



# 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.

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## 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,

IFAT (2001), as it appears on the organization's website, will be utilized to produce a summary sketch of the characteristics of ATOs as they exist today. Clearly, this analysis will be imperfect, as it is impossible to secure information on the complete population of ATOs. The information provided in Table 1, which lists features of 57 ATOs,<sup>1</sup> elucidates how alternative trade is structured. Table 2 shows a breakdown of ATO activities and products. It becomes clear that Fair Trade organizations are differentiated both by region and the economic underpinnings of their home country.

All of the ATOs on the Indian subcontinent support the production and sale of handicrafts, with one organization also promoting silk and food products. In addition, all eight provide marketing services of one form or another. One of the alternative trade organizations (Silence) was established to assist handicapped artisans. Several ATO representatives assert that they provide "skill upgrades" as part of their services, presumably assisting the development of additional products for export. One organization maintains a shared export facility for its members (United Artisans of Bangladesh), and two list networking as one of the major member services. Although not all of the ATOs provided information on the number of members in their organizations, it is typically in the thousands (ECOTA's membership includes 75,000 artisans from its 16 associations). In Nepal, the Fair Trade Group also provides marketing services to its members, most of whom are women. Finally, in Sri Lanka, Gospel House represents a different model for ATOs, for it provides direct employment for approximately 90 workers, and markets the toys and handicrafts that its members produce.

As for the industrializing economies of Southeast Asia (Thailand, Indonesia, Philippines), all four Fair Trade organizations support the export of handicrafts, with PREDA Fairtrade also marketing dried fruit. This association is also unique among the ATOs listed in that it is focused on assisting women. The Pekerti Foundation of Indonesia is devoted to joint product development and sale, activities that go well beyond the goals of most Fair Trade organizations. In general, the ATOs in the region are similar to those in India and Bangladesh, although they tend to be smaller in size.

In Central and South America, two of the five ATOs listed engage in joint marketing, while three assert that they provide export as-

sistance, a somewhat different type of service. In addition, the two Peruvian organizations, Minka and the Integrated Centre of Peruvian Artisans (ICPA), provide micro-lending, an activity that accelerates product development. With the exception of ICPA, the organizations in the region are smaller than those in Asia. Several of these ATOs, notably those in Peru, have a stated goal of producing traditional handicrafts as a means of preserving the indigenous culture.

On the African continent, ATOs are particularly active in Kenya. That country's five Fair Trade organizations promote the sale of handicrafts and provide marketing services of some type. The Gatsby Marketing Center is the most ambitious of the group, for beyond marketing, it also supports product development and provides micro-lending services. The organizations listed for South Africa, Tanzania, and Uganda, provide the typical marketing services of most ATOs, although NAWOU is distinct from the others in that it clients are women.

The Fair Trade groups operating in the developed countries have the distinct advantage of being able to market their products directly to consumers through retail venues, catalogues and on-line sites. These retail channels allow ATOs to offer products from developing countries at premium prices. In addition, Fair Trade organizations can expand their product lines beyond handicrafts and commodities, to include clothing, books, wine and textiles.

In Australia, the storefront operations of Trading Partners focuses on handicrafts, while Aid Through Trade offers crafts, as well as books, coffee and tea. Canada's Bridgehead markets coffee and handicrafts through both coffeehouses and catalogues sales. The Canadian-based Ten Thousand Villages maintains 180 storefronts in North America and also markets its products through craft fairs. Of the four IFAT members in the United States, only SERRV International markets its goods—handicrafts produced to benefit refugees—through storefronts, although it also sells its products through churches. The other US ATOs under consideration assist producers in the developing world by way of marketing services, with Aid to Artisans also offering product development and micro-lending. Equal Exchange is unique in offering a sole product, coffee. Of the IFAT members listed in Europe, only those in the United Kingdom, Ireland and the Netherlands report that they maintain

