



The Centre For Business Relationships,  
Accountability, Sustainability and Society  
Comment and Analysis

**A Response to the Adam Smith Report  
& A New Way to Think About  
Measuring the Content of the Fair Trade  
Cup**

**Alastair Smith**



The Centre for Business Relationships  
Accountability, Sustainability & Society

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# Content

Content .....	3
Executive Summary .....	4
Definitions .....	6
Introduction: Out with the fair and in with the free? .....	8
Part One .....	11
A Word on Methodology: Conclusive or questionable? .....	11
Part Two .....	14
Is Fair Trade the Only Charity that Does Not Deserve Patronage? A point by point rethink .....	14
Is Fair Trade Unsustainable? .....	14
Does Fair Trade Deprive Worthier Certification Schemes? .....	15
Does Fair Trade Deprive Other Charities? .....	18
Is Fair Trade Charity? .....	18
Does Fair Trade Only Help a ‘Select Few’? .....	21
Does Fair Trade Make the Excluded Worse Off? .....	25
Is Fair Trade Unfair for the Consumer? .....	27
Is Fair Trade Less Efficient than Other Strategies? .....	30
Conclusion .....	32
Part Three .....	34
Liberalisation Alone as the Best Means to Growth with Equality: A critique .....	34
What China and India Really Show: poverty reduction and the importance of unorthodox compliments to liberal policies .....	35
Growth in Hong Kong: the importance of establishing contingencies in promoting liberalisation .....	38
The Importance of Regulating Markets: Other evidence linking management and poverty reduction .....	39
Is It Clear That Liberalisation Reduces Poverty? .....	42
Conclusion .....	44
Part Four .....	46
The Importance of Micro Realities: An alternative theory with which to consider Fair Trade .....	46
The Developing World as an Unstable Environment .....	47
Risk Management is Costly .....	49
Further Costs that Dissuade a Response to Market Signals .....	51
The Consequences of Micro Realities: Why macro analysis is not enough .....	53
Why Free Markets Do Not Necessarily Promote Diversification .....	54
Conclusion .....	56
How Fair Trade can Alleviate Capability Constraints for Poor Producers .....	57
The Provision of Credit .....	59
Minimum Prices as a Stabiliser .....	60
Long Term Contracts as a Stabiliser .....	63
The Social Premium .....	64
Conclusion .....	67
Overall Conclusion .....	68
Appendix One .....	72
Cited References .....	74

## Executive Summary

Overall the analysis in this paper agrees with the Adam Smith Institute in that:

- There is a serious need for ongoing research and evaluation of Fair Trade (and indeed any poverty reduction or developmental intervention) to ensure that resources are not wasted in well intended yet inefficient, or, utility reducing strategies.
- Fair Trade should not be accepted or promoted as, the only or the best consumption based strategy for alleviating poverty. There are many worthy certification schemes and charities that are well deserving of support.
- The provision of appropriate incentives for producers and consumers inside a regime of international trade is strongly linked to incidences of economic growth and poverty reduction.

However, our own analysis leads us to seriously question other aspects of the Adam Smith Report in that:

1. The specific arguments against Fair Trade lack a credible basis in either empirical evidence or theoretical understanding because:
  - Many of them are no more than assertions bereft of any attempt to cite evidence.
  - While some points do reference appropriately rigorous academic and institutional research, other evidence is of a lower and arguably insufficient standard of credibility.
2. There is a lack of cohesion as many of the criticisms of Fair Trade contradict the suggestion that patronage is allocated to other mechanisms instead.
3. Any idea of positive benefit from Fair Trade governance remains unexplored.
4. The lack of sophistication extends to the evidence cited in support of the argument that universal liberalisation is the best way to reduce poverty.

Ultimately it is suggested that the Adam Smith report:

- Fails to establish suitable grounds for the rejection of Fair Trade.
- Fails to establish an appropriately credible case in favour of trade liberalisation.
- Fails to take an appropriately rigorous attitude to the evaluation of what are incredibly important issues.

In place of the approach taken in the Adam Smith report this analysis suggests that:

1. The cases of China, India and Hong Kong show that it is *the appropriate management of local economies* in their interaction with the wider world that is the best way to reduce poverty. Far from universal liberalisation this has often included the active management of price incentives as well as direct investment to build the capabilities of local business and the poor.

2. Financially poor actors should not always be expected to voluntarily respond to market incentives because:
  - The developing world is characterised by levels of risk and instability that can make long term planning difficult to carry out.
  - By definition the poor lack the capabilities necessary to meet the immediate and longer term costs of diversification into more beneficial incomes strategies.
  - The developing world often lacks the market incentive structures necessary to promote the structural change that might be necessary to reduce poverty.
  
3. Poor commodity producers are likely to be assisted in their effort to make the necessary diversification decisions through the provision of:
  - Prices that cover the cost of sustainable production for as much output as possible, with the aim of reducing immediate levels of poverty and building the capabilities of those unable to benefit from market discipline.
  - Long term contracts that offer a more stable environment in which to make decisions about the diversification of income strategies.
  - The payment of upfront credit and an additional social premium to build capabilities which can be used to facilitate diversification.

Ultimately it is concluded that:

- The case against Fair Trade is not strong enough to recommend a rejection of such a well established mechanism which is empirically proven to help with the reduction of poverty in a significant number of cases.
- The management of market incentives systems cannot be rejected wholesale, but instead individual strategies must be evaluated on the specifics of individual cases and contexts. This applies equally to state intervention and the Fair Trade minimum prices.
- The most appropriate response to criticisms of Fair Trade is to continue a broad based program of research with the aim of making recommendations for reform of the governance mechanisms.

# Definitions

## Fair Trade

This is the general Umbrella term for a regime of private governance that seeks to ensure that producers in the developing world receive a beneficial return for production and trade. The definition of the term has been summarised in that:

'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 global south. Fair Trade organisations (backed by consumers) are engaged actively in supporting producers, raising awareness and in campaigning for changes in the rules and practice of conventional international trade'<sup>1</sup>.

## Fairtrade

This is a specific term that represents the certification of products under the guidelines of the Fairtrade Labelling Organizations International (FLO). This certification claims that products have been produced and traded under certain social, economic and environmental criteria. Some regulations are that northern buyers:

- Pay a price to producers that aims to cover the costs of sustainable production and living;
- Pay a 'social premium' that producer communities can invest in development social or business development
- Make partial advance payments of up to 60% of the final sale price when requested by producers to fund production
- Sign contracts that allow for long-term planning and sustainable production practices.

FLO certification requires products to satisfy two categories of standards: 1) a *Generic Standard* which lays out the conditions to be met by the producer organisation, and 2) a *Product Specific Standard*, which summarises the conditions of the trade relationship between the producer and northern buyer. Standards are available for: 1) small farmers' organisations or 'those that are not structurally dependent on permanent hired labour'<sup>2</sup>, and 2) hired labour contexts that are structurally dependent on hiring waged labour.

To make differentiation easier, the concepts have been delineated by the use of the term FLO Fairtrade certified to represent this second case.

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<sup>1</sup> This is the definition agreed by FINE an umbrella group of major players in the fair trade movement. These include: Fairtrade Labelling Organizations International (FLO), International Federation for Alternative Trade (IFAT), Network of European World shops (NEWS!), and European Fair Trade Association (EFTA).

<sup>2</sup> Fairtrade Labelling Organizations International. 2007d. Generic Fairtrade Standards for Small Farmers' Organizations. FLO.

### **Diversification**<sup>3</sup>

Diversification is defined here as an adjustment of farm enterprise patterns to increase farm incomes, or to reduce income vulnerability. Thus, diversification here means (i) a larger mix of diverse and complementary activities within agriculture; (ii) a movement of resources from low value agriculture to high value agriculture; and (iii) a shift of resources from farm to non-farm activities.

Such changes to traditional forms of agriculture can be pathways out of poverty, because they contribute to increasing rural incomes and employment opportunities.

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<sup>3</sup> This definition has been taken from: Weinberger and Lumpkin 2007. Diversification into Horticulture and Poverty Reduction: A Research Agenda. *World Development* 35(8).

## Introduction: Out with the fair and in with the free?

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On Monday 25<sup>th</sup> of February 2008 the Adam Smith Institute published *Unfair Trade*<sup>4</sup>. This report took the context of Fairtrade Fortnight as an opportunity to criticise the Fair Trade movement for being keen to aggressively promote their brand but being slow to ask critical questions. According to Marc Sidwell, the author of the report, two important questions need to be answered: why are the world's commodity producers poor in the first place and, more importantly for the Adam Smith Institute, is paying them a minimum price actually the best way to relieve their plight?<sup>5</sup>. Naturally, the report offered its own answers to these questions with the overall conclusion being that: 'The evidence is clear: Fair Trade is unfair, but free trade makes you rich'<sup>6</sup>. So, should we have turned down the free-of-charge Fairtrade certified samples in the town hall? Is it in fact the case that Fair Trade is unfair?

