agreement on Tariffs and Trade (GATT). Its provisions were much less expansive than the proposed terms of the ITO, but like the ITO, it was constructed around a philosophy that liberalized trade was a central component of international stability (Buckman 2005). The GATT was largely ignored by the LDC’s who sensed in it the shadow of colonialism and viewed it not only as skewed to favor the wealthy countries but also as political weapon against anti-capitalist orthodoxy. There was indeed a great deal of truth in these claims for in the new IPE, trade was emerging as much more than a system of exchange, as economist Greg Buckman (2005) writes:

Increasingly the United States saw the GATT as a useful conduit for its post-war agenda of liberalized trade. Immediately after the Second World War a full one-third of all the exports that left the shores of the major high-income countries of the time came from the United States so the US saw its economic future inexorably bound to trade; it also saw trade as a bulwark against communism. (p. 41)
It was from this perspective that alternative schools of thought began emerging that urged a re-articulation in the link between the Southern and Northern states. This ideological rift was the foundation upon which many alternative trade organizations (ATO’s) sought to establish themselves in the 1960’s and 70’s as clear divisions began to arise in the international political arena.
Chapter 3

THE EVOLUTION OF FAIR TRADE INITIATIVES

However, before moving forward it is worth drawing attention back to the overriding social sentiments present during the early reconstruction period, for it is during this time that modern day Fair Trade is seen as being birthed. While there were clear conceptual differences on which policies should dictate the terms of trade in the new IPE, there was nonetheless a general consensus that it was in the interest of all countries to assist others in rebuilding and developing. This overarching sense of internationalism had clearly been absent from prior decades and its presence was welcomed in civil society by organizations who viewed it as their social responsibility to assist others who were facing greater obstacles in development. Various religious organizations, non-governmental organizations (NGO’s), and relief agencies began to form the cornerstones of a loose network that would be essential to the Fair Trade movement. These organizations set out to remedy many of the social ills that were plaguing populations in the wake of the past war and economic turmoil. As progress was made, attention began to shift to assisting in the development of local economies which was seen as contributing directly to the overall well-being and health of the local communities. For citizens of many less developed countries, one of the greatest obstacles was clearly access to larger markets through which to sell goods.

It was through efforts to bridge this gap that the first Fair Trade initiatives came into being. The Mennonite Central Committee is typically credited with developing the first Fair Trade supply chains by providing a network through which Puerto Rican women could sell needlework handicrafts. This project, initially called Overseas Needlework would eventually go by the name Ten Thousand Villages and evolve into a multi-million dollar fair trade organization (DeCarlo 2007). Similar stories can be told
for SERRV International and Oxfam which would provide a base for extending the reach of the alternative trade network into Europe in the following decades. While this network would not gain much attention in political circles for nearly two decades, the 1950’s and 1960’s were critical years for the movement as a undefined bond of solidarity was formed between organizations seeking poverty alleviation and economic development in countries throughout Latin America, the Caribbean, Africa and Asia. While the growth in the movement did not immediately transfer into a huge growth in sales, the breadth of the movement increased dramatically as ATO’s were established on both sides of the Atlantic and began to coordinate efforts to construct alternative trade channels which circumvented traditional markets.

**The Broader Vision of Alternative Trade**

At this stage, the solidarity that was forming amongst various ATO’s and beginning to penetrate deeper into the civic sector of society was centered on the issue of poverty reduction. While the mission statements of ATO’s often included other goals such as female empowerment, and cultural preservation, it was the issue of poverty which cut across all cultural and geographical lines that united their efforts under the idea of alternative trade. Their vision of alternative trade was developed in an effort to bypass the more complex supply chains that dominated the prevailing trade system to which rural people had little access to. These ATO’s served as a catalyst for market participation by providing the infrastructure for more disempowered segments of the population to access first world markets with their products and gain greater returns. It is worth noting that the strategy of increasing returns through increasing the market size by no means challenged the premises of the market itself. While ATO’s recognized the inherent inequities of the dominant trade system, little emphasis was initially placed on challenging the structure of the system itself.
This was to change in the 1960’s as the redistributive markets of the capitalist world economic system were increasingly marked by the unequal distribution of rewards. Political theorists in the South began to critically analyze the structure of a world trade system that was built upon a continuous transfer of wealth from the raw material producing countries in the South to the manufacturing based economies in the North. The most radical school of thought to arise during this decade came to be known as Dependency Theory. The world view put forth by dependency theorists was rooted in a historical account of power stratifications, most notably colonialism, which defined the terms of ‘unequal exchange’ dominating the world trade system. While proponents of the market system stressed the benefits of a more integrated and interdependent system, dependency theory contended that such interdependence was essentially a non-reciprocating relationship of weaker states becoming fully dependent on the stronger states for development. Andre Gunder Frank, one of the foremost dependency theorists, sought to redefine what was understood by ‘development’ and ‘underdevelopment.’ Against mainstream economic explanation, he theorized that underdevelopment could not be thought of as a transitory stage to development, rather “it is the result of being involved in the world-economy as a peripheral, raw material producing area,” (as cited in Wallerstein 1974, p. 79). Under such theory, dependent states could only hope to develop and expand as a residual effect of the development in the stronger self-sustaining economies in the North. Thus, in order to promote development, dependent states would have to continually seek ways to promote the flow of surplus resources to the North; however, this would lead to the continued diminishment of resources and the exploitation of labor.

Trade relations are based on monopolistic control of the market, which leads to the transfer of surplus generated in the dependent countries to the dominant countries; financial relations are, from the viewpoint of the dominant powers, based on loans and the export of capital, which permit
them to receive interest and profits; thus increasing their domestic surplus and strengthening their control over the economies of the other countries. (Dos Santos 1970, p. 231)

While the Fair Trade movement never positioned itself on the same end of the political spectrum as dependency theorists, who called for a de-linking from dominant capitalist economies, it nonetheless was profoundly influenced by its theoretical framework. Moreover, the ideologies behind the establishment of a Fair Trade network began to articulate themselves around political narratives that forced a re-examination of the movements’ goals. It was no longer enough to simply seek out greater market access, the structure of the market was being called into question and the solidarity networks that had once been built upon goodwill and religious overtones of ‘love thy neighbor’ suddenly became channels of political discourse concerning the economics of hegemony. This was a pivotal time period for the Fair Trade movement as it began to adopt moral positions that elided with particular political ideologies challenging the dominant market system which promoted the elimination of all trade barriers and would place LDC’s in direct competition with the developed countries in all sectors of the economy. Rather than splinter the movement, as politics can often do, this evolving discourse strengthened the movement by providing it with a richer narrative aimed not simply at reducing poverty but challenging the structural causes of poverty.

**Strength in Numbers**

In 1964, seventy seven of the world’s developing countries created a formal coalition to leverage their numbers in negotiating fairer terms of trade with the wealthier countries. This became the Group of 77 (G-77), and when they convened together later that year in Geneva for the first United Nations Conference on Trade and Development (UNCTAD) all dialogue centered on the issue negotiating the terms of North – South relations. This marked the most ambitious efforts yet by the LDC’s to apply their
majority voting power to the establishment of a New International Economic Order which would increase the transfer of wealth from the North to the South (UNCTAD). To this end a number of resolutions were overwhelmingly passed by the majority, mandating that the wealthier states weaken their protectionist policies which they believed “prevented primary commodity producers from developing the value-added, processing stages for primary goods,” (Fridell 2004, p. 414). Despite the position of economic dominance by the US and the European powers, the unified front of these seventy-seven countries proved to be a formidable presence in an international community where political divisions were becoming more apparent due to the emergent power of the Soviet Union. With the mortar still fresh in the first walls of the Cold War, the United States could not afford to be seen as pursuing a purely hegemonic agenda. The majority voice of the international community was calling for cooperative development by the more advanced countries; this was perhaps most clearly articulated by prominent Argentinian economist, Raul Prebisch, who would become the first Secretary-General of the UNCTAD.

Prebisch was the founder of the Latin America Structuralist School, who like the dependency theorist, challenged the premises of comparative advantage as put forth by free trade theorists. For proponents of free trade the concept of ‘comparative advantage’ as popularized by David Ricardo (1817) was a foundational piece for the fundamental logic of open global markets. Ricardo postulated that in a global economy where commodities were allowed to move freely countries would optimize their resource allocation and earnings by specializing in the production and export of those commodities in which they had a comparative advantage over their neighbors. Thus wine produced in Portugal would be exported to England and cloth produced in England would be purchased in Portugal (Ricardo, edited by Checkland et. al 1954). Ricardo argued that
this would lead to a mutually beneficial relationship of trade between all countries as each would provide the other with a needed commodity at the most efficient market price. Latin American structuralists attacked this theory from a number of different angles, first and foremost was the fact the outcomes of Ricardo’s theory relied on the assumption of ‘market perfection’, that is perfect mobility of labor, perfect markets, and perfect information; none of which could be found anywhere throughout Latin America or the rest of the developing world. Prebisch’s analysis concluded that the unequal positions of power held by those countries which specialized in manufactured goods created a cyclical market of deteriorating returns for those countries producing primary goods. While the majority of manufactured goods can be stored up and released into the market as the laws of supply and demand determine, the same cannot be said for primary commodities with low demand elasticity. Furthermore, manufactures are positioned to take advantage of increases in technology that can reduce the cost of production while primary product producers typically reduce cost by cutting the wage rate of labor (Prebisch 1950). The end result was one of structural stagnation for countries left producing a few primary commodities with little prospect in developing the upward linkages necessary to move into higher levels of product production.