Table 1. *Alternative trade organizations that are members of IFAT*

Country	ATO	Clients	Products	Services offered
India	Asha Handicrafts (a)	103 Producer groups	Handicrafts	Financing, marketing education, medical grants
	Orupa Rural and Urban Producer Association (b)		Handicrafts	Marketing and promotion
	Sasha Association for Craft Producers (a)	60 Community-based groups	Handicrafts	Marketing and promotion
	Silence (c)	72 Handicapped artisans	Handicrafts	Marketing and promotion
	South India Producer Association (a)		Handicrafts, silk, foods	Marketing, networking, skill upgrading
	Tara Projects (a)		Handicrafts	Political lobbying, craft community development
Bangladesh	United Artisans of Bangladesh (d)	10,000 Artisans	Handicrafts	Shared export facilities
	ECOTA (a)	75,000 Artisans	Handicrafts	Marketing, product design and development
Indonesia	Pekerti Foundation (a)		Folk art, handicrafts	Product development and marketing
Nepal	Fair Trade Group (e)	9 Fair Trade organizations	Handicrafts	Marketing (assists mainly women)
Philippines	Community Crafts (a)	2000 Artisans	Handicrafts	Marketing
	PREDA Fairtrade (f)		Handicrafts, dried fruit	Marketing
Sri Lanka	Gospel House Handicrafts (a)	90 Workers	Handicrafts, toys	Full-time employer
Thailand	Thaicraft Association (a)	60 Groups of Artisans	Handicrafts	Marketing
Chile	Comparte Chilean Handicrafts (g)	400 Workshops	Handicrafts, gifts	Exporting company
Guatemala	POP ATZIAK (a)	435 Artisans	Handicrafts	Marketing
	Mexico Xochiquetzal (h)		Handicrafts	Exporting services
Peru	Interegional Centre of Peruvian Artisans (i)	700 Artisans	Handicrafts	Exporting and training rotary lending
	Minka (j)	9000 Producers	Handicrafts	Marketing and training micro-lending
Kenya	Bombolulu (k)	160 Workers	Handicrafts, tailoring	Workshops and marketing
	Gatsby Marketing Center (k)		Handicrafts, textiles	Marketing, product design, micro-lending
	Kisumu Innovation Centre (a)	3 Producer groups	Handicrafts	Marketing
	Machahos District Coop Union (a)		Handicrafts	Marketing
	Undugu Society of Kenya (a)		Handicrafts	Marketing
South Africa	Just Exchange of South Africa (a)		Handicrafts	Marketing, product development
Tanzania	Handicraft Marketing Co. (a)		Handicrafts, textiles	Marketing
	Nyumba Ya Sanaa		Handicrafts, textiles	Marketing
Uganda	NAWOU (a)	50 Community-based groups of women	Handicrafts	Marketing

Table 1—*continued*

Country	ATO	Clients	Products	Services offered
Australia	Aid Through Trade (l)		Handicrafts, coffee, wine, books, CDs, tea	Storefronts
	Trading Partners (m)		Handicrafts	Storefronts
Canada	Bridgehead (n)		Handicrafts, coffee	Coffee houses, catalogues
	Ten thousand villages (o)		Handicrafts	180 Storefronts
Japan	Global Village (p)		Clothing	Marketing, group workshops
	Nepali Bazar (q)		Handicrafts, beverages	259 Shops
United States	Aid to Artisans (r)		Handicrafts	Marketing, product development, micro-grants
	Equal Exchange (s)		Coffee	Marketing
	Marketplace (t)		Clothing, gifts	Marketing
	SERRV International (u)	Refugees (Originally)	Handicrafts	Storefronts and marketing through churches
Austria	EZA (v)	90 Producer groups in 30 countries	Coffee, tea, cocoa, fruit	Catalogues
Denmark	Butick Salam (w)		Handicrafts	On-line shopping, catalogues
Germany	Dritte-Welt Partner (x)		Cocoa, coffee, tea, handicrafts	On-line shopping, catalogues
	Team Versand (y)		Handicrafts, coffee, tea	Catalogues
	El Puente Partners (z)		Handicrafts, coffee, tea, chocolate	Catalogues
	Fairtrade EV (aa) GEPA (bb)		Handicrafts Coffee, tea cocoa, handicrafts	Marketing, training Catalogues
	Topqualitea (cc)		Teas from India	Catalogues
Ireland	Oxfam Ireland (dd)		Handicrafts	Shops
Italy	Commercio Alternativo (ee)		Handicrafts, coffee	Catalogues
	Altomercato (ff)		Handicrafts	Catalogues
	Equomercato (gg)		Handicrafts, coffee, tea	Catalogues
Netherlands	Fairtrade (hh)		Handicrafts	Storefronts
Sweden	Alternative Handel (ii)		Clothing, furniture handicrafts	Marketing by direct contact with cooperatives
United Kingdom	Body Shop (jj)		Healthcare products	Storefronts
	Oxfam UK (kk)		Handicrafts, food	300 Storefronts
	Shared Earth (ll)		Stationary	4 Shops
	Traidcraft (mm)		Chocolate, wine, coffee	Catalogues and 5000 Fair Trade "contacts"
	Tropical Wholefoods <sup>a</sup> (nn)		Cereals, fruits, spices	Catalogues, marketing to health food stores