The conclusion of the research and analysis presented here is that the evidence is far from 'clear' in supporting the argument that Fair Trade is 'unfair', or that reducing poverty is as simple as reducing trade tariffs. This suggestion is presented by building the argument in five parts. The first draws attention to the aims of the Adam Smith Report in offering a commentary on Fair Trade, and explores the methodology that Marc Sidwell has used to arrive at his conclusions. Far from trying to evaluate Fair Trade on its merits and problems, it appears evident that the report simply compiles as many criticisms as possible without any serious consideration of the potential benefits. This naturally makes for an extremely biased approach and an effort to balance this one-sided view has been a strong motivation in developing the work presented below.

As part of this work the material offered by Sidwell has been examined in Part Two. Far from the case being 'clear' it emerges that many of Sidwell's arguments rest on little or no evidence, and where support is cited, sources tend to lack the rigour necessary to back

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<sup>4</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute  
[http://www.adamsmith.org/images/pdf/unfair\\_trade.pdf](http://www.adamsmith.org/images/pdf/unfair_trade.pdf)

<sup>5</sup> Ibid., p. 6

<sup>6</sup> Ibid., p. 3



such strong claims. Many of the arguments are thinly substantiated with citations, and where evidence is offered, critical investigation reveals that some of the sources fail outright to prove the points that they supposedly support.

Part Three discusses the idea that free trade is the best route to poverty reduction. While Sidwell argues that contemporary examples prove universal liberalisation to be a preferable policy to market regulation, analysis here concludes that this is a very simple reading of the evidence. An alternative reading of the cases cited by Sidwell is that the best way to promote growth and reduce poverty is in fact through the *appropriately managed interaction of local economies with the wider world*. It is suggested that this management is most likely to be successful when grounded in an awareness of the capabilities of local business and enterprise. In this light, liberalisation only leads to beneficial effects if local actors are sufficiently capable of taking advantage of market discipline. Where this is not the case, there is significant evidence to suggest that in place of universal liberalisation, governments should actively manage incentive structures and invest in resources that facilitate the strengthening of local business capabilities.

After questioning Sidwell's arguments, Part Four develops an alternative framework with which to think about the effectiveness of Fair Trade in meeting its aims. It is suggested that far from retarding processes that allow producers to capture more value, Fair Trade can actually be seen to contribute to these important changes in economic structure by building the capability of local enterprise.

While Sidwell argues that producers should be left to voluntarily seize market opportunities<sup>7</sup>, wider evidence suggests that this is not a realistic expectation. This is because although the poor are capable of recognising incentives which promote diversification, structural constraints often mean that this course of action is not carried out. This is for several reasons: firstly, it should be considered that large parts of the (rural) developing world are characterised by instability and omnipresent risk of various shocks to welfare. This means that the broad environment is not conducive to undertaking the sort of long term planning necessary for diversification. Secondly, the poor by

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<sup>7</sup> Ibid., p. 5

definition simply lack the financial<sup>8</sup>, physical<sup>9</sup>, human<sup>10</sup> and social<sup>11</sup> capital necessary to operationalise decisions based on price incentives. Finally, an inability to make accurate predictions about the returns from new income strategies adds even more trepidation when considering diversification which will theoretically return more value and raise standards of living. Ultimately, it is likely that the only rational course of action for marginalised producers working inside market systems is to remain in the low value sectors and hope for the best. In the light of these micro-realities then, this alternative approach goes some way to understand why agricultural producers in the developing world might be poor in the first place.

The final section of the paper builds on this framework to argue that when these micro realities are accounted for, it appears less easy to dismiss Fair Trade and the payment of minimum prices as poverty relief strategies. This paper does not seek to argue that Fair Trade is perfect, a panacea for deprivation or should be given a monopoly over other consumption based poverty reduction strategies. What is suggested is that far from automatically retarding processes of economic diversification, Fair Trade can help provide producers with the stability and resources necessary to carry out diversification of income/production strategies. For this reason, the ultimate conclusion of this paper is that while there might be grounds to recommend a program of gradual reform for Fair Trade<sup>12</sup>, consumers do not need to divert patronage away from Fair Trade.

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<sup>8</sup> Income, savings and credit.

<sup>9</sup> Physical infrastructure necessary for life and business, such as shelter, tools, equipment, machinery etc.

<sup>10</sup> Knowledge, qualifications, training, skills and experience.

<sup>11</sup> While this has proved a dynamic term the meaning here refers to associations with other individuals or networks of people, characterised by varying degrees of trust.

<sup>12</sup> It should be noted that we have not included all the specific conclusions of our analysis in this paper. Fair Trade in its current embodiment is not perfect, and while existing knowledge should provide impetus for more immediate reform in some areas, on going research is certainly needed to understand many of these issues in more detail. We intend to publish further conclusions when they are more adequately developed.

## Part One

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### ***A Word on Methodology: Conclusive or questionable?***

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The first and perhaps most fundamental issue at stake in this discussion is one of methodology. Indeed, Sidwell presents us with the issue himself when he notes that:

‘Explosive growth in the [Fair Trade] sector runs ahead of our ability to assess any unintentional consequences or the nature of any benefits provided by Fairtrade’<sup>13</sup>.

This is indeed a valid concern given the way that Fair Trade is promoted in spaces of private consumption, and perhaps more importantly, when it is considered how aggressively certain actors are promoting Fair Trade to public institutions<sup>14</sup>. It is true that the development of Fair Trade, or any poverty reduction strategy, must be constantly evaluated by independent research and assessment<sup>15</sup>. However, where such work seeks to make policy suggestions, it is essential that it follows an appropriately rigorous method in reaching its conclusions.

As Sidwell notes, the efforts to evaluate Fair Trade are not yet at a stage when claims can be made with great certainty<sup>16</sup>. As well as the volume of evidence available, Sidwell criticises the type of material used by the Fair Trade movement for being ‘anecdotal’<sup>17</sup>. This is arguably a value laden term for evidence that academic lexicon would otherwise describe as ‘case study’ evidence. While this evidence should certainly be subject to critical understanding, this methodology cannot be simply dismissed with value terminology.

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<sup>13</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 8

<sup>14</sup> Smith. Forthcoming. *The Fair Trade Revolution: the battle to define the best route to “sustainable development* [Online]. Available at:

[http://www.brass.cf.ac.uk/brassresources/04BRASS\\_Comment\\_and\\_Analysis.html](http://www.brass.cf.ac.uk/brassresources/04BRASS_Comment_and_Analysis.html) [Accessed:

<sup>15</sup> It should be noted that this is a widely held view, both in wider discourse and the Fair Trade community itself. See: Maseland and de Vaal 2002. How Fair is Fair Trade. *De Economist* 150(3); Rice 2003. *Fair Trade: A More Accurate Assessment*.

<sup>16</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 8

<sup>17</sup> Ibid.

Many view case study evidence as an essential complement to the statistical studies that Sidwell explicitly endorses, and argue that far too often numbers are taken to explain more than they are able. While numerical work can highlight correlation to a considerable degree of accuracy, this should never be interpreted as offering causal relations<sup>18</sup>. Instead, once a hypothesis has been determined, qualitative (and often case study) work is needed to flesh out the understanding of *what caused what*. Statistical evidence is also very useful in generalising back from specific case studies as these are clearly only ever evidence of the specific example that they represent (a point taken up below in the discussion of Sidwell's treatment of China and India). While statistical evidence would be highly valuable in understanding Fair Trade better, it must not be used in isolation from more detailed case work which cannot be labelled as 'anecdotal' and dismissed.

However, despite identifying the shortcomings of the available evidence, and arguing that it is *inadequate*, Sidwell then concludes that '*the evidence is clear*'<sup>19</sup> in backing his position that 'Fair Trade is in fact 'unfair', and that 'free trade makes you rich'<sup>20</sup>. This suggests a lack of cohesion in the arguments presented against Fair Trade and has prompted us to ask further questions of the methodology that was used to arrive at such a conclusion.

In this light it is important to consider the original aim of the Adam Smith report, and it is illustrative to take into account the overall position of the Institute itself. A brief look at the think tank's website<sup>21</sup> reveals that the institute is specifically designed to promote *social policies based in free market economic theory*. This means that the initial aim of the report was to compliment the overall agenda on how free markets can contribute to reducing poverty and promote processes of sustainable development. For this reason it becomes hard to accept Sidwell's statement that he has conducted a 'dispassionate analysis'<sup>22</sup>.

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<sup>18</sup> The most basic introduction to research methodology will include the essential difference between correlation and causation. See for example: Bernard 2000. *Social Research Methods: Qualitative and Quantitative Approaches*. London: Sage Publications Inc. pp. 558-561

<sup>19</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 3

<sup>20</sup> Ibid.

<sup>21</sup> See: [adamsmith.org](http://adamsmith.org)

<sup>22</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 14

This might well explain why, in contrast to other analytical approaches to Fair Trade, there is no section that discusses the positive impacts in any detail. While the report does not deny that Fair Trade has produced benefits in the developing world, no time is given to a consideration of these issues. Instead, the report consists entirely of criticisms, and this leads to a very disjointed picture. This certainly appears to be the case when criticisms of Fair Trade are compared to some of the policy alternatives that are suggested as more appropriate strategies (see Part Two).