Unequal Exchange

The structuralist world view of ‘unequal exchange’ did not require disconnecting from the larger global economy as advocated by dependency theorists. What was required were structural corrections in the governing principles of economic exchange. This less radical approach was widely embraced by the international community who saw the potential benefits of market expansion and simply desired the opportunity to participate in a deterministic way. Prebisch’s presence in the UNCTAD helped establish the trajectory of international policy towards a strategy of development through trade
policy, rather than development through free trade. In 1968, at the second meeting of UNCTAD, the conference adopted the slogan of ‘Trade not Aid’ to clearly reflect the ideological position on development held by the majority of the world’s LDC’s. While it was not a formal declaration on development policy, the ‘Trade not Aid’ campaign reflected the earnest desire of the world’s poorer countries to prosper rather than merely participate in the global economy, and prosperity would not come through a system of dependence but through the development of a self-sustaining economy which would require structural corrections to a world market defined by ‘unequal exchange.’ The General System of Preferences (GSP’s) passed by UNCTAD during that same year were aimed at doing just this, providing preferential market access for developed countries to core economies (Tabb 2004, p. 309). The following decade would see more victories for the developing world including a number of International Commodities Agreements aimed at stabilizing the export price of commodities crucial for developing economies; the Convention on a Code of Conduct for liner Conferences, which strengthened the ability of LDC’s to maintain national merchant fleets; the adoption of a set of multilaterally agreed principles and rules for the Control of Restrictive Business Practices which would evolve into the “Trade and Competition Policies,” which was one of the first efforts to regulate the actions of transnational corporations (UNCTAD).

**Fair Trade Avenues**

While the balance of economic power had by no means tipped, this was a dynamic time period for the international community seeking to renegotiate trade on more equitable terms. Likewise, this was fertile ground for the maturation of the Fair Trade movement which seized upon the political momentum of the times and began to expand its reach into the mainstream through the opening of Third World Shops throughout Europe, which sold FT handicrafts and more importantly promoted awareness
campaigns to mobilize sympathetic consumers to support an alternative market approach. By the end of the 1960’s, the first World Shop opened in the Netherlands inaugurating the start of the most extensive fair trade network in the world. The number of Fair Trade retailers exploded across Europe, and by 1994, the Network of European World Shops (NEWS) provided a base of over 2,500 shops (DeCarlo 2007); in the UK alone, Oxfam Trading operated 625 Fair Trade shops (Fridell 2004). On the other side of the Atlantic the two organizations that had initiated the FT movement in North America, the MCC and SERRV, also continued to expand their operations and benefited from the overall growth of the Fair Trade movement across the globe. MCC opened their first SELFHELP retail store in 1972 and would see this number grow to 120 in less than twenty years, while SERRV reached annual sales of over US $3 million strictly through sales within the faith-based community (Littrell and Dickson 1999, p.164). While the numbers reflect a much more robust market in Europe in the early years of Fair Trade, the initial success of these two organizations cannot be understated in terms of the overall impact on the Fair Trade network in the long term; the United States not only represented the largest potential market in world but also was the home of the evolving hegemony that such ATO’s sought to counter. Thus, the North American ATO’s metaphorically represented what the larger movement sought to achieve, that is changing the system from within the system. In this way, the early Fair Trade movement in the United States was viewed as the belly of the beast. It was the front lines of an ideological war and for a time it seemed to be a war that could be won.
Chapter 4

THE EVOLUTION OF THOUGHT

The fact that Fair Trade was evolving into one component of a larger ideology is one that is crucially important to note. The evolution of economic thought on development directly impacted the direction of the Fair Trade movement as evidenced in the stated mission statements of many ATO’s. A prime example of this is the Third World Information Network (TWIN) which was established out of the growing crises of third world development. While it aligns itself with FT principles and promotes more equitable supply chains in North-South relations, it defines its mission in broader terms.

[Our] mission is to bring about a greater articulation of the needs and rights of peoples in the Third World, a fair distribution of world resources, and forms of development which are ecologically sustainable and fulfill human needs. (TWIN)

Such words could easily have been used to outline the manifesto of the group of seventy-seven which sought to alter the structure of the global trading system in a way that would allow developing countries to propel their economies forward and essentially leap over the stratified divide of under-development; in such a discourse Fair Trade was not the end, but rather a means to the end of independent, state-determined, economic development. By moving economic development to the center of the movement, the Fair Trade community embraced a more powerful ideology and yet at the same time made itself more vulnerable to political weaponry as they tied themselves to an ideological position that ran counter to liberalized capitalist concepts.

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4 SERRV’s website states, “Our work encompasses more than just buying and selling. We offer prepayments so our partners can sustain their business. Create new designs so they can build their markets. Teach new skills so they can develop their craft. Provide grants so they can expand their resources. We support equal rights for women. Guide sustainable development. And of course, pay a fair wage”. Oxfam outlines their mission in the following way: “To have the biggest possible impact on the lives of poor people worldwide, Oxfam concentrates on three interlinked areas of work: emergency response, development work, campaigning for change”.
Nonetheless, the 1960’s and 70’s represented the pinnacle years of the Fair Trade movement in regards to its hope of establishing a true alternative system of trade that would serve as a mechanism for autonomous development. The broader vision of the FT movement was articulated well by Michael Barratt-Brown, the chair of TWIN, in his book, *Fair Trade: Reform and Realities in the International Trading System*. While he is clearly influenced by dependency theory, tracing the colonial roots of unequal exchange, his solutions are much more in line with the ideas of Prebisch and other structuralist thinkers. He adeptly argues for the merits of ‘planned trade’ within capitalist economies and supports his theory with historical examples of states which successfully achieved a high level of development through varying forms of government intervention and varying levels of centralized planning, (this will be discussed in more detail in the next section of the paper). Yet, the true importance of his work can be found in his ontology of what international trade should look like in a new international economic order where states are given the structural imperatives necessary for self-determined development. In such an order, ‘fair trade’ would go beyond price stabilization mechanisms and more direct links between producers and consumers. He is skeptical of achieving more equitable distribution through trade agreements such as GATT regardless of the preferences provided to developing countries, arguing that these exchanges do nothing in way of encouraging “the expansion and diversification of exports from the developing countries,” (Brown 1993, p. 145). His ideas centered on the fact that no evidence existed to suggest that simply increasing trade would increase development. Development comes through greater dynamism and diversification in the production sector and this requires capital investment that will not cripple states through heavy debt burdens accumulated during the necessary years of build-up and development. As such, he contends that ATO’s must do more than seek to establish fair terms of trade; they must embrace the
cause of ‘development’ through a multi-faceted approach. He identifies the single largest obstacle to development in the third world as a lack of hard currency and access to credit; in one of his more innovative solutions, he proposes the creation of an International Trade Clearing Union which would act as a guarantor of payments between member states. Within such a system, developing states would lend and borrow funds from each other as well as exchange goods through a credit system without ever exchanging hard currency (Brown 1993, p. 146). Where the balance of payments existed only as a unitary measure on paper, states would have greater incentive to invest in economic infrastructure that may not reap immediate rewards, and would have the flexibility to meet their obligations through varying forms of exchange. Countries could exchange exports for imports; essentially eggs could pay for steel. This counter trade system would be stabilized by a regional or international guaranteeing institution which would not necessarily regulate exchange but would act as a trade clearing house (Brown 1993, p. 146). Brown’s ideas reflect the thought of those who sought to bring about structural change from within the system, rather than tear down an edifice that had already become embedded into capitalist markets; the evolving thought of fair traders in the 60’s and 70’s shifted towards creating parallel trading systems that would grow up alongside the primary system and provide a wider range of development tools for LDC’s.

‘Planned’ Success

This was the boom time for the developing world as well as the FT movement. The Keynesian creed of fiscal restraint through strong government regulation was credited with providing stability to the post-war global economy, and the ‘embedded liberalism’ that permeated the markets allowed states the necessary policy space to pursue self-determined development. State sovereignty held a dominant position which trade law and financial instrument saw little point in opposing. This led to an extremely
dynamic political economy in which statist development projects experienced positive growth across the globe. From the years 1955-1970, centrally planned economies experienced 9% growth (7% per capita) in GNP per annum; perhaps even more impressive was the 5.4% growth (3.1% per capita) in GNP for all developing countries (Barratt-Brown 1993, p. 121). Meanwhile, the U.S. found itself mired in a quagmire in Vietnam and faced mounting internal tensions due to the unpopularity of the war and the subsequent stress the costs of war were causing on the U.S. balance of payments. The refusal of the Johnson administration to cut large social programs that were politically viewed as necessary concessions to stem domestic opposition to the war, and their refusal to raise taxes to fund such programs all contributed to what Robert Brenner referred to as a crisis of profitability (as cited in Silver and Arrighi 2006, p. 341-44). He argues that the crisis of profitability of the late 1960’s and early 1970’s was intensified as countries such as Germany and Japan successfully ‘caught up’ and eventually surpassed U.S. development achievements. By the mid 1960’s, Germany and Japan had effectively moved ahead of the U.S. in multiple key industries including ‘textiles, steel, automobiles, machine tools, consumer electronics,’ (Brenner 1998 p. 41). This leap forward by two economies which had been laid to ruins only 20 years prior serves as a testament to the potentialities of smaller economies that are allowed access to more advanced technologies while simultaneously protected from the full effects of global competition.