a: [www.peoplink.org](http://www.peoplink.org), b: [www.orupa.com](http://www.orupa.com), c: [www.silence-india.com](http://www.silence-india.com), d: [www.basebangladesh.com](http://www.basebangladesh.com), e: find, f: [www.subicnet.com](http://www.subicnet.com), g: [www.xmission.com](http://www.xmission.com), h: [www.laneta.apc.org](http://www.laneta.apc.org), i: [www.ciap.org](http://www.ciap.org), j: [www.transparencia.org](http://www.transparencia.org), k: [www.africaonlin.co.ke](http://www.africaonlin.co.ke), l: [www.caatradings.org](http://www.caatradings.org), m: [www.tradingpartners.com](http://www.tradingpartners.com), n: [www.bridgehead.ca](http://www.bridgehead.ca), o: [www.tenthousandvillages.com](http://www.tenthousandvillages.com), p: [www.globalvillage.or.jp](http://www.globalvillage.or.jp), q: [www.yk.rim.or.jp](http://www.yk.rim.or.jp), r: [www.aid2artisans.org](http://www.aid2artisans.org), s: [www.equalexchange.com](http://www.equalexchange.com), t: [www.marketplaceindia.com](http://www.marketplaceindia.com), u: [www.serrv.org](http://www.serrv.org), v: [www.eza3welt.at](http://www.eza3welt.at), w: [www.salam.dk](http://www.salam.dk)

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<sup>a</sup>Tropical Wholefoods provides solar ovens to producers in developing countries, and sells the resulting products (dried fruits and spices).

Table 2. Summary of ATO activities and products

Item	Number of ATOs	% of sample
<i>By product</i>		
Handicrafts	48	84.2
Clothing	6	10.5
Coffee	11	19.3
Tea	8	14.0
Cocoa	2	3.5
Dried fruit	3	5.3
Wine	2	3.5
<i>Services offered</i>		
Marketing	49	86.0
Product development	5	8.8
Financing	5	8.8

Source: Figures derived from Table 1.

operations, while most of the continent's ATOs depend on catalogue sales and on-line shopping. Nepali Bazarō of Japan also markets products from developing countries through storefronts (260 in total) that sell both handicrafts and beverages. Taking a different approach, Global Village, also of Japan, supports group production facilities that manufacture clothing. In general, it can be said that the consumer-oriented economies of the industrialized world have provided many ATOs with fertile ground for this nascent, but nonetheless expanding, and increasingly visible, social movement.

4. THE ECONOMICS OF FAIR TRADE

Unlike most direct subsidy programs, the premiums received by producers within the ATO movement do not necessarily result in surplus production. The marketing and sales promotion services provided by ATOs are intended to increase the demand for products made by their members, resulting in both higher prices and increased quantities sold. Consumers in the industrialized world receive not only the handicraft item or commodity

purchased, but also benefit from the "warm glow" of subsidizing a subsistence laborer in the developing world. Consequently, the marginal benefit of these products is greater than their simple utility value, thereby leading to an increase in demand.