A further problem with the report is that it often fails to cite evidence for the arguments that it makes, and where evidence is cited, much of what is referenced does not stand up to critical analysis. References to opinion blogs appear between citations to more rigorous academic and institutional studies. The difference is that where academic articles, and to some extent institutional studies, undergo a process of peer review and audit, web postings are not subject to the same appraisal before being injected into public spaces as knowledge. There are also instances where standardised referencing techniques have been used incorrectly resulting in the misrepresentation of some sources. This provides a misleading impression for those unable to check the validity of the citations, and is thus arguably, an extremely inappropriate approach to the generation of knowledge for public consumption<sup>23</sup> (For examples see: Appendix One on page 72).

In summary, it appears that the Adam Smith report, *Unfair Trade*, did meet its aims in *promoting the use of liberal theory to solve social problems*. However, this does not mean that it conducted either an appropriate evaluation of the effectiveness of Fair Trade or appropriately justified the suggestion that free markets are a preferable alternative approach. Based on the above concerns this paper conducts a point by point rethink of many of the arguments made by Sidwell, and it is hoped that those who are interested can use this discussion alongside the previous work in reaching their own conclusions.

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<sup>23</sup> This is particularly important because one interpretation of ‘truth’ in today’s society is based on the idea of ‘hermeneutical cycles’. This theory suggests that what is taken to be ‘true’ emerges from a series of interlinked sets of knowledge, in many cases embodied in textual form. Where authors do not exercise responsibility in grounding written texts in suitable standards of evidence, ‘truth’ moves from the category of subjective interpretation, even more firmly into that of simple opinion. This, in our mind, is not an appropriate way to construct knowledge of any type, especially that which seeks to influence individual action and institutional policy.

## Part Two

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### ***Is Fair Trade the Only Charity that Does Not Deserve Patronage? A point by point rethink***

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In his report for the Adam Smith Institute, the author asserts that Fair Trade is not the trade based poverty alleviation and development strategy that the movement claims. Instead, it is argued that Fair Trade is an inefficient and unsustainable system of charitable donation<sup>24</sup>. While conceding that there have been positive impacts (although spending no time on considered discussion), the report says that these have been limited to ‘a select few’ of lucky producers<sup>25</sup>. In place of buying Fair Trade it is suggested that consumers support other initiatives which, instead of paying minimum prices, undertake more efficient resource transfers. These strategies, it is argued, will then assist producers to compete in free markets, which should appear from universal liberalisation, the other policy recommendation suggested by the article.

However, the analysis here suggests that the Adam Smith report does not offer adequate evidence in justifying its criticisms of Fair Trade, nor the alternative policy suggestions that are put forward. This is a point that appears to be well illustrated when critical questions are asked of the individual arguments posted:

#### **Is Fair Trade Unsustainable?**

Although Sidwell concedes that Fair Trade helps insure producers against price volatility through the provision of a minimum price<sup>26</sup>, he argues that this is an unsustainable system given its reliance on the voluntary action of northern consumers. He writes:

‘The risk of compassion fatigue or of the public discovering a more effective form of charitable giving and diverting their Fairtrade spending accordingly remains. To say that ‘Green has become the new Black’ is to acknowledge that Fairtrade sales are currently riding on a wave of fashion. It is, of course, in the nature of fashion to change rapidly...

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<sup>24</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 24

<sup>25</sup> Ibid.

<sup>26</sup> Ibid., p. 16 Note that this omitted factor is perhaps one of the most important merits of the Fair Trade system; an argument that is explored in more detail in Part Four.

The instability of a licensing mark that trades so heavily on a trustworthy reputation is real. The immediate risk of a global economic downturn also presents the prospect of wealthy westerners choosing to cut back on premium, Fairtrade products'<sup>27</sup>.

That the success of Fair Trade, and thus benefit to producers is based on the ability and desire of northern consumers to buy Fair Trade products seems self evident. However, the problem in Sidwell's position is that if Fair Trade is inadequate because it is unsustainable on the basis of its voluntary nature, then other charities (such as Grameenphone, Kiva etc) and certification schemes (like Rain Forest Alliance and Utz) preferred by Sidwell, are equally vulnerable and unsustainable. Even the wider argument that trade is the best means of increasing incomes and reducing poverty comes up against the same problem. The purchase of all goods is reliant on both the economic capabilities of consumers to afford them, as well as their fashion contingent desires to purchase them<sup>28</sup>.

## **Does Fair Trade Deprive Worthier Certification Schemes?**

Sidwell argues that the purchase of Fair Trade goods competes with both alternative certification schemes and 'other forms of charitable giving'<sup>29</sup>. We, however, find this a difficult argument to substantiate.

While the Fair Trade market has been growing rapidly in the last decades, sales of Utz, Rainforest Alliance and other certified brands of coffee, and other goods, have also been on the increase<sup>30</sup>. While it might be possible to argue that more of the other certifications would have been sold had it not been for the presence of Fair Trade, this counterfactual point is clearly impossible to support empirically.

An alternative hypothesis might be that the promotional work on the issues of poverty and development might have actually benefited other brands and certifications. This is

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<sup>27</sup> Ibid., pp. 16-17

<sup>28</sup> Yeoman and McMahon-Beattie 2006. Luxury markets and premium pricing. *Journal of Revenue and Pricing Management* 4

<sup>29</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 7

<sup>30</sup> Agritrade. *Coffee: Executive brief* [Online]. Available at: [http://agritrade.cta.int/en/commodities/coffee\\_sector/executive\\_brief](http://agritrade.cta.int/en/commodities/coffee_sector/executive_brief) [Accessed: 03/03/08]; Guardian. 2007. *McCoffees help fuel ethical trade boom* [Online]. Available at: <http://www.guardian.co.uk/business/2007/oct/05/ethicalbusiness.money> [Accessed: 03/03/08].

certainly the view advanced by market analysis that has sort to account for the growth of ethical consumerism<sup>31</sup>.

This point might also be applicable to a discussion of Fair Trade school materials. While Sidwell argues that children are indoctrinated into buying Fair Trade, more holistic analysis suggests an alternative conclusion. Whilst it is important to consider the degree to which material used in the National Curriculum directly advocates the purchase of Fair Trade, the content and wording needs to be considered in more detail. It is true that Fairtrade material advocates the only way to guarantee *Fair Trade*, is to buy the FLO Fairtrade label. The material does not say that the only way to *relieve poverty*, is to buy Fairtrade. This is an important distinction that appears to have been missed. Based on the Fairtrade Foundation's description of a Fair Trade school, it can be noted that: '*It helps young people understand about how trade works and how to make global trade fairer. It sells and uses Fairtrade products as far as possible, and takes action for Fairtrade in the school and local community*<sup>32</sup>.

While it cannot be denied that there is an emphasis on FLO Fairtrade certification, it needs to be noted that the majority of the material, and time spent during these programs, highlights broader issues. For example, the fact that many people in the world do not enjoy the same standards of living that others take for granted. This is clearly an important awareness raising effort for children – and adults – who are unlikely to think extensively outside their own experience without stimuli<sup>33</sup>. The other important element highlighted by the materials is that situations of poverty cannot be blamed on the individuals, but are the effects of structural constrains on their ability to improve their lives<sup>34</sup>. This is an essential point of which the young, and commentators alike, need to acknowledge if they are to have meaningful thoughts about development efforts. This is a point which will be elaborated further in the section: The Importance of Micro Realities: An alternative theory with which to consider Fair Trade, on page 46.

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<sup>31</sup> Strong 1996b. Features contributing to the growth of ethical consumerism – a preliminary investigation. *Marketing Intelligence & Planning* 14(5). p. 6

<sup>32</sup> Fairtrade Foundation *Fair Trade School Action Plan*. Fairtrade Foundation

<sup>33</sup> For an examples of how such marketing can influence public thinking on important issues such as environmental sustainability see: Jackson 2004. *Motivating sustainable consumption: a review of evidence on consumer behaviour and behavioural change*.

<sup>34</sup> For proof that promotion of FLO Fairtrade certified goods is a limited aspect of these school programs see the material suggested by Sidwell and also that downloadable from Traidcraft: [http://www.traidcraft.co.uk/publications\\_and\\_resources/school\\_resources.htm](http://www.traidcraft.co.uk/publications_and_resources/school_resources.htm) Specifically for the idea that the poor are subject to structural constrains see the Orange Game.