Brenner argues that Germany and Japan were both successful in ‘high-productivity technologies with large, low wage, and elastic labor supplies thereby pushing up their rate of profit and investment’ (1998, p.42). The tide of this new economic force produced through the combination of high technology and low wages swelled beneath the surface into the mid 1960’s but once the technological and financial infrastructure of these economies was established they unleashed a powerful assault on
the previously dominant regional powers of the United States and the United Kingdom;
“As a result of this eruption of lower priced goods into the United States and world
markets, between 1965 and 1973 U.S. manufacturers experienced a decline of more than
40 percent in the rate of return on their capital stock,” (Silver and Arrighi 2003, pg. 342).
To maintain their competitive position in global markets U.S. manufactures were forced
to price their commodities below the full price of production, and repress labor costs.
But with such a strategy clearly unsustainable, the U.S. government sought to ‘correct’
the market in their favor; without the ability to tie the hands of the Japanese and the
Germans businesses the U.S. turned to the weaponry of currency devaluations. In 1971,
President Nixon announced that the United States was suspending the convertibility of
the dollar into gold at the fixed exchange rate. As intended, the value of the dollar
plummeted; between the years of 1969 – 1973, the dollar was devalued against the
German mark by a total of 50% and by nearly 30% against the Japanese yen from 1971-
1973 (Silver and Arrighi 2006, p. 342). While many foreign allies and private investors
suffered significant loss, the ploy succeeded in turning around the U.S. economy.

The devaluation had a galvanizing effect on the U.S. economy.
Profitability, investment growth, and labor productivity in manufacturing
staged a comeback, and the U.S. trade balance was restored to a surplus.
The impact on the German and Japanese economies was just the
opposite. The competitiveness of their manufacturers was sharply
curtailed, so that it was now their turn ‘to forgo their high rates of return
if they wished to maintain their sales.’ The global crisis of profitability
was not overcome, but its burden was distributed more evenly amongst
the main capitalist countries. (Silver and Arrighi 2006, p. 342-43)

The end of the dollar convertibility and the use of currency devaluations as economic
instruments for growth led to a wave of instability that crested through the international
community; the ripple effects were inflationary tendencies that became pervasive in
economies throughout the world, while the full impact of the wave was found in the
banking crisis of 1974, triggered largely by currency speculation (Tabb p. 119-123).
However, a secondary factor that contributed directly to the crisis was that of petrodollar recycling. Increasing costs of oil over the previous years had led to a build-up of massive reserves of dollars by the Organization of Petroleum Exporting Countries (OPEC). The U.S. is largely believed to have used its influence to persuade OPEC to place these funds in low interest bearing accounts in the U.S.\(^5\) This set the stage for a cycle of events which would eventually undo nearly thirty years of positive growth and development in the developing world.

One of the paradoxes of capital is that its value is to be found when it is in motion and being transformed into other forms of wealth. For the capitalist, paper money, in nominal terms, is ‘worthless’ if it is held only for its face value. Capitalism is not built upon dollars it is built upon the flow of dollars; hence, when U.S. banks found themselves holding a glut of petrodollars they precipitously sought out markets through which to recycle these short term funds. Their primary targets were the developing economies in Latin America and East Asia. Such prodigious lending would spell impending doom for the fragile economies of the third world, which would not be able to protect themselves from the successive shocks of escalating oil prices\(^6\), contracting consumer markets in the North, and mounting debt (Tabb 2004, p. 122-24).

**Parallel Growth in Fair Trade**

Despite the political tensions that dominated international discourse during the latter half of the 1970’s, developing countries continued to experience positive growth and the rationale for statist development did not appear to need defense. The Fair Trade movement continued to flourish as a specific narrative of the larger movement towards

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\(^5\) William Tabb notes how National Security Advisor Henry Kissinger made it expressly clear to the OPEC countries that any efforts to use the reserve petrodollars to purchase a controlling share of American companies would not be tolerated.

\(^6\) The Iranian revolution in 1978 constricted the flow of oil and prices surged upward from $14 a barrel to $25 a barrel in less than six months (Allen 2005, p.110).
development. The force of the movement was gaining momentum as Fair Trade coffee was first introduced to the market in 1973 and soon produced revenues that exceeded sales from all other fair trade commodities (Fridell 2004). The success of Fair Trade coffee dramatically impacted the vision of Fair Trade and broadened the scope of its developmental capacity. Fair traders no longer saw themselves as merely providing outlets for artisan crafts which supported the livelihood for villagers (predominantly women) who lacked other means to earn an income. The opportunity to use the Fair Trade network to create direct South – North linkages for the agricultural sector transformed the trajectory of the movement and brought it even more closely in line with Brown’s concept of creating parallel markets. Even as industrial development was progressing throughout the developing world, particularly in Latin America and Asia, agriculture remained at the core of the economy. These countries still relied heavily on primary product production; in Latin America alone coffee production accounted for millions of small rural farmers. Thus, in ideological terms, the expansion of Fair Trade to incorporate agricultural products was a radical statement of belief in the viability of alternative trade and its potential for transforming developing economies, as well as a belief in an international community with the force of presence to offset liberal attacks on statist development projects. This is not to suggest that the G-77 now called the shots. The shadow of hegemony still loomed large in many areas of the economy particularly in the world of finance. However, the consolidated power of the G-77 tempered the push for liberalization and in essence drove it underground for a short time.
Chapter 5

THE PUSH-BACK

The small consortium of twenty-three signatories to GATT continued to hold rounds of talks but there was little interest in the developing world to join in. Rather than focusing on sweeping reforms to international trade the OECD countries sought out more intrepid methods of embedding their ideologies of liberalized markets into trade agreements through Bilateral Investment Treaties (BIT’s). Beginning in 1977, the United States began to aggressively pursue BIT’s with numerous countries that could provide strategic benefits to U.S. corporations in the form of expanding export markets and reducing input costs.

These agreements encouraged trade partners to adopt market oriented domestic policies and support for the development of international law standards consistent with core country investment objectives through their precedent setting value. BIT’s imposed obligations on the host state for the protection of foreign investment but no corresponding responsibility on the foreign investor or the home country to regulate their companies operating abroad. (Tabb 2004, p. 298)

Effectively, BIT’s forced compliance on the weaker states to play by the rules of the more dominant (wealthier) countries. While the terms of trade negotiated in BIT’s had successfully been fended off by the G-77 with regards to overarching international mandates, the temptation of greater access to the U.S. market proved to be a carrot too enticing to ignore for individual countries seeking to tap into the world’s largest market. Thus, it was actually through efforts to accelerate development that the LDC’s entered into trade agreements which ultimately undermined the protections they had won over the last twenty years. BIT’s opened the door for transnational corporation (TNC’s) to move more freely across borders and operate with a greater degree of impunity. BIT’s were not as focused on the actual trade of goods but the movement of investment capital, which foreign investors wanted protected at all costs. In this way, BIT’s changed the landscape
of international trade in two distinctive ways. First, it embedded the hegemonic principle of ‘investor/corporate protection’ into trade agreements, whereby governments would not be allowed to interfere with profit making opportunities. This directly opposed predominant third world development theory that recognized the sovereignty of the state first and foremost, and provided the state the right to secure its interests over that of corporate profit. Secondly, BIT’s were unilateralist in nature, and placed neighboring countries in direct competition with each other to maintain favorable relations with the hegemonic power; this “competitive liberalization”\(^7\) compounded the penalty of non-compliance under the threat of exclusion from the U.S. market. This more liberalized approach to trade and finance initially appeared to be mutually beneficial for both countries involved in the agreement. The explosive creativity of capitalism ensured short term flows of capital increased and developing countries reaped the benefits of increased investment in their manufacturing and technology sectors; however, when crisis hit, capital would be the first thing to flee, investors would be protected from serious loss as they could sell off assets and move operations, and the citizenship would be left bearing the costs. This scenario would become all too common throughout the 1980’s, and it would usher in the era of neo-liberal reforms.

The Lost Decade

1982 marked the beginning a massive debt crisis that would begin in Mexico and spread like a contagion to the rest of the southern region. Finding itself as the Southern neighbor to the most prosperous country in the world, Mexico had a tenuous history of playing on both sides of the fence regarding free trade. It had long sought to protect itself from trade negotiations which would threaten its sovereignty and yet its proximity to the rush of capitalism gave rise to an autocratic upper class who sought looser regulations on

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\(^7\) The term ‘competitive liberalization’ was used by U.S. Trade Representative Robert Zoellick as referenced by Ngaire Woods in the United Nations Human Development Report 2002.
foreign investment and capital to stimulate an economy that while growing, was still considered underdeveloped in many ways. The influx of massive amounts of surplus petrodollars spurred on by the loose lending practices of U.S. banks set the stage for catastrophe. Even as its debt mounted U.S. banks continued to lend additional funds; when investors began to get nervous about the long term viability of Mexico debt position their pullback spelled out a self-fulfilling prophecy of calamity. As the peso plummeted, investors became weary of the entire region and soon a large swath of Latin America found itself embattled in a debt crisis as funds dried up and banks struggled to make good on their balance of payments. In desperation these countries turned to the International Monetary Fund for assistance and it swiftly moved in with a series of ‘rescue packages.’ The assistance provided by the IMF was simply another loan which would have to be paid but in fact, it was even more invasive as these loans came with conditionality agreements requiring countries to make structural reforms designed to restore health to their balance of payments (Tabb 2004, p. 213). These reforms fell directly in line with the Washington Consensus’ call for the liberalized trade and finance through the removal of trade distorting practices imposed by government bureaucracy. Faced with the alternative of complete economic collapse, one by one, countries fell in line with the demands of the IMF and perpetuated the shift towards an emerging mantra of free trade.