This type of subsidization is inferior to direct payments to individuals, as is demonstrated in Figure 1. A typical handicraft producer derives utility from leisure (*L*) and the purchase of a good (*Y*) along the budget line *B*<sub>1</sub>. Subsidizing the price of exports (*P*<sub>x</sub>) results in an asymmetric shift along the vertical axis, leading to relatively more labor and less leisure, and equilibrium on indifference curve *I*<sub>2</sub> and budget line *B*<sub>2</sub>. A smaller, direct subsidy paid to producers can achieve this level of utility (see budget line *B*<sub>3</sub>), although it has the somewhat unpleasant result of producing a positive income even in the absence of any labor (see point *L*<sup>\*</sup>). The only significant drawback of direct subsidies is the difficulty of soliciting contributions of this form, as there is nothing but the psychic reward of social consciousness to induce individuals in the industrialized world to make this sort of donation.

This result, which can be demonstrated numerically in terms of income generated, demonstrates the importance of the elasticity of

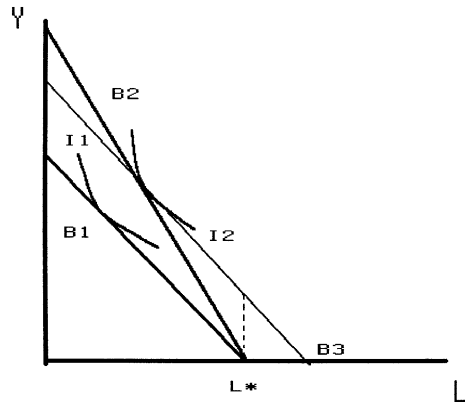


Figure 1. Subsidization vs. direct payments.

supply. Initially, the price and quantity sold are represented by

$P_H$  = price of handicraft

$Q_H$  = quantity of handicrafts

$r_H$  = cost of raw material requirements  
per unit output

As production is taking place in the informal sector, the net income of the artisan can be represented simply by

$$P_H Q_H - r_H Q_H \quad (1)$$

After a shift in demand generated by ATO marketing, the new net income is

$$P_H(1+a)Q_H(1+b) - r_H Q_H(1+b) \quad (2)$$

where  $a, b > 0$ . The difference between (1) and (2) is simply

$$(a+b+ab)P_H Q_H - br_H Q_H \quad (3)$$

Thus it is the subsidy received by the artisan net of new costs. The cost to a purchaser (in the industrialized world) of  $Q_H$  units is

$$P_H(1+a)Q_H(1+b)$$

which exceeds the subsidy by  $br_H Q_H$ . Consequently, a smaller cash payment would be required to bring the artisan up to a particular income level when compared to subsidization through the promotion of sales. Both options would presumably provide a similar psychic benefit to the individual making the donation.

The difference between the direct subsidy and the ATO purchase depends upon  $b$ , the responsiveness of supply to changing prices. If  $b$  is small (supply inelastic), there is little difference between the two approaches. If  $b$  is large, which is more likely in the informal sector, then there is a significant variance (in monetary terms) between the two approaches, and cash payments are therefore superior. It is difficult to imagine the establishment of a direct subsidy program that simply paid cash grants to artisans that wanted them. This analysis is simply meant to demonstrate that price subsidies of this form are unlikely to be efficient, and in many cases are highly inefficient.

Another intriguing question surrounding Fair Trade concerns its impact on the traditional market for commodities and handicrafts. In the case of the former, alternative trade is simply too small to impact the worldwide supply of and demand for products like coffee and cocoa. For handicrafts, however, one can

envision Fair Trade activity affecting prices in the traditional market by both reducing demand (as some consumers switch to ATOs to purchase products) and reducing supply (as some artisans are drawn out of the traditional market). If the reduction in supply exceeds the drop in demand, prices could increase in the traditional market as a result of rising prices in the alternative market, a somewhat unanticipated benefit for artisans who are not part of an ATO.<sup>2</sup> It is the uniqueness of handicraft products made in a particular country that could make such an outcome possible.

### 5. EVALUATING THE FAIR TRADE MOVEMENT

It is apparent from the list in Table 1 that ATOs have assisted a great number of people in the developing world. The Fair Trade movement has several key advantages over governmental programs that have been utilized to assist producers in the less industrialized world (see the discussion of Stabilization of Exchange (STABEX) below). First, whereas aid programs tend to be spread out over entire populations, ATOs have been able to assist specific groups, thereby enabling these organizations to have a more significant effect on the standard of living of those receiving assistance. In addition, Fair Trade entities can focus on specific groups of the disadvantaged (handicapped individuals, women, refugees, etc.). Second, the Fair Trade movement has emphasized the preservation of traditional products of the developing world, notably handicrafts. The acceleration of global free trade has tended to undervalue these goods, at least from the perspective of individuals seeking to preserve indigenous cultures.