A final issue is that despite an important role for all certification labels in raising awareness, it remains that some standards are likely to be more beneficial than others. While it is not possible to comment on empirical impact, observations have been made on the content of the criteria demanded by different schemes. According to Murry and Reynolds, Rainforest Alliance's banana certification was conceived as a "conservation certification" program, with only secondary concern for social justice issues'<sup>35</sup>. This they feel this is substantiated in that 'the only principles referring to social conditions suggested rather vaguely that producers must "ensure fair treatment and good conditions for workers and must maintain good community relations"'<sup>36</sup>. This is in contrast to the much more extensive list of obligations contained in FLO regulation<sup>37</sup>. Utz certification has also been criticised on its commitment to environmental issues<sup>38</sup>, and analysis cited below suggests that it may also lack the strength of FLO-Fairtrade standards in promoting education<sup>39</sup>.

This emerging picture (quite contrary to the point offered by Sidwell) is further supported by the only available cross-certification comparison (which has been encountered)<sup>40</sup>. Working specifically in the area of coffee, this work shows that Fairtrade regulations have the greatest commitment to social standards in upholding more conventions of the International Labour Organisation (10, in comparison to 8 by Utz and only 'key' conventions in the case of Rainforest Alliance)<sup>41</sup>, and possessing a more democratic structure, being open to producer stakeholders. Organic certification was found to be the most environmentally rigorous. In contrast, while Utz and Rain Forest Alliance certification schemes were praised in promoting the 'laudable goal' of upholding 'minimum requirements', it was concluded that, 'private certifications can and should do

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<sup>35</sup> Murray and Reynolds 2000. Alternative trade in bananas: Obstacles and opportunities for progressive social change in the global economy. *Agriculture and Human Values* 17(1). p. 70

<sup>36</sup> Ibid.

<sup>37</sup> Fairtrade Labelling Organizations International. 2005b. Generic Fair Trade Standards for Hired Labour. ; Fairtrade Labelling Organizations International. 2005c. Generic Fair Trade Standards for Small Farmers' Organisations.

<sup>38</sup> Conroy *Branded! : How the Certification Revolution' is Transforming Global Corporations*. New Society Publishers.

<sup>39</sup> Analysis of standards in the area of promoting education of workers children has found that FLO standards for Hired Labour should be considered 'stronger' than equivalent Utz requirements. See page 78.

<sup>40</sup> Reynolds, et al. 2007. Regulating sustainability in the coffee sector: A comparative analysis of third-party environmental and social certification initiatives. *Agriculture and Human Values* 24(2).

<sup>41</sup> Ibid. See table on p. 155.

more'<sup>42</sup>. It can also be noted that Fairtrade regulations were also found to provide the highest economic return: a point discussed later in the paper<sup>43</sup>.

## **Does Fair Trade Deprive Other Charities?**

Despite Sidwell's claim, there is no empirical evidence that those who buy Fair Trade products make conscious or unconscious decisions to then reduce the amount of money donated to charity.

In fact, in considering the empirical evidence on charity giving in the UK, it is discovered that there is no indication that charity giving has declined with the rise of Fair Trade. The National Council for Voluntary Organisations, which has been researching charitable giving since Fair Trade entered UK markets, shows that despite fluctuations in the patterns of giving, overall trajectories have remained constant<sup>44</sup>. Again there is the argument that giving would have been higher if Fair Trade had not developed, but there is clearly no evidence to corroborate this argument. On the contrary, statistics show that donation to overseas causes tend to cluster: those who support one overseas cause are most likely to give to the others<sup>45</sup>. Thus, an alternative position might be that those who have supported Fair Trade as one overseas 'charity', are also likely to have given to similar causes.

## **Is Fair Trade Charity?**

Sidwell takes the position that far from being a trade based mechanism of poverty relief, Fair Trade is a form of charity donation. However, this view is only sustainable under a simple analytical framework; instead we suggest a more nuanced way of interpreting the issue.

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<sup>42</sup> Ibid. pp. 159-160

<sup>43</sup> See the discussion of under the heading: Minimum Prices as a Stabiliser, in Part Four.

<sup>44</sup> National Council for Voluntary Organisations. 2008. *Survey of charitable giving shows UK donors gave £8.9 billion in 2005* [Online]. Available at: <http://www.ncvo-vol.org.uk/research/index.asp?id=7662> [Accessed: 09/03/08].

<sup>45</sup> Ibid.

The first important point is that the practical operation of Fair Trade is far removed from that of a charity. When consumers buy FLO Fairtrade certified items they are not donating to a central pool of resources that are then distributed out to those ‘in need’. Instead, consumers are paying a price for a final consumable made up of both physically and socially constructed attributes. The money paid is remunerated to those people involved throughout the production chain to cover the cost of their inputs, and make a profit for their efforts. In this way, it is difficult to conceptualise that the Fair Trade model as anything other than trade, nor that it operates differently to the Utz certification preferred by Sidwell.

No money is paid by the consumer directly to ‘Fair Trade’ or the institutions that administer its existence – for example the FLO or the Fairtrade Foundation. Instead, money remitted back to producers to cover the sustainable cost of production is invested by them in Fairtrade certification as part of their business overheads. This expense is considered as an investment as the cost is accompanied with the expectation of receiving a higher return, just as investment might be made in other systems of quality assurance. If producers did not view this as a rational business decision, they would simply not renew their certification.

However, can it be argued that consumers only pay additional costs for Fair Trade out of charitable motivation? First it is necessary to consider that the original point behind the concept of Fair Trade was to offer a different option to charity donation as it did not seek to motivate northern populations to carry out resource transfer on the basis of moral consciousness alone. Instead, the whole idea was to ensure that producers were paid a price that covers the sustainable cost of production for goods that constituted everyday purchases for consumers in the north<sup>46</sup>. The implication of this is that as well as a moral return, northern consumers also get a cup of coffee or box of bananas for their money. This was the whole point of developing a certification mark which could be adopted by mainstream retailers<sup>47</sup>.

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<sup>46</sup> This is an opinion that arises in public interviews conducted for the film *Bitter Aftertaste*. See: [www.worldwriter.org.uk/\(Imhof+and+Lee+2007\)bitter/](http://www.worldwriter.org.uk/(Imhof+and+Lee+2007)bitter/)

<sup>47</sup> Indeed, the brand approach which relied on a small group of dedicated and knowledgeable consumers buying through church congregations and specialist shops, was only having a limited success. For an account of the development of Fair Trade certification, marking and branding see: Low and Davenport 2005. Has the medium (roast) become the message?: The ethics of marketing fair trade in the mainstream. *International Marketing Review* 22(5); Nicholls and Opal 2005. *Fair trade : market-driven ethical consumption*. London: Sage. For a discussion of the differences between brand and

There is also a strong alternative argument to the idea that Fair Trade is charity giving in the supermarket. It is true that price, taste, texture and nutritional value of any food are important to individual consumption decisions, and this is still the case with those who actively buy Fair Trade<sup>48</sup>. However, reference to marketing literature shows that these physical qualities are not the only factors involved in making choices. Instead, at all levels of financial capability, consumers consider a variety of different factors in assessing the quality of a purchase<sup>49</sup>, and while some of these are intrinsic to the products themselves<sup>50</sup>, many are concerned with the conditions of production and trade<sup>51</sup>, or even more remote associations such as place of purchase<sup>52</sup>. Indeed, some empirical work has concluded that consumers might actually value external association more than physical qualities<sup>53</sup>. Based on this more developed understanding of consumer behaviour, Golding and Peattie have argued that Fair Trade certification is not considered an external charity aspect, but just as much part of a purchase as the physical qualities of the item itself<sup>54</sup>. Taking this into account, alongside the more detailed understanding of how Fair Trade operates, it becomes difficult to see how Fair Trade can be seen as charity.

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certification assurance see: Tran-Nguyen and Zampetti 2004. *Trade and Gender, Opportunities and Challenges for Developing Countries*. United Nations, p. 391

<sup>48</sup> Carrigan and Attala 2001. The Myth of the Ethical Consumer - Do Ethics Really Matter in Purchase Behaviour? . *Journal of Consumer Marketing* 18(7); Kirsty Golding 2005. In search of a golden blend: perspectives on the marketing of fair trade coffee. *Sustainable Development* 13(3). p. 158; Shaw, et al. 2006. Fashion Victim: The Impact of Fair Trade Concerns on Clothing Choice. *Journal of Strategic Marketing* 14(4).

<sup>49</sup> For a summary see: Zeithaml 1988. Consumer Perceptions of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence. *Journal of Marketing* 52(3).

<sup>50</sup> Morgan and Morley 2007. *Making Provenance Pay: The Local Food Challenge in Shetland*. Cardiff: School of City and Regional Planning, Cardiff University; Morgan and Sonnino 2007. Empowering consumers: the creative procurement of school meals in Italy and the UK. *International Journal of Consumer Studies* 31(1).

<sup>51</sup> Bird and Hughes 1997. Ethical Consumerism: The Case Of "Fairly-Traded" Coffee. *Business Ethics: A European Review* 6(3); Elliot and Freeman. 2001. White Hats or Don Quixotes? Human Rights Activists in the Global Economy. *National Bureau of Economic Research (NBER) Working Paper No. 8102*; Pelsmacker, et al. 2005. Do Consumers Care about Ethics? Willingness to Pay for Fair-Trade Coffee. *Journal of Consumer Affairs* 39(2); Strong 1996a. Features contributing to the growth of ethical consumerism - a preliminary investigation. *Marketing Intelligence & Planning* 14

<sup>52</sup> For the case of coffee see: Fitter and Kaplinsky 2001. Who Gains from Product Rents as the Coffee Market becomes more Differentiated? A Value Chain Analysis. *IDS Bulletin Paper (Forthcoming)*

<sup>53</sup> Zeithaml 1988. Consumer Perceptions of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence. *Journal of Marketing* 52(3).