As the various GATT negotiating rounds proceeded a regime shift is evident as the principles, rules and norms for decision making increasingly came to deny formerly recognized national sovereignty rights and to stress deregulation of markets. (Tabb 2004, p. 304)

This shift did not occur overnight but the momentum was clearly swinging towards the direction of the wealthy. The bargaining power that the poorer countries had established through the collective efforts of the G-77 began to wane as more and more countries reluctantly accepted assistance from the IMF and essentially signed away all collective
bargaining rights with which to oppose to the neo-liberal agenda of fiscal discipline. The conditions imposed by these ‘rescue’ packages proved to be extremely costly in the long run. They often included over 100 conditions related to tariffs, quota systems, the tax code, bankruptcy laws, and massive cut backs in government expenditures such as health care, education, and social security; implementing such extensive structural changes is time intensive and this lag further exacerbated the problem as the panic associated with the collapse continued to spread (Tabb 2004, p. 217). The end result was that countries were often left with a decimated social sector, an anemic economic sector, and faced a mountain of debt held in dollars, while their own currencies were drastically devalued making it near impossible for debts to ever be repaid. At the turn of the century, sixty-nine of the countries that had borrowed funds from the IMF had remained in debt for over twenty years, and twenty-four of these countries had been in debt for over thirty years (Vasquez 2000, as cited in Tabb p. 217). So heavy did this burden of debt become, that Latin America came to refer to the 1980’s as the ‘lost decade.’ The gains made through state-led projects of development were completely reversed and protected industries suddenly found themselves in competition with giant TNC’s and no access to hard currency or credit. Entire economies were essentially put up for wholesale auction.

What is remarkable to note is not that the ‘remedy’ of liberalization was spoon fed to the LDC’s by the wealthier countries, but that the protective bodies that had been instrumental in resisting trade liberalization for so long so easily acquiesced to the inevitability of this process. This can clearly be seen in UNCTAD’s response to the crises in the 1980’s. UNCTAD notes that in the 1980’s there was a “significant transformation of economic thought,” and in light of this it “broadened the scope of its activities to assist developing countries in their efforts to integrate into the world trading system,” through technical assistance needed to meet the requirements of the GATT, and
working on increasing trade efficiency in areas such as customs facilitation and multimodal transport (UNCTAD). By the time the World Trade Organization (WTO) was established in 1995, the Keynesian philosophy of development which included strong regulatory bodies at both the state and international level was considered a footnote to human’s social evolution. Humanitarian organizations and the international community no longer opposed trade liberalization; rather they were focused on building up the infrastructure of the free market system within the countries which now had little say in the direction of their own development.

**Changing Course**

The adverse effects from the economic crisis affected all sectors of society and as typical of such crises, it was the poorest who were hit hardest. As barriers to entry were removed from local markets, small farmers who had lived on their land for generations found themselves in direct competition with multinational corporations who could undercut local prices by taking advantage of economies of scale. In response to this, the ATO’s that helped make up the FT network moved as quickly as possible to stop the bleeding, brought on by the dramatic shift towards neoliberal economic policy. Many of these ATO’s already had poverty relief services or partnered with humanitarian organizations that did, and immediately the focus shifted to providing direct services to the tens of thousands of people losing their livelihoods each month. The loftier vision of alternative trade which had been embedded in a political ideology of state led development was set by the wayside as the network fell into survival mode and scrambled to help people adjust to a world that had changed nearly overnight.

By this time, the FT movement had expanded to provide market channels for a wide range of goods, but since 1973, coffee had come to dominate the Fair Trade market. It was then of no surprise that it would be the depressed conditions of the world coffee
market that would be the impetus for change within the Fair Trade movement as a whole. The tide of neo-liberal reforms was only rising, and millions of farmers found themselves facing a sink or swim situation. It was from this atmosphere of uncertainty that members of seventeen indigenous peasant communities in Oaxaca, Mexico convened together to form the Union de Comunidades Indígenas de la Región del Istmo (UCIRI). Over the next decade, this cooperative organization of farming communities would serve as the prototype for numerous other organizations seeking greater market access to compensate for the dramatic decline in coffee prices. Aided by the Fair Trade network the UCIRI led the charge to expand the reach of FT coffee into conventional markets. This led to the development of the Max Havelaar Foundation in the Netherlands in 1988, which would be the world’s first certifying body of Fair Trade products.
Chapter 6

FAIRTRADE\textsuperscript{8} LABELING: A NEW APPROACH

The original intent of the UCIRI – Max Havelaar partnership was to continue the pursuit of an alternative trade market, not merely gain access to conventional markets. However, from the outset the odds were stacked against such an outcome simply based on the unequal positions of power between the producers and the distributors. The fact of the matter was that the producers needed market access, the distributors, on the other hand, did not need more coffee as the market was already awash with surplus supplies. The UCIRI was hoping to maintain their connections with ATO’s while accessing conventional distribution outlets, but it was evident early on that the grander vision of alternative trade would face serious compromise and contradiction (Mukherjee and Reed 2009).

Until this point, the vast majority of FTO’s closely aligned with, or directly affiliated with ATO’s that were still following the trajectory of structuralist thinking. Fair Trade was a peripheral narrative, located around the bigger issue of economic development. However, the force of the debt crisis had dealt a lethal blow to many of the state-centered development projects, which had invested so heavily in trade protections for LDC’s. The leveraged position of those states which sought more liberalized trade proved to be powerfully entrenched as access to capital became increasingly scarce. ATO’s soon found the majority of their time and resources directed towards more humanitarian missions as the ripple effects of the debt crisis and the austerity brought on by IMF conditionalities took their toll on the marginalized segments of the populations. Under these circumstances, FTO’s focused primarily on retail sales of FT commodities

\textsuperscript{8} Within the FT community, as well as, academic literature all labeling initiatives are referenced using the single word ‘fairtrade’. This paper will remain consistent with the colloquial norms and use ‘fairtrade labeling’ when referring to this particular aspect of Fair Trade.
became critically important revenue streams for millions of small farmers. Thus, the introduction of the Fairtrade label not only represented a significant shift in marketing strategy, but it also resulted in a clearer line of separation between ATO’s that had long promoted structural changes to mainstream markets, and FTO’s that sought to exploit the opportunistic values of the open marketplace. While the FT network, which consisted of the joint association of ATO’s and FTO’s, was too informal to definitively articulate the climatic changes evolving within the movement, the shift towards the market oriented approach of the Fairtrade label that would remove politics of ATO’s from the retail equation had begun and would be cemented by yet another crisis.

The International Coffee Crisis

In 1989, the push to deregulate all trade markets directly led to the removal of the quota system imposed by the International Coffee Agreement which had capped individual country’s level of coffee production to ensure a balance between supply and demand, (Linton 2005). The removal of quotas ill-fatedly coincided with massive crop damage in Brazil leading to a spike in the global market price. The result was subsequent over-planting of new crops and the entrance of new producing countries, most notably Vietnam. This massive over production led to a complete collapse of world coffee prices driving down the export price of green Arabica coffee from a high of US$2.71/lb. to a low of US$0.48/lb. (Linton 2005, p. 601). The ripple effects have been far reaching and nothing short of devastating for the 25 million families whose subsistence in tied directly to the production of coffee. The severity of this crisis is compounded by the fact that, “coffee is one of the few internationally traded commodities that is still produced mainly on smallholdings farmed by peasant households, with almost 70 percent of production coming from producers who farm less than ten acres of land,” (Utting-Chamorro 2005, p. 584). Already impoverished households saw their incomes more than
halved and modest savings dissipated as producers failed to find markets for the glut of oversupply. Prices remained at levels where many farmers receive less for their coffee than the cost of production, (Utting-Chamorro 2005). This has contributed to the largest rural to urban migration in the history of the world, as farming communities have been completely decimated, leaving families without land, children without education, and millions of people at severe risk of psychological and physical health problems (Davis 2006).