The pursuit of fair trade has two primary drawbacks, both of which are difficult to address. In the first place, the implausibility of helping all artisans within a given country results in the fact that ATOs tend to create an advantage for the particular group of producers being assisted. Since all evidence suggests that the handicraft trade is highly competitive, the producers outside the ATO are potentially harmed by the resulting shift in demand, with the exact outcome depending on the supply and demand elasticities (see caveat above). In addition, the emphasis of Fair Trade organizations on traditional products may prolong the economic dependence of developing countries. The "artificial" increase in the price of

handicrafts, textiles and commodities provides an incentive for individuals to continue to market these products, regardless of the relatively poor economic prospects of producing these goods in the long-term. The counter-argument presented by those in the ATO movement is that Fair Trade can provide a subsidy to producers during periods of transition from traditional products to higher-return goods. The challenge is to provide the necessary mechanism to encourage this transition even as the rate of return on the production of handicrafts is being elevated. Finally, the Fair Trade movement relies almost entirely upon the continued largesse of individuals in the industrialized world. The willingness of consumers to pay higher than free market prices may fluctuate with the economy, leaving craft producers to compete once again in a market characterized by chronic oversupply.

The supporters of alternative trade would assert that the economic analysis provided above does not provide an adequate assessment of the benefits of Fair Trade over the long-run. The movement is likely to produce a number of nonpecuniary benefits to both producers and consumers that are not easily translated into monetary terms. The preservation of indigenous cultures and products is regarded as one of the most significant benefits of alternative trade, since artisans were being forced to abandon the production of such items, and focus on goods with a higher rate of return. As noted above, several ATOs operating in Peru have a stated goal of supporting the manufacture and export of traditional crafts. As stated in a promotional brochure from Ten Thousand Villages.

Making Handicrafts is a way to pass one's culture and skills to the next generation. But as the outside world pushes at the village, taking its natural resources and often its children, it becomes more and more difficult to live the village way of life.<sup>3</sup>

The development of direct linkages between artisans in the developing world and consumers in the industrialized world is also a critical goal of the ATO movement. As stated in the statement of principles of IFAT, Fair Trade Products

have meaning above their tangible attributes; consumers are informed about the people who make the products they purchase, increasing their loyalty and understanding that their purchasing power makes a difference.<sup>4</sup>

Thus, the intention is to encourage consumers to become more aware of the standard of living of subsistence workers in the developing countries, and to regard its improvement as an important international goal. It is difficult to imagine this form of consciousness-raising occurring in a traditional retail setting.

Two significant long-term economic benefits that have not been addressed may accrue to participants in alternative trade. First, membership in an ATO provides many artisans with their first significant experience with markets and consumer preferences. As has been the experience for many Fair Trade organizations (see Littrell & Dickson, 1999), the initial price charged for many ATO products was not viable, and had to be adjusted to conform to market conditions. Thus, over time, knowledge is accumulated about the marketability of specific goods. This requirement that products succeed in international markets also promotes the upgrading of skills in the informal sector of developing economics, so that exported goods are better received abroad. Second, many items marketed through alternative trade eventually undergo some degree of product development, a process that would presumably not occur if no demand existed. Hence, in the long-term, Fair Trade provides an opportunity for workers to acquire the skills necessary to compete in markets beyond handicrafts and commodities.

## 6. ALTERNATIVE MEANS OF SUBSIDIZING PRODUCERS IN DEVELOPING COUNTRIES

Before the Fair Trade movement began to play a measurable role in the world trading system, the industrialized countries had utilized two major mechanisms for altering the terms of trade facing producers in the developing world. The first, incorporated into the GATT framework, was the Generalized System of Preferences (GSP), which permitted developed countries to apply preferential tariff rates to imports originating in developing countries (a violation of the Uniformity of Treatment clause imbedded in the GATT). Although the application of the GSP system was uneven, the resulting (tariff-reduced) increase in demand provided a *de facto* subsidy to a number of products. The GSP system differs significantly from Fair Trade in that direct price subsidies



are not granted, but rather, producers benefit from the increased access to markets that lower tariffs bring.