<sup>54</sup> Kirsty Golding 2005. In search of a golden blend: perspectives on the marketing of fair trade coffee. *Sustainable Development* 13(3). p. 157

## Does Fair Trade Only Help a 'Select Few'?

Another reason that Fair Trade should be rejected, according to Sidwell, is that it only helps 'a select few at the expense of others'<sup>55</sup>. In considering the validity of this stance it is first necessary to note that some of what Sidwell alleges is categorically incorrect; specifically when it is stated that: 'Fairtrade not only disregards the poorest, it makes their condition worse by requiring that certified farms do not hire permanent full-time employees'<sup>56</sup>.

It is true that the FLO standards that govern Small Farmers' Organisations do only apply to those 'not structurally dependent on permanent hired labour'<sup>57</sup>. However, the situation is not as black and white as Sidwell states, and in fact, these standards do allow for the extensive hiring of wage labour. Under the Small Farmers' Standard it is possible to produce up to 49 % of output from hired labour<sup>58</sup>. Further to this, there are separate standards available for the certification of production that *is* structurally dependent on hiring waged labour<sup>59</sup>. Even though this certification is not available for all product categories<sup>60</sup> the idea that Fair Trade prohibits the use of wage workers is simply incorrect.

Another argument raised is that Fair Trade excludes the poorest members of society. While such a claim sounds damning, it is certainly necessary to place this in context. The reality is that a significant amount of evidence suggests that in fact almost no poverty reduction or development strategy is actually successful in assisting those most in need<sup>61</sup>.

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<sup>55</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 24

<sup>56</sup> *Ibid.*, p. 15

<sup>57</sup> Fairtrade Labelling Organisation International. 2007a. Generic Fair Trade Standards for Small Farmers' Organisations. Article: 1.2.

<sup>58</sup> The standard states that, 'Of every Fairtrade-certified product sold by the organization, more than 50% of the volume must be produced by small producers'. See: *Ibid.* Article: 1.2.1.2.

<sup>59</sup> Although all 17 Products Standards can be issued to Small Farmers' Organisations, only 7 are available to the hire labour context. These are: Bananas, Fresh Fruit (except banana), Fruit Juices, Tea, Wine grapes, Flowers and Plants, and Sport Balls .

<sup>60</sup> Fairtrade Labelling Organisation International 2007b. *List of Generic Standards, Explanatory Documents, and Guidelines*.

<sup>61</sup> Johnston 1996. The State and Development: An Analysis of Agricultural Policy in Lesotho, 1970-1993. *Journal of Southern African Studies* 22(1); Matin and Hulme 2003. Programs for the Poorest: Learning from the IGVGD Program in Bangladesh. *World Development* 31(3); Smith, et al. 2001. Livelihood diversification in Uganda: patterns and determinants of change across two rural districts. *Food Policy* 26(4). Wolff and de-Shalit 2007. *Disadvantage*. Oxford: Oxford University Press.

While it is true that microfinance (proposed as a more suitable alternative) has proved very competent at extending credit services to those who would otherwise have gone without<sup>62</sup>, much evidence suggests that the poorest are still excluded<sup>63</sup>. Just as mainstream banks do not see the poor as a credible debtor group – i.e. unlikely to return the money and instead to default – communities tend to have the same conception of those that *they* consider ‘poor’. In this sense, the very poor lack not only the material capabilities to take out loans (by providing fixed capital as insurance), but also the social capital necessary to be involved in peer-insured lending schemes. JJ. Morduch, an internationally recognised expert in micro-credit comments that:

‘Microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. The poorest form the vast majority of those without access to primary health care and basic education; similarly, they are the majority of those without access to microfinance’<sup>64</sup>.

It would clearly be wrong to discourage the development of microfinance based on this point, and instead reform and improvement is clearly a more appropriate path<sup>65</sup>. In the same light, criticism does not adequately justify the idea that ‘the shrewd consumer’<sup>66</sup> should not support Fair Trade either. In fact, if access to credit is an appropriate poverty reduction and development strategy, supporting Fair Trade is certainly beneficial given its emphasis on up front credit (see section: The Provision of Credit, on page 59) and inputs of resources to establish credit unions (see: The Social Premium, page 64).

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<sup>62</sup> Most celebrated of all is the evidence that shows, in some cases, micro-credit has made significant and positive impact on the lives of the disenfranchised and particularly women. See: Goldberg 2005. *Measuring the Impact of Microfinance: Taking Stock of What We Know*. Grameen Foundation

<sup>63</sup> Linda 1999. Questioning virtuous spirals: micro-finance and women's empowerment in Africa. *Journal of International Development* 11(7). pp. 964-965

<sup>64</sup> Morduch and Haley 2002. Analysis of the Effects of Microfinance on Poverty Reduction. *NYU Wagner Working Paper No. 1014* (June). p. 1

<sup>65</sup> Fisher and Sriram 2002. *Beyond Micro-Credit: Putting Development Back Into Micro-Finance*. Oxfam.

<sup>66</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 3

Expanding the scale of analysis, it is noted by Sidwell that while Fair Trade has a significant presence among the communities in the ‘relatively developed’<sup>67</sup> country of Mexico, Fair Trade is less involved in lower income countries like Ethiopia<sup>68</sup>. However, again, this is a very simple interpretation of the evidence. Firstly, it is pertinent to notice that Fair Trade certification, which first appeared as the Max Havelaar mark in Holland, was in fact developed by a Dutch NGO at the behest of, and in coordination with, *Mexican* coffee farmers<sup>69</sup>. As the birthplace of FLO Fairtrade it appears logical that Mexico became the country with the most certified groups in the initial stages of development, just as coffee has been the main stay of the product range.

However, it should be noted that this situation is slowly changing as the demand for certification in Mexico is increasingly met, resources are being used in other places to equalise impact. Between 2002 and 2007, only 5 new Mexican organisations were certified by the FLO<sup>70</sup>. This is in comparison with the 199 groups from Africa that received the Mark. It is further of note that these groups represent a mixture of hired labour farms in South Africa through to small scale cotton producing co-operatives in Mali, Cameroon and Senegal<sup>71</sup>.

Furthermore, the fact that Mexico as a whole might be a richer country than Ethiopia does not translate into a reason to criticise this initial distribution of certification. Despite its relatively healthy GDP per capita of \$12,500 (2007 est.), Mexico is still one of the most unequal societies in the world with a GINI coefficient of 50.9 (2005)<sup>72</sup>. This inequality is manifest in strong income differences in the region of Chiapas<sup>73</sup>, where coffee farmers are some of the poorest individuals in one of the overall poorest regions in Central America<sup>74</sup>.

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<sup>67</sup> Ibid.

<sup>68</sup> Ibid., p. 11

<sup>69</sup> Renard 2003. Fair Trade: quality, market and conventions *Journal of Rural Studies* 19 p. 319

<sup>70</sup> Barbara Crowther (Head of Communications Fairtrade Foundation) 2008. Personal Communication.

<sup>71</sup> Ibid.

<sup>72</sup> CIA world Fact Book. <https://www.cia.gov/library/publications/the-world-factbook/geos/mx.html#Econ>

<sup>73</sup> Burbach 1994. Roots of the Postmodern Rebellion in Chiapas. *New Left Review* 205

<sup>74</sup> Benjamin 1989. *A rich land, a poor people: politics and society in modern Chiapas*. University of New Mexico Press.

Sixty percent of the 72,000 coffee producers in Chiapas are indigenous and many live in extreme poverty<sup>75</sup>.

In fact, detailed analysis conducted in the 1990s shows that the aggregate income levels did not, and are unlikely to, explain any of the poverty in Mexico. The reality is that poverty is ‘exclusively a distributional problem and not [due to] a lack of income to meet each individual’s basic needs’<sup>76</sup>. This means that Sidwell’s reference to aggregate income levels is, ‘statistically speaking’ irrelevant in the discussion of identifying those most in need (based on income figures). However, what is more important is to understand why these distributional problems arise.

On this issue it must be noted that there exists another contradiction in Sidwell’s criticism and the policy conclusion that poverty reduction must be achieved through improving efficiency. By concentrating on efficiency alone, there is no consideration of how or where displaced individuals will find a new role in the economy. Sidwell points out that the mechanised picking of coffee in Brazil is more efficient than picking by hand in Guatemala<sup>77</sup>, but fails to consider how these workers would sustain themselves if machines took their place. This story of displacement without alternatives has been reproduced many times in cases where liberalisation, and not poverty reduction, has become the main objective of reform policy<sup>78</sup> and is part of a wider criticism made of free markets by many commentators<sup>79</sup>.