**A Conflicted Solution**

Despite the severity of the situation it arose from and the continued effects of depressed markets for primary products, the creation of a certified Fairtrade label which could provide symbolic added value to the consumer was a huge success. The Fairtrade labeling movement provided a spark of hope for those mired in the wake of economic turmoil and over the next decade 17 national initiatives would spring up across Europe, North America, and Japan. In 1997, these national labeling organizations came together under the umbrella of the Fairtrade Labeling Organizations International (FLO), headquartered in Bonn, Germany (Fridell 2004). Global sales increased per annum, and by 2001 the standards of the international Fairtrade label had been established for seven commodities: coffee, cocoa, honey, cane sugar, tea, bananas, and orange juice (Fridell 2004). The rise of the environmental movement has further buoyed the sales of FT products as they are viewed as being compatible with sustainable development, and by 2003 ‘annual sales of certified FT products had reached US $700 million’ (Murray, Raynolds, and Taylor 2006). Today, Fair Trade products are marketed by national Labeling Initiatives, or marketing organizations working in 24 countries, with more than 10,000 Fair Trade Certified products sold in more than 70 countries worldwide. In the
U.S. market alone, consumers can choose from more than 7,000 products sourced from 58 countries (Fair Trade USA).

Supporters of Fair Trade point to these statistics as proof of the success of the movement and continue to push for the expansion of labeling initiatives for new commodities in an effort to affect greater change in the LDC’s. However, the same contradiction that faced the UCIRI at the outset of the labeling movement of embracing an alternative view through mainstream markets continues to be a source of tension within the movement. There is a strong contingency in the movement who effectively argue that Fair Trade has become fully corporatized and has lost the ability to speak for the marginalized people it purports to support. One fact that is agreed upon by both sides of the argument is that the labeling initiative forever changed the trajectory of Fair Trade, so much so, that in 1998 the four largest Fair Trade organizations in Europe (FLO, International Federation for Alternative Trade, Network of European WorldShops, and the European Fair Trade Association) came together under an umbrella organization which would be known by their acronym of FINE. One of the principle reasons for coordinating was to collectively agree on a vision for the movement and this was begun by actually defining Fair Trade. This has come to be the most accepted definition of modern day Fair Trade:

Fair trade is a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade. It contributes to sustainable development by offering better trading conditions to, and securing the rights of, marginalized producers and workers - especially in the South. Fair trade organizations are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade. (FINE 1998)

What is so remarkable is that it took half a century before a consensus definition of Fair Trade was ever created. This raises the question as to why this is so. For even in the 1970’s when the Fair Trade network was growing expansively and
ATO’s were at the height of their political influence, there was never an organized effort to define the specific terms of Fair Trade. The answer to this question would seem to lie in the fact that prior to launch of the labeling initiatives, Fair Trade had always been an integral component of larger ideological and political positions. Fair Trade was not something to itself, rather it represented a tactic that was incorporated into a corpus of counter-hegemonic ideologies that sought to restructure the global power relations in an effort to drive development in the Southern hemisphere. Thus, Fair Trade did not exist outside of politics, and it did not exist outside of hegemony, for it was defined by these very things.

**What’s in a Definition**

The definition put forth by FINE seems to carry the echoes of the movement’s structuralist roots, yet a closer examination shows that the current state of Fair Trade falls drastically short of fulfilling its mandate as it has been defined in two critical ways. The first pertains to the section which reads, “*Fair trade organizations are engaged actively in supporting producers, awareness raising and in campaigning for changes in the rules and practice of conventional international trade.*” The historical account of Fair Trade clearly reveals that the *rules and practice of conventional international trade* did not arbitrarily evolve but were put in place through a number of very deliberate political processes. Therefore, any efforts to alter such a structure would be political from their very definition, yet the FLO maintains a strict policy of political neutrality and requires that all of its Southern partners are “politically independent, and there are sufficient guarantees that the organization will not become the instrument of any political party or interest,” (FLO 2003). This is a dramatic pivot from the
early workings of the FT network that grounded its activities in ideological opposition to liberalized trade. The precondition of political neutrality required of all Fair Trade producer cooperatives voluntarily constrains the voice of those whom Fair Trade seeks to assist. As FT labeling has become increasingly embedded into mainstream markets through corporate partnerships, FTO’s that work closely with producer cooperatives find themselves equally constrained. The overwhelming majority of FT sales now come through traditional markets contracted by FLO’s, rather than in novelty shops specializing in alternative products. Hence, FTO’s that work hand in hand with Southern producers often must defer to the established ground-rules of the FLO-corporate partnership.

The second contradiction pertains to the passage which reads, “It contributes to sustainable development…” The objection raised to the chosen terminology is highly contestable due to the subjectivity of the term ‘sustainable development.’ Indeed defining ‘sustainability’ alone is rife with academic debate. However, it is precisely this issue of development that the modern day Fair Trade movement has left behind. The broader visions of developing the state through alternative markets and international regulatory bodies as laid out by visionaries such as John Maynard Keynes and Michael Barratt-Brown have been all but abandoned. The political neutrality packaged and sold by the FLO leaves Fair Trade toothless regarding any form of structural change. It is precisely for this reason that employees of the World Bank enjoy Fair Trade coffee during their breaks. In the 1970’s, proponents of market liberalization viewed fair traders as diametrically opposed to the agenda they desired to establish. Today, supporters of the ‘free market’ view Fair Trade as a commodity, a market solution to a social problem, which is what they had been
advocating for all along. The removal of the state from the equation of
development was exactly the outcome they had been pushing for, so that
individuals would be free to compete for the outcomes they desire; in this way
Fair Trade has come to embody the very principles of neo-liberalism.

The rapid growth of the network since the 1980’s can be attributed to its
non-statist development as part of a broader transformation in the
international trade and development regime that has involved the decline
of state intervention and market regulation and the rise of NGO-led
development projects. Many of these NGOs receive funding from
official institutions such as the World Bank, which view them as a non-
statist solution to the negative social and environmental consequences of
neoliberal reforms. (Fridell 2006, p. 19)

As Fair Trade has embedded itself within mainstream markets it has become fully
subjected to the logic and rules of the market; from such a perspective, Fair Trade can
only grow through an increase in volume. If Fair Trade is to pursue ‘sustainable
development and a change to the conventional rules of international trade’ then the
question Fair Trade must address is whether more trade is actually good for the
development of the state.
Chapter 7

PURSING DEVELOPMENT

The shift towards a pure market-oriented approach leaves Fair Trade in the tenuous position of pursuing development through mainstream markets without the aid of state protections. In many ways this has galvanized the movement by simplifying the cause and the goal. Political ideology is now laid aside, and the law of ‘more is better’ takes center stage. The logic of capitalism rests on the premise that consumption and market expansion are both limitless, thus growth is achieved through increased production and consumption. Hence, more trade will translate into more development. Under such assumptions, the development that Fair Trade seeks for its producer organizations must come through more trade/sales. Increased trade will be directly related to economic growth which will result in a positive correlation to development. In fact, this direct link between trade and development is a fundamental ‘truth’ of free trade orthodoxy, as argued by World Bank economists, David Dollar and Aart Kraay in their *Trade, Growth, and Poverty* report released in 2001. The report examined the relationship between a country’s trade volume and the corresponding economic growth. Their study consisted of only low income countries which they separated into two broad groups which they labeled ‘globalizers’ and ‘non-globalizers’. Globalizers were defined as those countries that had adopted the neo-liberal policy agenda and were pursuing development through liberalized trade. The non-globalizers were those countries which persisted in maintaining a level of state control which would be trade distorting. They concluded that, “the evidence from individual cases and from cross-country analysis supports the view that open trade regimes lead to faster growth and poverty reduction in poor countries,” (2000, p. 27). In their final analysis they found the evidence showed that the Globalizers were experiencing positive growth trends from the 1970’s and into the
90’s and therefore effectively catching up to the developed world, while the non-
globalizers were suffering from negative growth rates and economic stagnation.

Dollar and Kraay’s findings mirror a similar study released in 1995 by Jeffery
Sachs and Andrew Warner⁹, which concluded that protectionist trade policies suppressed
economic growth (see Buckman 2005, p. 136). A number of academics, most notably
Dani Rodrik and Francisco Rodriguez (1999) have conducted similar research and
produced findings that have been directly opposed to the conclusions drawn by Dollar
and Kraay concerning reductions in trade barriers having any measurable effect on
economic growth. Nonetheless, the legacy of Dollar and Kraay’s initial findings persist
and have continued to insinuate themselves into the larger neo-liberal ideology of trade
liberalization as an engine of economic growth.

The OECD, IMF, and World Bank have all released their own data to support the
claim that countries with more open economies continue to outpace those with barriers to
entry (Buckman 2005, p. 136). The persistence with which this claim is purported should
come as no surprise, for it is a necessary truth of free trade ideology and follows on the
logical path of predictable outcomes based upon the assumptions of ‘perfect markets’
where information is equally shared, all actors are rational, and comparative advantage
ensures optimality for all market participants. From such an ontological position,
increased volumes of trade will generate increased revenues that will lead to greater
economic growth and combat existing levels of poverty, to claim otherwise is
irreconcilable with the fundamental premises of the market itself; the free market
provides for no other real solution to the social problem of poverty. The primary option
for producers in LDC’s to achieve greater returns through the market is to increase the
volume of sale through trade.

⁹ The report was entitled, Economic Reform and the Process of Global Integration, published by
the Brookings Papers on Economic Activity.
Fair Trade Premiums

If there is indeed a direct relation to be found between trade volume and development/poverty reduction, then an analysis of Fair Trade exports should serve as an excellent case study due to the fact that annual increases in trade volumes have been so robust. In Europe, which represents over 60% of the total Fair Trade market, sales have grown steadily at 20% a year since 2000 (FLO). Furthermore, the Fair Trade market has proven to be highly resilient in even the most adverse economic climates as highlighted by the recent financial crisis in 2010, which led to negative economic growth in the vast majority of countries across the globe, yet sales of Fair Trade products soared by 40% and recorded an estimated retail value in excess of US $3.5 billion (Fair Trade UK).

