



# Fighting the Tide: Alternative Trade Organizations in the Era of Global Free Trade

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**Summary.** — This paper explores the proliferation of Fair Trade organizations, their products, services and client groups in order to establish the impact of this movement. Although small in volume, alternative trade represents a unique response to the relentless pursuit of free trade through the GATT/WTO process. The economic underpinnings of both Fair Trade and subsidy programs in general (such as the EU's Stabilization of Exchange system) are evaluated. Ultimately, alternative trade can provide significant assistance to targeted groups within developing countries, including gains in production and export proficiency. On the negative side, Fair Trade is likely to prolong the dependence of developing countries on products with poor future prospects. © 2002 Elsevier Science Ltd. All rights reserved.

*Key words* — trade, developing nations, commodities, nongovernmental organizations, NGOs

## 1. INTRODUCTION

In December 1999, the meeting of the World Trade Organization (WTO) in Seattle was accompanied by the violent protests of groups supporting environmental and labor causes. As the process of globalization has accelerated, driven largely by the WTO—and its imbedded GATT protocols—a backlash against unrestrained free trade has emerged. For the most part, this reaction has occurred on the political front, most visibly with the continued protests against the WTO, but also through proposed legislation that addresses the perceived shortcomings of unrestrained free trade. At the grass-roots level, a less perceptible but nevertheless growing movement has been underway to pursue Fair Trade, also known as alternative trade, which entails the marketing of products at greater than free market prices.

The supporters of Fair Trade regard free trade pricing as fundamentally unfair to developing countries, particularly as the terms of trade have turned against the exports of these countries over the last three decades. As a result, these states have been forced to export an increasing volume of goods in order to maintain their level of imports from the industrialized countries. In addition, the relative decline in prices has contributed to the recent debt crisis in the poorest countries of Africa and Asia, a situation that forced the forgiveness of a

significant volume of debt that these countries had accumulated. Supporters of alternative trade view a reorientation of relative prices as essential to any recovery in these economies.

The great majority of Fair Trade activity is devoted to altering the prices of two distinct classes of products, commodities and handicrafts. A significant number of Alternative Trade Organizations (ATOs) have formed to market and distribute products such as tea, coffee and cocoa at higher than free trade prices. The number of ATOs that support the export of handicrafts is even greater. Typically, these craft-related organizations have taken the form of producer cooperatives, which provide marketing and other services to their members. As will be described below some Fair Trade organizations target their services toward assisting a particular group, such as refugees or the handicapped, while the majority provide services to producers in general.

The alternative trade movement, as it has developed over the last 20 years, has taken two distinct forms. In the industrialized world, Fair Trade has been conducted primarily through storefront operations that offer products from the developing world at subsidized prices. Examples of this form of Fair Trade include Oxfam, (UK), TWIN (UK), SERRV (US),

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Bridgehead (Canada) and Nepali Bazar (Japan). The majority of items offered for sale in these establishments are handicrafts, although some commodities, such as tea and coffee, are also sold. In the developing world, on the other hand, Fair Trade is conducted largely by producer groups that provide a variety of services to their members, such as marketing, product development, financing, and distribution services. Although these two forms of alternative trade function in very different ways, they both rely on the goodwill of individuals in the industrialized world to purchase products at higher than free market prices.

Although a large number of organizations engage in Fair Trade, it is not entirely clear what constitutes a "fair" price for the exports of developing countries. Typically, supporters focus on securing a price that provides an adequate (frequently defined as subsistence) standard of living for producers. Alternatively, Fair Trade pricing is sometimes expressed in terms of the tradeoff between exported and imported goods (e.g. the number of bags of coffee that must be exported in order to import a television set). Supporters of alternative trade argue that relative prices for commodities and handicrafts tend to be fundamentally unfair. Unfortunately, unlike the criteria detailed above, there is no clear way of establishing a ratio for fair exchange.

## 2. ALTERNATIVE TRADE ORGANIZATIONS AS PART OF THE NGO MOVEMENT

The most comprehensive examination of Fair Trade was conducted by Littrell and Dickson in their 1999 book, *Social Responsibility in the Global Market*. The authors examined, in detail, the activities of a number of the most prominent ATOs, including SERRV, Ten Thousand Villages, Pueblo to People, and Marketplace. In addition, they provided an analysis of the goals and conduct of Fair Trade organizations, and how this related to the preservation of indigenous products. Perhaps most important, the authors compiled some evidence on the pricing practices of Fair Trade organizations, thereby addressing the most difficult issue facing the movement. Additional analyses of ATOs, specifically related to clothing and textile production can be found in articles by the same authors (see Dickson & Littrell, 1997; Littrell & Dickson, 1997; Littrell & Dickson, 1998).

The rise of alternative trade is inextricably linked to the rise in the influence of nongovernmental organizations (NGOs) over the last two decades (see Fisher, 1993; Fox & Brown, 1998; Kakabse & Burns, 1994; Livernash, 1995; and Cernea, 1988 for an examination of the expanding role of NGOs). In contrast to larger official institutions, such as the World Bank and the IMF, NGOs have been able to target aid to meet the needs of small populations. Authors such as Edwards and Hulme (1995) and Fowler (1997) have examined the advantages these institutions enjoy when flexible, situation-specific programs are supported. Edwards (1999) utilized the experiences of NGOs operating in India and Bangladesh to detail the characteristics of successful programs. The author concluded that establishing and maintaining local linkages, coupled with a proper balance between raising the standard of living and promoting social and organizational development, resulted in more effective programs (Edwards, 1999, p. 371). Howes (1997) analyzed the experiences of NGOs in Kenya as a means of illuminating the factors that contribute to successful NGO activity. The author found that geographical concentration of resources and the pursuit of a flexible approach were critical factors in the success of the organizations. Additional insights on effective NGO operations can be found in the anthology by Commonwealth Foundation (1995).

It is apparent that the World Bank and the NGO movement frequently pursue similar goals, a situation that has resulted in significant cooperation between the Bank and these organizations. Bhatnagar (1991), Commins (1996), Nelson (1995) and Salmen and Eaves (1991), all provide details on these collaborations, and their degrees of success. A thorough examination of the Bank's view of these cooperative projects can be found in Operations Policy Group (World Bank, 1995). Weiss and Gordenker (1996) took a somewhat different approach, examining how links between the United Nations and NGOs relate to worldwide governmental institutions.

## 3. THE FORM, COMPOSITION AND OBJECTIVE OF ALTERNATIVE TRADE ORGANIZATIONS

An examination of the membership of the International Federation of Alternative Trade,

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