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<sup>75</sup> Bray et al argue that small, poor, indigenous producers dominate coffee production in Mexico; citing Nolasco et al., (1985) and Regalado Ortíz (1996) they argue that: “Sixty-nine percent of all coffee producers have less than two hectares and 60 percent are indigenous peoples (compared to around 12 percent indigenous peoples nationally)” Bray, et al. 2008. *Social Dimensions of Organic Coffee Production in Mexico: Lessons for Eco-Labeling Initiatives*. In: Bacon ed. *Confronting the Coffee Crisis: Fair Trade, Sustainable Livelihoods and Ecosystems in Mexico and Central America*. Cambridge, MA: The MIT Press, p. 240 Also see: Depalma 1994. In *Mexico's Poor South, Coffee Now Blights Lives*. *New York Times*.

<sup>76</sup> Szekely 1998. *The Economics of Poverty, Inequality and Wealth: Accumulation in Mexico*. Macmillan Press Ltd.: Basingstoke. p. 98

<sup>77</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 13

<sup>78</sup> Stiglitz makes this argument in the context of the disastrous increases in poverty seen in Russia and the ex-soviet block under IMF liberalisation programs: Stiglitz 2002. *Globalization and its discontents*. New York: W. W. Norton.

<sup>79</sup> Where markets have not been regulated, so called ‘gains’ from ‘efficiency’ have been argued to come at the expense of other factors such as social capital and the environment. These costs are usually not detected in market price systems (being so-called negative externalities) and account for why efficiency often leads to environmental and social damage. Only when these external costs become serious, are they recognised as the recent trend in environmental and social concerns seems to manifest.



## Does Fair Trade Make the Excluded Worse Off?

Another argument deployed by Sidwell is that while Fair Trade benefits some, this comes at the direct expense of those outside the governance framework<sup>80</sup>. However, examining the evidence which Sidwell uses to derive this conclusion reveals that neither of the cited sources have been peer reviewed (being a blog and the transcript of a speech delivered in a church hall) or reference empirical evidence. Instead, both are reiterations of simple economic theory (in that they fail to account for the complexity of the real world), a point that is even acknowledged by the author of the second source. Professor Tyler Cowen explicitly states that this view expressed is *a theoretical hypothesis and is likely to be untrue in reality*: ‘These are all "existence theorems"’, he notes, ‘I would not be surprised to learn that current benefits from Fair Trade are positive’<sup>81</sup>.

A similarly critical problem can be found with the evidence cited in support of the point, ‘As the Mexican example shows, even where Fairtrade can improve conditions locally for some farmers, it will impose a high cost on others who may be even more deserving’<sup>82</sup>. While there is no evidence cited to back the first instance of this assertion<sup>83</sup>, the following page does include two citations. However, this document only mentions the irrelevant information that Mexico, compared to Ethiopia, is relatively wealthy, and makes the generalised comment that ‘There is a need to get the richer coffee producers out of the market’<sup>84</sup>. In short, there is no empirical evidence to support this argument in the quoted source, or as far as is known, in any of the existing literature on the subject.

Despite the dubious nature of Sidwell’s immediate case, it is necessary to consider the theory that does underpin this point. It is true that equilibrium models predict that, in the face of fixed demand, the increased success of one producer will result in a loss of market

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<sup>80</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 10

<sup>81</sup> [http://www.marginalrevolution.com/marginalrevolution/2005/12/who\\_benefits\\_fr.html](http://www.marginalrevolution.com/marginalrevolution/2005/12/who_benefits_fr.html);  
<http://www.iea.org.uk/files/upld-book353pdf?.pdf>

<sup>82</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 10

<sup>83</sup> Ibid.

<sup>84</sup> Singleton. ‘Is Fairtrade coffee a good idea? *Globalisation Institute blog* [Online]. Available at: <http://www.alexsingleton.co.uk/2005/01/is-fairtrade-coffee-a-good-idea/> [Accessed: 03/04/2008].

share for another. If Fair Trade captures more of the market, then other non-Fair Trade suppliers that cannot get certified must lose out.

However, the point that this analysis misses is that with more market share taken by Fair Trade, more producers will have the conditions of trade and production offered by the governance system. Indeed, this was always the express intention of Fair Trade which has sought to introduce social standards as part of market expectations. Again, it seems pertinent to consider the impact that Fair Trade has had in contributing to the general environment of ethical marketing and business operation (highlighted under: Does Fair Trade Deprive Worthier Certification Schemes?). If firms that reject social considerations are losing their markets they are forced either to reorient their operations, or lose out to more socially driven organisations<sup>85</sup>. Either way, the hypothesis is that production sites that supply ethically orientated markets will slowly demonstrate an increasing commitment to the social standards of production.

However, does this mean that existing FLO certified producers are benefiting at the expense of those currently on the outside? When empirical evidence is considered the answer appears to be: no. Indeed, the point highlighted by Sidwell that certified groups are unlikely to sell all their goods as Fairtrade, testifies to the fact that increased demand is not only benefiting individuals already part of the system. Instead, new demand is being met from both the expansion of currently existing organisations (by expanding their membership), and the certification of entirely new groups from scratch. While the statistics presented earlier reveal the extent of new certification in Africa, the case study of the producer group ASOBANU in the Dominican Republic (where membership has increased from 191 to 345 individuals in recent times) shows that existing certification is including more and more individuals all the time<sup>86</sup>.

Having said this, Sidwell's position still suggests that non-certified producers potentially earn less if they are not able to get certified in the near future. However, this is only the case under the most simplistic version of economic theory. When the idea of product

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<sup>85</sup> While it might be considered that profit will be maintained through increasing downward pressure on labour standards, it must be noted that Fair Trade aims to operate in compliment to national and international efforts to maintain worker and producer standards.

<sup>86</sup> Barbara Crowther (Head of Communications Fairtrade Foundation) 2008. Personal Communication.

differentiation is introduced, it should be considered that as more producers sell certified goods, the supply of conventional products falls and this generates a price increase. While this does not necessarily mean that land owners will not seek to increase social obligations to benefit from social marketing niches, it does imply that independent producers do not lose out as the simpler version of the theory concludes.

Again, the strength of Sidwell's analysis is not adequate to support the conclusion that he attempts to draw. Further to this, there is substantial credible evidence that the alternative policy of universal liberalisation has left many hundreds of thousands of people in the developing world poorer than before reforms were introduced. See: *Is It Clear That Liberalisation Reduces Poverty?*

## **Is Fair Trade Unfair for the Consumer?**

Sidwell also criticised Fair Trade on the basis that while consumers pay more money for Fair Trade goods, vis-à-vis conventional items, 'just 10% of the premium paid for Fairtrade coffee reaches the producer'<sup>87</sup>.

The first issue is identified by Sidwell himself, refined by us above, that case study evidence does not provide sufficient proof to back universal claims. If this figure of 10% is traced back to the original calculation by Tim Harford<sup>88</sup>, it is found that it derives from one specific case study and is not offered as a either universal figure for all Fair Trade coffee, or indeed, an average<sup>89</sup>.

Instead, re-contextualising this figure reveals that Harford in fact notes that while one case produces this figure, the price difference between a cup of FLO certified coffee and a non-certified cup is also sometimes as little as 1p<sup>90</sup> or even zero<sup>91</sup>. Thus, the

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<sup>87</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 11

<sup>88</sup> The immediate reference is to *The Economist*, who reference Harford.

<sup>89</sup> Harford 2006. *The undercover economist : exposing why the rich are rich, the poor are poor--and why you can never buy a decent used car!* New York: Oxford University Press. p. 33

<sup>90</sup> The Co-op supermarket for example has reduced price the differential to only 1p. Barnett. 2007. *Editorial: Addressing consumer demand for ethical goods* [Online]. Available at: [Accessed: 20/04/08].

<sup>91</sup> Harford 2006. *The undercover economist : exposing why the rich are rich, the poor are poor--and why you can never buy a decent used car!* New York: Oxford University Press. p. 33

figure of 10 % is not universally representative, especially as it derives from the case of a fully processed cup of coffee served in a coffee shop. This means that these calculations should not be generalised to either coffee beans or ground coffee bought in a supermarket.

Further, generalisations across Fair Trade labels are not valid as the structure and ownership of value chains varies greatly within the Fair Trade category. Some labels such as the Divine Chocolate Company, Cafédirect and Oxfam's chain of coffee shops, Progreso, have undertaken innovative strategies to increase the return to producer communities<sup>92</sup>. While there are issues around the extent to which these cases reflect the impact of FLO Fairtrade certification<sup>93</sup>, the fact that producers have an ownership stake in higher parts of these value chains (and hence retail profits), suggests that generalisations about 'Fair Trade' carry little credibility.