Needless to say, there is no single Fair Trade producer country that has shown a correlated annual economic growth rate in the vicinity of 20%. Clearly, we would not expect to find a positive correlation of such dramatic dimensions given the fact that Fair Trade products still represent a small percentage of a country’s overall trade volume, yet considering the significant amount of money that this being returned to marginalized communities through the fair trade premiums ensured through certifying bodies, one would expect to find some measurable data of economic growth if the premises of free market logic are indeed sound science. Figure 1.1 shows Fair Trade USA, the largest fair trade organization in the United States, paid out over $14 million in 2010 to producer organizations, and has paid over $56 million since 1998 ($44 million has gone to coffee producing organizations).

Fig. 1.1

<table>
<thead>
<tr>
<th>Year</th>
<th>Coffee</th>
<th>Tea</th>
<th>Cocoa</th>
<th>Grains</th>
<th>Sugar</th>
<th>Produce</th>
<th>Vanilla and spices</th>
<th>Flowers</th>
<th>Honey</th>
<th>Wine</th>
<th>Nuts and oilseeds</th>
<th>Total</th>
</tr>
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<td>1998</td>
<td>3803</td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td>$3803</td>
</tr>
<tr>
<td>Year</td>
<td>Payments</td>
<td>Returns</td>
<td>Profits</td>
<td>Income</td>
<td>Total</td>
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<td>1999</td>
<td>102,612</td>
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<tr>
<td>2000</td>
<td>212,477</td>
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<td></td>
<td>$212,477</td>
<td></td>
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<td></td>
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<tr>
<td>2001</td>
<td>333,465</td>
<td>10,757</td>
<td></td>
<td></td>
<td>344,222</td>
<td></td>
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<tr>
<td>2002</td>
<td>487,379</td>
<td>30,415</td>
<td>956</td>
<td></td>
<td>518,750</td>
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<td>2003</td>
<td>961,951</td>
<td>43,792</td>
<td>12,171</td>
<td></td>
<td>1,017,914</td>
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<td>2004</td>
<td>1,648,720</td>
<td>62,346</td>
<td>38,291</td>
<td>312,156</td>
<td>2,061,513</td>
<td></td>
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<tr>
<td>2005</td>
<td>2,229,266</td>
<td>177,407</td>
<td>130,233</td>
<td>312,442</td>
<td>2,858,513</td>
<td></td>
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<tr>
<td>2006</td>
<td>3,328,722</td>
<td>244,880</td>
<td>199,164</td>
<td>52,760</td>
<td>4,037,956</td>
<td></td>
<td></td>
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<td></td>
<td></td>
<td></td>
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<tr>
<td>2007</td>
<td>4,941,530</td>
<td>428,435</td>
<td>132,748</td>
<td>39,998</td>
<td>6,091,203</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2008</td>
<td>8,777,297</td>
<td>473,954</td>
<td>261,752</td>
<td>8,125</td>
<td>10,811,825</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2009</td>
<td>10,837,304</td>
<td>454,534</td>
<td>178,871</td>
<td>11,819</td>
<td>13,734,349</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>10,892,875</td>
<td>631,001</td>
<td>298,875</td>
<td>302,835</td>
<td>14,856,511</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>44,667,400</td>
<td>2,557,441</td>
<td>1,253,063</td>
<td>912,662</td>
<td>56,155,218</td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Source: Fair Trade USA

When one considers the low per capita earnings of the countries to which these premium payments are being returned, this amount of income should represent a significant contribution to economic development. Thus, an analysis of those countries which have a high concentration of FT producer organizations provides an opportunity to examine if an identifiable link exists between increased levels of trade and economic development.
Chapter 8

THE MISSING LINK

At this point, it is necessary to draw the reader’s attention back to the stated intention of my analysis which is to examine the linkages between Fair Trade and economic development from a macro perspective. While ethnographic studies have documented positive effects of Fair Trade on micro-pockets of producer cooperatives\textsuperscript{10}, there is far less evidence that these changes are contributing to overall increases in economic development at a macro-level. Undoubtedly, one reason that such literature does not exist is that quantifying the economic impact of Fair Trade on an overall economy would require extensive econometric analyses of numerous variable inputs and outputs, as well as accounting for national, international, and regional policy. This paper does not seek to break ground in this area; rather, it seeks to examine the theoretical underpinnings of Fair Trade’s position within the narrative of development. If Fair Trade is to inextricably link itself to the narrative of ‘free trade’ and correlate market expansion with economic development, then it must be prepared to address questions concerning exactly where such development is occurring.

The difficulty of this position can be understood by examining data from countries in which FT has successfully gained a stake in output production, and yet the evidence of development remains highly suspect. To examine this more closely, I looked at five countries in the global South which have high concentrations of FT producer cooperatives: Colombia, Indonesia, Kenya, Mexico, and Peru. These countries account for 56.7% of all FT coffee producers that export green coffee beans to the United States and 50.6% of the global market (Fair Trade USA 2011 Almanac).

As noted earlier, one would not expect Fair Trade sales to have a measurable impact on the overall economy but following the ‘more is better’ logic of the free trade development theory, it is worth examining whether or not the robust growth in FT markets is translating into an identifiable marker within specific sectors of the economy, primarily the agricultural sector, as each of these countries holds a significant share of FT coffee production, which accounts for nearly half of Fair Trade’s overall sales.

**A Question of Output**

To provide an overview of the agricultural sector of these five countries I looked at two prominent indicators of development as put forth by free trade orthodoxy: value added to the agriculture sector as a percent of GDP, and value added per worker, where value added is defined as the net output of a sector after adding up all outputs and subtracting intermediate inputs.

Fig. 1.2

<table>
<thead>
<tr>
<th>Country</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>8</td>
<td>8</td>
<td>8</td>
<td>7</td>
</tr>
<tr>
<td>Indonesia</td>
<td>13</td>
<td>14</td>
<td>15</td>
<td>16</td>
</tr>
<tr>
<td>Kenya</td>
<td>27</td>
<td>20</td>
<td>21</td>
<td>23</td>
</tr>
<tr>
<td>Mexico</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>4</td>
</tr>
<tr>
<td>Peru</td>
<td>7</td>
<td>7</td>
<td>7</td>
<td>7</td>
</tr>
</tbody>
</table>

Source: World Bank data
Agriculture, value added per worker (constant 2000 US$)

<table>
<thead>
<tr>
<th>Country</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Colombia</td>
<td>2,776</td>
<td>2,871</td>
<td>2,861</td>
<td>2,861</td>
</tr>
<tr>
<td>Indonesia</td>
<td>663</td>
<td>675</td>
<td>706</td>
<td>734</td>
</tr>
<tr>
<td>Kenya</td>
<td>369</td>
<td>371</td>
<td>349</td>
<td>334</td>
</tr>
<tr>
<td>Mexico</td>
<td>3,005</td>
<td>3,169</td>
<td>3,255</td>
<td>3,364</td>
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<tr>
<td>Peru</td>
<td>1,412</td>
<td>1,440</td>
<td>1,530</td>
<td>1,545</td>
</tr>
</tbody>
</table>

Source: World Bank data

Figure 1.2 shows clearly that the value added in the agriculture sector has largely remained constant and only Indonesia has seen incremental increases. Figure 1.3 shows that slight gains have been made in value added per worker in all of the countries except for Kenya. However, these increases are minimal, especially when adjusted for annual inflation, and would not seem to suggest a real link to the benefits of increased Fair Trade volume. Moreover, such small gains would be largely insignificant in affecting the conditions of livelihood for small rural farmers. While this alone does not dismiss the claim that Fair Trade can aid in development, it is worth noting that exceptionally high increases in the volumes of FT commodities being exported from these countries has not translated into a measurable increase in the growth of the overall sector.