The other primary program of subsidization undertaken by the industrialized world was the European initiative known as STABEX. STABEX dates to the early 1970s, when it became clear to the members of the European Community (EC) that fluctuations in commodity prices were causing significant harm to the economies of the developing countries. The EC then entered into negotiations with the African, Caribbean and Pacific countries (composed primarily of former European colonies) which were dependent on commodity exports for their economic health. The drafting of the Lome Conventions (Lome I–IV) laid out the financial resources of STABEX, and the responsibilities of both donors and recipients (see European Commission, 1997). In 1997, the WTO determined that the Lome system violated the uniformity of treatment clause of the world trading system. STABEX is destined to be replaced by a system of direct grants (see Atarah, 2000; Media Institute of Southern Africa, 1999 for details).

The transfers under the Lome system were granted to nearly 70 countries applied to nearly all commodities that were produced and exported from the developing world (over 50 products). Target prices were established for these products and the STABEX system made up the difference when prices fell short of the established goals. The resulting financial obligation far exceeded the resources of the EC program, at least initially. Indeed, in some years, the STABEX system paid out only a portion of the total promised each country. In 1991 and 1992, for instance, the STABEX payments represented only 35% and 38%, respectively of the agreed upon obligations. In the years that followed commodity prices firmed and the program's resources were sufficient to meet the targeted subsidies. In 1994, the first year that the system went back into the black, 201.1 million ecu were allocated, but only 138.0 million were distributed.

As a generalized system of subsidies, the STABEX program avoided one of the major pitfalls of the ATO movement: It did not differentially benefit one group of producers over another. The subsidies were granted on the intergovernmental level and dispersed directly to individuals or utilized to improve production techniques. (For an evaluation of the performance of STABEX in Africa, see Collier,

Guillaumont, Guillaumont, & Gunning, 1997.) Like the alternative trade movement, however, the STABEX system promoted continued dependence on agricultural exports that were already in excess supply. Although the EU supported the use of STABEX transfers to pursue diversification of production, in practice, funding usually was used to raise output in existing export sectors, or simply to provide direct grants to farmers harmed by falling prices. Consequently, the program did little to eliminate the long-term dependence of developing countries on raw materials exports.

## 7. CONCLUSION

The Fair Trade movement is a unique response to the continued pursuit of unrestrained free trade through the GATT/WTO process. In contrast to many environmental and labor groups, which have fought free trade through protests and political action, alternative trade organizations and their supporters have carved out a niche in the trading system that fulfills their goals, even as the world's remaining trade barriers continue to dissolve away. Although Fair Trade will likely never represent more than a fraction of total world trade, its continued expansion will nevertheless result in rising living standards for a least a segment of the population of the developing world.

As noted, alternative trade has two significant shortcomings: it differentially assists one set of producers, potentially at the expense of others, and it promotes continued reliance on products that are arguably poor prospects in the long-run. The first difficulty can be ameliorated through the expansion of Fair Trade to include a greater number of producers and a wider range of products. The second issue requires a fundamental change in the philosophy of ATOs. The near complete dominance of handicrafts in the mix of products offered through alternative trade retards the diversification of production that is fundamentally necessary for the economic advancement of developing countries. Although Fair Trade can be an important tool in raising the living standards of a segment of a country's population, it still relies on the goodwill of individuals in the industrialized world in order to function. In the long-term, product diversification will ensure that these countries have something to sell even if that largesse were to erode.

## NOTES

1. Although the IFAT website contains information on significantly more ATOs, only 57 had working links and complete information.
2. This result is only possible due to the increased demand for handicrafts generated by the actions of the ATO. As prices for handicrafts are increased in the alternative market, they may also be driven up in the traditional market.
3. Ten thousand villages promotional materials, 1997.
4. See [www.ifat.org/dwr/definition](http://www.ifat.org/dwr/definition).

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