The second important point, highlighted by Harford himself, is that irrespective of the numerical price difference, this differential does not arise from Fair Trade regulation; they are in fact a result of conventional business practice<sup>94</sup>. Harford specifically notes the retailer in this case used the appeal of ethical attributes to charge prices over and above those needed to cover the additional overheads needed for Fairtrade coffee. This means that this case study is less relevant in discussing Fair Trade's effectiveness than Sidwell tries to claim<sup>95</sup>.

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<sup>92</sup> Doherty and Tranchell 2005. *New Thinking in International Trade? A Case Study of The Day Chocolate Company*. *Sustainable Development* 13; Rhonchi 2002. *Monitoring Impact of Fair Trade Initiatives: A Case Study of Kuapa Kokoo and the Day Chocolate Company*. London: Twin; Tallontire 2000a. Partnerships in fair trade: reflections from a case study of Cafe 'direct'. *Development in Practice* 10

<sup>93</sup> Because buyers in these chains are socially orientated they go further that FLO regulation requires and thus are not reflective of conventional value chains that use Fairtrade certification. This is an issue which is being explored as part of on going research.

<sup>94</sup> Harford 2006. *The undercover economist : exposing why the rich are rich, the poor are poor--and why you can never buy a decent used car!* New York: Oxford University Press. p. 33

<sup>95</sup> This is not to say that these arguments are totally irrelevant to thinking about the reform of Fair Trade. This is because there are currently no licensing requirements or standards applicable to retailers involved in Fair Trade. Thus, a policy conclusion derived from the above discussion might be that such a standard is desirable, and indeed the best way to minimise the difference between the extra costs paid by consumers and the increased returns seen in the developing world.

The reason for this overall situation is that the ‘importing and retail industries work on a margin bases’<sup>96</sup> which means that even if extra mark-ups are not added, higher prices paid to producers are still *multiplied* at every stage of the value chain. The implication is that each actor in the chain will receive more profit on Fair Trade products than they would on non-certified goods.

Under simple analysis this might be considered a negative of Fair Trade. However, a more complex view problematises this simple assumption and adds further weight to the argument that Fair Trade is not charity, but in fact a system of regulation that works inside trade<sup>97</sup>. This is because as opposed to charity, which relies on moral consciousness, actors in the supply chain are motivated to trade certified goods in place of non-certified alternatives through profit incentives. If a consumption based methodology of relieving poverty is accepted as desirable, then it might be necessary to accept that members of the supply chain need incentives to facilitate this. Without the involvement of retailers after all, the idea of a consumer based poverty alleviation strategy is somewhat of a non-starter. Alternatively to argue as Sidwell does, that appropriate incentives are the most sustainable way to motivate actors to transfer resources to the developing world (see his criticisms on the sustainability of Fair Trade), but then to criticise retailers for taking incentives, is again, logically contradictory.

Finally, Sidwell also argues that because Fair Trade cheats the consumer with poor quality, it would be better to concentrate on improving standards than paying a minimum price<sup>98</sup>. However, this argument is contestable on many grounds, not least that Fair Trade goods are no less subject to forces that demand physical quality than any other product. While FLO standards specify standards of quality<sup>99</sup>, those entering in relationships governed by such rules are no less able to withdraw for reasons of inappropriate quality than conventional actors<sup>100</sup>. Further, discipline over inadequate quality has been empirically documented, with first order cooperatives penalising

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<sup>96</sup> Nicholls and Opal 2005. *Fair trade : market-driven ethical consumption*. London: Sage. p. 51

<sup>97</sup> For the argument that Fair Trade works within the market see: Barratt Brown 1993. *Fair Trade: Reform and Realities in the International Trading System*. London: Zed Books; Nicholls and Opal 2005. *Fair trade : market-driven ethical consumption*. London: Sage; Renard 2003. Fair Trade: quality, market and conventions *Journal of Rural Studies* 19

<sup>98</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 14

<sup>99</sup> For example see: Fairtrade Labelling Organizations International. 2007a. Fairtrade Standards for Bananas for Small Farmers' Organizations. Appendix 1.

<sup>100</sup> Ibid.

farmers for defects<sup>101</sup>. While some direct observations have not seen clear incentives for increasing quality at farmer level it is suggested that these are likely to develop as the supply chain and the market mature<sup>102</sup>. Indeed, case study evidence from Tanzania shows that first order cooperatives have responded to wider incentives, and have been paying price premiums to farmers for Special grade coffee within the FLO Fairtrade framework<sup>103</sup>.

In the mean time, if free markets signals are to be accepted as indicating what is desirable (as Sidwell argues), consumer demand has sent clear signals that the ‘quality bundle’<sup>104</sup> offered by Fair Trade is more than desirable. However, in the mean time, Fair Trade guarantees an increased return over low market prices, and potentially provides the capital necessary to invest in such quality improvement. (An investment that is argued in Part Four, might not be possible without a guaranteed minimum price, and thus, far from retarding quality gains, minimum prices under the right conditions are likely to facilitate improvements).

## **Is Fair Trade Less Efficient than Other Strategies?**

Now let us look at the idea that Fair Trade is inefficient at transferring resources. The conclusion here is that Sidwell lacks the conclusive evidence necessary to make such a strong case, and again it seems that an alternative perspective is worthy of consideration.

The only way that Fair Trade could be conclusively proved as less efficient than other methods of resource transfer would be through a thorough cost-benefit comparison. However, given the complexity of such a study it is unsurprising that no interested party has yet undertaken such work, and thus that the evidence, which is supposedly so ‘clear’, simply does not exist.

These problems do not preclude thinking about what is important in attempting to calculate the true costs and benefits of a range of options. For example, the Fair Trade

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<sup>101</sup> Bacon 2005. Confronting the Coffee Crisis: Can Fair Trade, Organic, and Specialty Coffees Reduce Small-Scale Farmer Vulnerability in Northern Nicaragua? *World Development* 33(3).

<sup>102</sup> Ibid. p. 505

<sup>103</sup> Parrish, et al. 2005. What Tanzania's coffee farmers can teach the world: A performance-based look at the fair trade-free trade debate. *Sustainable Development* 13(3). p. 182

<sup>104</sup> See our analysis of what constitutes quality under: Is Fair Trade Charity?

movement claims that there are an immense amount of positive externalities brought about by its trade based methodology. One of these is the function of *raising awareness* on issues of trade and development. While it is true that this involves the creation of markets for FLO Fairtrade certified goods, evidence cited above suggests that this wider awareness also contributes to the uptake of all sorts of socially orientated products (see sections: Does Fair Trade Deprive Worthier Certification Schemes?)

Building on this, quantifying the impact of Fair Trade at the other end of the value chain is perhaps even more problematic. Case study evidence suggests that the level of information and confidence possessed by non-FLO certified producers increases if they are located in areas that have certified farms, and thus gives them more resources to negotiate appropriate prices<sup>105</sup>. Fair Trade can also be identified with a wider number of other multipliers well recognised as important factors in broader development processes. These include improving levels of health and education as well as economic development<sup>106</sup>. This point is not highlighted to suggest that these externalities only exist with Fair Trade, but instead to point out that quantification in ‘value for money calculations’ is outstandingly complex. The implication of this is that those claiming to have ‘clear’ answers should always be read critically.

It might also be argued that Fair Trade is ineffective because of the amount of money institutions like the FLO and the Fairtrade Foundation spend on advertising and marketing<sup>107</sup>. The first important point is that this is not money taken from the clutches of producers. Instead, this finance comes from the investment made by producers in certification to augment the quality attributes of their products (see: Is Fair Trade Charity?, on page 18).

Although it is possible to quantify the cost of this outgoing, and its influence on sales of FLO Fairtrade certified goods<sup>108</sup>, it is not possible to accurately capture the benefit that

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<sup>105</sup> Nicholls and Opal 2005. *Fair trade : market-driven ethical consumption*. London: Sage. pp. 47-51  
Fairtrade Foundation. *Press Release* [Online]. Available at:  
[http://www.fairtrade.org.uk/press\\_office/press\\_releases\\_and\\_statements/feb\\_2008/response\\_to\\_adam\\_s\\_mith\\_institute\\_report.aspx](http://www.fairtrade.org.uk/press_office/press_releases_and_statements/feb_2008/response_to_adam_s_mith_institute_report.aspx) [Accessed: 11/03/08].

<sup>106</sup> See footnote 224 for a list of impact studies reporting these benefits and see the section entitled: The Social Premium

<sup>107</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute

<sup>108</sup> See the latest annual reports from the FLO and the Fairtrade Foundation.

this returns. What can be said is that all the other mechanisms suggested by Sidwell will also have quantifiable overheads which must be considered. Like Fair Trade, these charities need to promote their brands and the solutions that they offer to help the poor. Even if the cost only extends to the relatively low expense of maintaining a website and a small body of staff, the level of public contributions are going to be reflected in the promotional work that is undertaken.

Again Sidwell's criticisms not only fail to stand up to critical thinking, but also lack coherence. This is because it is first argued that Fair Trade is too small and thus irrelevant<sup>109</sup> but then that efforts to expand the movement through marketing are also inappropriate<sup>110</sup>. Logically it is not possible to genuinely support both these points at once, and indicates to us that this is far from a dispassionate evaluation.