A Question of Poverty Reduction

One explanation for this might be that higher volumes of FT products do not necessarily lead to a higher volume of overall trade; producers may simply shift products from mainstream markets to FT markets without changing overall production. Still, the earnings from the social premiums included in the FT price should record some level of impact. In this case the most obvious indicator to look at is that of poverty, as the vast
majority of rural farmers live on wages that are well below the national poverty line. In an effort to find a correlation between the increases in FT premiums (which are paid out directly to the producer cooperatives in cash value) and poverty, I looked at the poverty headcount ratio for each country at their own designated poverty line. See data set Table 2.1 below:

Table 2.1

**Colombia:** Poverty headcount ratio at national poverty line (% of population)

- 2003: 51.2%
- 2004: 51.0%
- 2005: 50.3%
- 2008: 46.0%
- 2009: 45.5%

**Indonesia:** Poverty headcount ratio at national poverty line (% of population)

- 2006: 17.8%
- 2007: 16.1%
- 2008: 15.4%
- 2009: 14.2%
- 2010: 13.3%

**Kenya:** Poverty headcount ratio at national poverty line (% of population)

- 1992: 44.8%
- 1994: 40.3%
- 1997: 52.3%
- 2005: 45.9%

**Mexico:** Poverty headcount ratio at national poverty line (% of population)

- 2002: 50.0%
- 2004: 47.2%
- 2005: 47.0%
- 2006: 42.6%
- 2008: 47.4%

**Peru:** Poverty headcount ratio at national poverty line (% of population)

- 2005: 48.7%
- 2006: 44.5%
- 2007: 39.3%
- 2008: 36.2%
- 2009: 34.8%

This data is far more encouraging as it shows consistent poverty reduction in four of the five countries, with Peru seeing the most dramatic change of nearly 14% from 2005 to 2009. However, when one attempts to correlate these statistics with dollars paid to FT producer cooperatives, the relationship becomes less clear and leaves us to ponder the question of exactly where this poverty reduction is occurring. According to World Bank statistics, the incidence of rural poverty is measurably higher than urban poverty in every country in our study group (World Bank). The small farmer organizations and cooperatives that make up the body of the Fair Trade producer network represent a highly vulnerable segment of society in the developing world as small rural farming provides
more for subsistence rather than profit. Thus, from a developmental perspective we would expect the millions of dollars in social premiums paid to cooperatives to directly affect the lowest percentiles of the overall population. However, when looking at the country poverty statistics there is extremely minimal, and sometimes negative, growth in the income share held by the lowest ten to twenty percent of the population. For example, Peru, whose poverty reduction statistics were most encouraging, the income share held by the lowest twenty percent has remained under 4% since 2000, and actually dropped from 5.5% in 1990. In contrast, the income share held by the highest ten percent of the population has jumped from 33% in 1990 to as high as 43% in 2002, although it had come down to 38.4% by 2008. If we broaden the scope of analysis to include the highest and lowest twenty percent of the population the extreme gap between the wealthy and the poor becomes even more pronounced. For the lowest twenty percent the income share held decreased from 5.6% in 1990 to only 3.1% in 2002 and has remained under 4%, settling at 3.9% in 2008. For the highest twenty percent the income share held increased from 50% in 1990 to 58.5% in 2002 and has come down only a little to 54.3% in 2008. This extreme concentration of wealth is to be found in all five countries studied and in no case has the lowest ten percent of the population seen any real gains in the amount of income share held. In Mexico, the lowest ten percent increased its share only .1% from 1.4% in 2000 to 1.5% in 2008. Yet, it outperformed the lowest ten percent of Colombia’s population which saw a .1% decrease from 1.0% in 1995 to .9% in 2007. How alarming these statistics will be to fair traders depends largely on what the current vision of Fair Trade is. If we accept that the future of Fair Trade is to be defined through seeking increases to the overall share of mainstream markets and nothing more, then the 20% growth in sales is indicative of success. However, if we allow ourselves to consider
a vision of ‘development’ as it was originally implicit to the very concept of Fair Trade then we must question whether the market approach is truly paying 20% dividends.
Chapter 9

THE PIE IS SHRINKING

Despite the extensive trade liberalization undergone by LDC’s since the 1980s, the fact is that they are actually experiencing significant reductions in global trade shares. This is especially true for LDC’s which rely heavily on agricultural exports; by 2001, their share of world trade was only 56% of its 1980 level (UNCTAD, The Least Developed Countries Report 2004, p. 6). At the turn of the century, the enormous wealth gap between the developed and underdeveloped world showed no signs of shrinking. While enormous gains were made in China and India these were offset by the stagnation of the Latin American economies in the 1980s and the massive declines in income in Eastern European countries in the 1990s following the collapse of the Soviet Union (Buckman 2006, p. 149). Former World Bank economist Branko Milanovic (2005) conducted an exhaustive report on income inequality and could find no evidence to support the claim that the expansion of world trade was decreasing world inequality; rather, the evidence shows an increase in the income gap between developed and underdeveloped countries.

False Promises

With the Millennium Development Goals established in 2000, the goal of dramatically reducing global poverty has taken center stage and the international community has found itself struggling to reconcile the facts from free-trade rhetoric. UNCTAD, which over the past four decades had oscillated between supporting statist development to embracing free market theory, found itself confronting the inconvenient truths associated with the free-market’s failure to deliver on its promise of development. In a report on the economic development in Africa they state, “it is clear that the potential role of trade in poverty reduction is not working as expected…..because export expansion
is not associated with an inclusive form of economic growth that is poverty-reducing,” (2003, as cited in Buckman 2006, p. 225). This is bad news for fair traders who continue to hope that more engagement with the global market will somehow translate into economic development. The problem Fair Trade faces is that the largest share of their market is concentrated in the trade of raw materials whose prices have been in continual retreat for the past few decades. From 1990-2003, the World Bank found that the prices of non-energy raw materials coming from low income counties decreased by 8.5%, making them a very weak export base (as cited in Buckman 2006, p. 226). Countries with heavily reliance on raw materials find themselves in an impossible situation, as the only way to combat falling prices is to increase production which ultimately depresses the price even further. One clear example of this is coffee - “between 1980 and 2000 global exports of coffee increased by 60% but the total earnings from coffee over that period declined by 18%” (Buckman 2006, p. 227). Supporters of Fair Trade may argue that the price floor provided by in fair trade contracts is designed to combat this very issue and is therefore a good thing. However, there is no evidence to suggest that such a mechanism will ultimately help reverse the trend of falling prices and dependency on exports with diminishing returns. In fact, economic theory suggests that without other engines for growth that can stimulate a diversification in product exports these price floors will prove to work against themselves. The guaranteed minimum price will attract more producers as other crops suffer through cycles of price instability, this will further increase the dependency on singular crops and lead to higher levels of surplus that cannot be absorbed by the FT market. This over supply will guarantee a permanent repression of the market price and thus the Fair Trade price of $1.26/lb. of green coffee beans will remain frozen indefinitely. When we consider that coffee makes up over 40% of all FT sales, the potential for development becomes increasingly constrained.
Searching for an Explanation

The failure of the free market to usher in a golden age of development as was put forth by neo-liberal thinkers in the early 1980’s as the political pendulum swung to a position that allowed for the dismantling of the protective policies being used by developing countries, has unleashed a new wave of literature seeking to explain why this has occurred. One of the more notable works, due to its mainstream popularity, is *The Bottom Billion*, written by respected economist Paul Collier (2009). Collier seeks to find explanation for the massive inequalities that Milanovic found in his analysis. Collier uses the idea of ‘poverty traps’ which keep a country in a state of stagnation and prevent it from unleashing the transformative effects that are to be found in globalized free markets. He identifies the four poverty traps to be conflict, natural resources, geography (landlocked countries), and bad governance. Collier contends that the wealthy countries in the developed world must intervene to assist these ‘trapped’ countries in reaching a level of development which will then allow them to engage with the market at a high enough level to ensure development. While Collier clearly recognizes the inability of the world’s poorest countries to develop through the market under the status quo, he maintains the position that ultimately development must come through free markets. However, when we look at Collier’s argument through the historical lens of free trade development, as outlined in the first section of this paper, the logical inconsistencies become apparent. State led development projects were intentionally attacked and dismantled by free trade ideologues under the premise that the market always rendered the most equitable and optimal outcome for development. Where these outcomes have not been met, he argues that it is not the fault of the market approach but that there are certain ‘poverty traps’ that the market cannot adequately account for. Yet this runs directly contrary to the premise of the market as an efficient and self-correcting
mechanism for income distribution as defined by free trade and free market proponents. In such situations, Collier and other free market supporters are left with no other recourse than to appeal to foreign governments for aid in development. To make this request more palatable they maintain that it is absolutely essential for the wealthy countries to aid in the development of the world’s poorer countries if markets are going to be allowed to expand to volumes large enough to absorb the surplus levels of capital accumulated in the wealthy countries. Thus, in order to maintain the market approach, foreign powers must intervene and account for the deficiencies of the market in the vast majority of the world where the free market is simply not working.
Chapter 10

THE HIDDEN HISTORY OF DEVELOPMENT

To dig deeper into this issue of trade and development it may be useful to change our direction of analysis. Rather than concentrating on the question of why free trade has not led to development, we should return to the historical record to see how the current world powers successfully used free trade to develop their own economies. Such an analysis would be extremely brief because the historical record clearly shows that the developed countries of today all used highly protective trade policies, far more protective than the policies used by the developing countries in the 1970’s. Furthermore, the successive hegemonic empires of Britain and the United States emerged out of time periods where both countries were the most protected economies in the world.

The Making of a Hegemon

The United States provides for an intriguing case study of economic development simply because it has established a hegemonic empire of unprecedented levels when one considers its share of global trade, foreign direct investment (FDI) and military might. It is the United States that has played the largest role in erecting the current free market ideology and uses its influence in the World Bank, IMF, and WTO to embed this ideology into the sovereignty of the market. Yet, the history of the United States’ ascension to global dominance in no way adhered to the policies it now prescribes to the rest of the world. Economist Ha-Joon Chang’s (2010) poignant deconstruction of the hypocrisy of free trade orthodoxy reveals how the United States, from very early on, pursued highly protective trade policies in order to transform itself from being producer colonies into an industrialized country with a self-sustaining economy. In fact, it was Alexander Hamilton, the first Treasury Secretary, who coined the term ‘infant industries’ and argued for the protection of local industry against the greater forces of competitive
European markets (ironically, it was Hamilton’s infant industry program that served as a blueprint for the Import Substitution Industrialization policies used readily throughout Latin America in the 60’s and 70’s that the United States would so vehemently attack as being trade distorting). Hamilton established a program of tariffs on imported manufactured goods that rose from around 5% in 1798 to 40% by 1820; “Hamilton provided the blueprint for U.S. economic policy until the end of the Second World War. His infant industry program created the condition for a rapid industrial development,” (Chang 2010, p. 50-51). Although there were some calls to lower tariffs from different sectors of the US economy, tariffs actually increased to 40% -50% during the Anglo-American War (1816-1820) and remained that way up until World War I, making the U.S. economy the most protected economy in the world (Chang 2010, p. 55). Yet, during this same time period the U.S. economy was also the fastest growing economy in the entire world, which runs directly contrary to the orthodoxy put forth today which stringently maintains that a reduction in trade barriers is to the direct benefit of developing countries.

**A Familiar Trend**

The historical record shows that the United States’ path to development was by no means an anomaly but rather the rule as followed by many other countries which have successfully developed their economies behind protective barriers, such as Germany, Sweden, France, Belgium, Switzerland, Japan, Taiwan, and Korea (Chang 2006, p. 24-51). Chang points out that not all of these countries relied on tariffs. There are a wide range of tools a country can use to promote internal development, any which may work best for one particular country; these include state-owned enterprises, subsidies, or marketing support.

[Early] German industrialization, promoted industries like linen, iron and steel by means of these methods. Japan started steel, shipbuilding and
railway industries through state ownership and targeted subsidies. In the late 19th century, the Swedish government took the lead in developing the railways. As of 1913, it owned one-third of the railways in terms of mileage and 60% in terms of goods transported. The Swedish government also subsidized R&D from early on. (Chang 2010, p. 58)

After World War II, with its economic power fully established, the United States began to adopt a more open trade policy but this was not true for countries who were seeking to rebuild their economies from the effects of the war. In Europe, France in particular, initiated strong interventionist policies that included central planning, the nationalization of enterprises, and using state owned banks to control investment in strategic areas (Chang 2006, p. 38-39). During the same period, Japan was orchestrating the one of the most historic economic recoveries ever witnessed. With nearly every economic sector severely damaged, the Japanese Ministry of International Trade and Industry (MITI) in conjunction with the Japan External Trade Organization (JETRO) oversaw the strategic development of the entire economy, including trade, banking, and technology. Imports were highly restricted while exports were encouraged to increase holding of necessary foreign currency which was used to purchase better technology; the MITI was extremely deliberate in maintaining enough space for the domestic industries to develop through the accumulation of new technology, and to this end it subsidized credits into key sectors and heavily regulated foreign investment by transnational corporations (Chang 2010, p. 59). These protective measures allowed for the gradual development of industries that previously did not exist in Japan, or were in their very infancy such as the automobile industry.

Faced with the true historical account of industrial development, supporters of trade liberalization typically use the argument that ‘globalization’ has ushered in a new era of world economy in which the old rules simply do not apply. This argument fails to grasp the realities of both the past and the present. While the term ‘globalization’ may be
an advent of more recent times, the international system of integrated economic activity has been a defining feature of the world economy for centuries and has possessed the same dynamics as today’s markets. Furthermore, such a position completely ignores the fact that the two developing giants of the modern day, China and India, have implemented many of the same protective measures mentioned earlier, focusing on strategic integration to the global economy. Both countries have controlled imports behind tariffs up to 30% (even today India’s manufacturing tariffs remain at 25%) and both have carefully managed FDI through entry restrictions, foreign ownership ceilings, and local contents requirements that require foreign firms to purchase a certain portion of their inputs from local producers (Chang 2010, p. 30-31). Still free trade enthusiasts persist in arguing for the power of the market as the controlling force of development and often cite the countries of East Asia, such as Singapore, Taiwan, Hong Kong, and Vietnam as prime examples of what unfettered capital markets can do. Once again, this proves to be a matter of rhetoric rather than an examination of actual fact. Hong Kong is the exception which proves the free trade rule but it remained a British colony until 1997 and has never been an independent state. The other East Asian countries have all developed through careful state planning and strategic investment in key sectors. Moreover, their governments intervened in ways that were previously unheard of such as the promotion of national savings to increase domestic investment. Nobel Prize economist Joseph Stiglitz spoke to this in his book, Making Globalization Work:

All these countries believed in the importance of markets, but they realized that markets had to be created and governed, and that sometimes private firms might not do what needs to be done. If private banks are not setting up branches in rural areas to garner savings, governments must step in. If private banks are not providing long-term credit, government must step in. If private firms are not providing the basic inputs for production—like steel and plastic—government should step in if it can so efficiently. (2006, p. 33)
Getting the Order Right

What Chang and Stiglitz are advocating for is not a withdrawal from capital markets, rather they are recognizing a fundamental truth of economic development; that countries have always required a significant level of government planning and protection for domestic industries in order to successfully integrate into economic sectors in which their local economies are not yet ready to fully compete in. The most important contributing factor to development is the ‘acquisition of productive knowledge’ which requires countries to engage with players who possess more advanced technologies than they do. Therefore, developing states must be allowed to set rules that will allow them to engage in a more equitable manner. Stiglitz contends that the problem with many of the policies put forth by the neo-liberal school of thought is that the causality of development is wrong. Supporters of the free market approach argue that the deregulation of trade and the liberalization of financial markets will increase global capital flows which will in turn lead to more economic development in the developing world. But Stiglitz notes that historically this type of capital investment in emerging markets “follows, rather than causes, economic growth” (2006, p. 99). Hence, the neoliberal orthodoxy seems to contain all the pieces for development but the order of application is backwards. Before countries can compete on a level playing field of competition they require time to mature and develop the necessary industries which will allow them to engage in the market without incurring a level of debt that facilitates a convergence towards highly dependent, raw material producing economies. The vision of ATO’s in the mid-twentieth century which nurtured the maturation of the modern Fair Trade movement centered directly upon this historical perspective of development. They sought to open channels of trade which allowed marginalized producers to participate in mainstream markets while simultaneously advocating for protective trade policies that had served as economic
imperatives for the now developed countries. Once these protections were abolished, developing countries lost the capacity to develop through internal means and were further pushed into a position of debt and dependence disguised as aid. Sovereign authority of these states has eroded to a degree that even once the mainstream has recognized the inadequacies of the market to fulfill the promise of development, the proposed remedy continues to rest in the hands of foreign, wealthy governments rather than allowing countries to make self-determined choices and engage the market with the same tools which were so readily utilized for development in the past.
Chapter 11

CONCLUSION

As discussed at the outset of this paper, it is my conjecture that Fair Trade is best understood within the context of the emerging IPE and particularly in conjunction with the evolution of free trade policy. Proponents of Fair Trade may assail this analysis for being overly critical of a market initiative that is providing increased returns for impoverished communities throughout the globe. As noted throughout the paper, the intention here is not to dismiss the positive impacts that Fair Trade has brought to individual producers and local communities, but rather to draw the lens back and examine the FT movement from the perspective of market-driven development that it has come to embrace. The historical narrative of Fair Trade’s evolution from a counter-hegemonic ideal to a market-based commodity requires supporters of the movement to question the long-term viability of free-market economic development as defined in the current IPE.

A second criticism that may arise is of the over-simplification of the ideological positions held by ATO’s in the 1950’s and 60’s, and modern FTO’s; where the former supports statist development and the latter supports a free-market capitalist approach. Indeed, nuanced differences in social, political, and economic thought have varied across organizations represented in the broader Fair Trade movement. Nonetheless, it would be wrong to conclude that the current position of Fair Trade has not been heavily determined by the political tensions put forth in this paper. To understand any missteps of Fair Trade we must examine the successes of free trade orthodoxy, and lay bare the fact that this was not a natural end to a natural process of social evolution, but rather it was the determined end of a political project. Whether disguised as economic theory or exalted as military might, it has remained the same project. It is the project of power, of resource control, and the determined right to choose what is right for others. Viewed through a true
historical lens of economic development, the visions held by Alternative Trade
Organizations and the statist led development projects in the 1950’s and 60’s were in no
way radical rejections of free trade, rather they were following the lead of those who had
succeeded before them in developing both inside and outside of the market. It was from
this vision of autonomous development that the Fair Trade movement was birthed.
Recognizing the increasing trend of economic inequality in the international community,
it sought to negotiate fairer terms of trade for the purpose of self-determined development
just as the United States had done so up until the 1940’s. The forced abandonment of this
vision and the subsequent adoption of a free trade approach to poverty reduction has left
the Fair Trade movement ideologically splintered as it embraces an orthodoxy which
rejects the rights of a state to create the necessary space needed to develop its economy
for the general health and well-being of its citizens. Its self-imposed disconnect from
larger political discourses regarding the equitable distribution of resources, restrictions on
foreign investment bodies, and protective measures of development leave it impotent to
fight for the structural changes it once so passionately fought for. In this way the popular
slogan “Fair Trade makes Free Trade work for the world’s poor,” should more accurately
be read as “Fair Trade makes the world’s poor work for Free Trade.” As with
development, the pieces are all there but the order is wrong.
REFERENCES