Instead, it is suggested that the intention of the Adam Smith Institute was to highlight as many criticisms as possible in order to bolster their primary point of contention with Fair Trade. Given the Institute's overall aim to promote free markets solutions, it appears logical that the main and natural point of opposition is the payment of minimum prices. However, despite the efforts of the Adam Smith report to reify free markets policies as the best way to reduce poverty, alternative analysis in Part Three seriously questions this assumption.

## Conclusion

In summary, there are significant problems with the individual arguments deployed in the Adam Smith report, *Unfair Trade*. The most fundamental is that many of the arguments are simply assertions which have little or no evidence to support them. Where evidence is offered it has been suggested that the author has often failed to cite credible, or in some cases, relevant evidence for his conclusions. Far from offering an evaluation of Fair Trade, the Adam Smith paper has simply sought to bolster its primary opposition to Fair Trade – the payment of minimum prices – with as many other criticisms as possible, irrespective of overall coherence or evidential rigour. Given the importance of the minimum price issue, the rest of the paper as been given

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<sup>109</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, pp. 11-12

<sup>110</sup> *Ibid.*, pp. 6-7



over to its discussion; however, as far as the other criticisms are concerned, the conclusion of this section must be that the evidence in support of Sidwell's case is far from 'clear'.

## Part Three

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### ***Liberalisation Alone as the Best Means to Growth with Equality: A critique***<sup>111</sup>

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As well as challenging the effectiveness of Fair Trade, Sidwell claims that, ‘the evidence is clear: free trade works’<sup>112</sup> by increasing economic growth and reducing poverty. These conclusions lead to the policy suggestion that ‘tariffs everywhere should be reduced’<sup>113</sup>. To back this argument Sidwell refers to economic theory and argues that those countries which have done the most to reduce poverty have done so through programs of liberalisation<sup>114</sup>. This then helps to back Sidwell’s reification of the advantages of free market policies, an account which is then used to implicitly characterise Fair Trade as constituting a dangerous political agenda, intent on opposing and reversing poverty reducing liberalisation<sup>115</sup>.

However, alternative analysis suggests that the specific cases of poverty reduction cited in the Adam Smith report cannot be attributed solely to programs of liberalisation. While such a conclusion might be suggested by simply *correlating* liberalising regimes and a fall in poverty, this does not amount to a credible account of *causation*<sup>116</sup>. Instead, the evidence and analysis presented below suggests that while successful poverty reduction strategies have utilized market incentives, it has been the

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<sup>111</sup> It should be noted that as liberal development approach is derived from theory it is also possible to critique the liberal position on a theoretical basis. Particularly of relevance are the problems associated with the idea of static comparative advantage in its unrealistic assumptions and limited explanatory power. However, given that this paper is a response to the material used in the Adam Smith report, theoretical critique has not been included. For those interested see: Shafaeddin ed. 2003. *Free Trade or Fair Trade*. Annual DSA Conference: Globalisation and Development. University of Strathclyde.

<sup>112</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 20

<sup>113</sup> *Ibid.*

<sup>114</sup> *Ibid.*, pp. 18-23

<sup>115</sup> *Ibid.*, p. 12

<sup>116</sup> Sidwell is not the only author to take correlation as an explanation of causation and thus criticism applies to all analysis that fails to move beyond this statistical approach. The main problem is that even if a causal relationship can be established with enough statistical significance, the direction of this causation simply cannot be attained through quantitative analysis. For example, in the case of China, economic growth may be preceding (and thus allowing for) liberalisation. For a full criticism of this statistical work on this subject see: Rodriguez and Rodrik 2001. Trade Policy and Economic Growth: A Sceptics Guide to Cross-National Evidence. In: Bernanke and Rogoff eds. *Nber Macroeconomics Annual 2000*. National Bureau of Economic Research: MIT Press

*appropriate management of market systems over time* which best explains the difference between successes and failures. Further the supposed ‘reality’ that, ‘economic development through free market reform actively favours the poor’ is also problematic<sup>117</sup>. Instead it is argued that while liberalisation might have led to growth in some cases, this should not been a universal expectation as some countries have seen their incomes fall after liberalisation. Nor is it accepted that growth and free markets automatically reduce poverty as again empirical evidence shows that even where liberalisation has been strong, the poor have often lost out under liberalisation programs.

### **What China and India Really Show: poverty reduction and the importance of unorthodox compliments to liberal policies**

The first national example identified in support of liberalisation is China. This case is taken up by Sidwell because it has indeed reduced poverty in a significant way during a period of liberalisation<sup>118</sup>. However, the argument is only accurate to a limited degree because correlation should never be taken as an explanation of causation<sup>119</sup>. What must be recognised is that before reforms began China was arguably *the most highly regulated* economy in the world<sup>120</sup>. This is important as Borensztein and Ostry point out that despite impressive growth during and after the reform, ‘a perhaps less well known fact is that [economic] performance was also strong in the years leading up to the reform’<sup>121</sup>. This means that far from kicking off economic growth and poverty reduction, liberalisation contributed to a process that had already been brought about through tight state regulation.

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<sup>117</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 20

<sup>118</sup> Lardy ed. 2003. *Trade Liberalization and Its Role in Chinese Economic Growth*. International Monetary Fund and National Council of Applied Economic Research Conference "A Tale of Two Giants: India's and China's Experience with Reform and Growth". New Delhi. ; Smith 2007. *The Dragon and the Elephant: China, India and the New World Order*. Profile. China has lifted 400 million people out of extreme poverty since 1981 according to the World Bank, see:

<sup>119</sup> See footnote: 18.

<sup>120</sup> Naughton 1995. *Growing Out of the Plan: Chinese Economic Reform*. Cambridge: Cambridge University Press; Prybyla 1970. *The Political Economy of Communist China*. International Textbook Co.

<sup>121</sup> Borensztein and Ostry 1996. Accounting for China's Growth Performance. *The American Economic Review* 86(2). p. 224. It can be noted that economic performance is measured by a range of indicators.

Even when liberalisation was introduced it was ‘gradual and partial, with extensive government intervention in and domination of key product markets’<sup>122</sup>. For example in agricultural, liberalisation has been slow and only undertaken at the margins of the economy<sup>123</sup>. According to Qian and Roland<sup>124</sup>, this explains how this system generated *efficiency without market signals*, while at the same time *making sure that there were few losers* from carefully managed structural changes<sup>125</sup>. While this sector is not solely responsible for the reduction of poverty<sup>126</sup>, it has certainly made significant contributions<sup>127</sup> which should be attributed to more than just liberalisation.

This is the case across the majority of the economy and although China has reduced tariffs, this has not implied the development of a free market capitalist economy. Instead, industrial development has been administered by the state under a system termed ‘local state corporatism’<sup>128</sup>. This highly masked but extensive control has allowed the state to, ‘take revenue from one enterprise and use it to develop another through an informal process of borrowing and redistribution of debt’<sup>129</sup>. Lau et al.<sup>130</sup> point out that this intervention was critical in achieving political support for the reform, maintaining its momentum, and minimizing adverse social implications throughout the economy. More importantly, it allowed the state to manage market forces and develop the capacity of

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<sup>122</sup> Walder 1995. *Local governments as industrial firms : an organizational analysis of China's transitional economy*. Ithaca, N.Y.: Mario Einaudi Center for International Studies, Cornell University. p. 264

<sup>123</sup> Rodrik 2007a. *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Oxford: Oxford University Press. p. 23

<sup>124</sup> Qian, et al. eds. 2002. *Coordinating Changes in M-form and U-form Organizations*. Nobel Symposium Harvard.

<sup>125</sup> Oi 1992. Fiscal Reform and the Economic Foundations of Local State Corporatism in China. *World Politics* 45(1).

<sup>126</sup> Bramall 2000. 3. The Sectoral Contributions of Industry and Agriculture. *Sources of Chinese Economic Growth, 1978-1996* 1

<sup>127</sup> Roy 2006. *Economic Reform in China and India: Development Experiences in a Comparative*. Edward Elgar Publishing. pp. 68-69

<sup>128</sup> Jiang and Hall 1996. Local Corporatism and Rural Enterprises in China's Reform. *Organization Studies* 17(6); Rodrik 2007a. *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Oxford: Oxford University Press; Unger and Chan 1995. China, Corporatism, and the East Asian Model. *The Australian Journal of Chinese Affairs* (33).

<sup>129</sup> Oi 1995. The Role of the Local State in China's Transitional Economy. *The China Quarterly* (144). p. 1140

<sup>130</sup> Lau, et al. 2000. Winners Without Losers: An Interpretation of China's Dual-Track Approach to Transition. *Journal of Political Economy* 108(1).

enterprise in a coordinated way (an element of policy that is argued to be essential in readying local economies for interaction with global markets<sup>131</sup>).

Although not as extreme in either its historical or contemporary regulation, a move past simply deriving causation from correlation between free markets and growth (which has been contested anyway<sup>132</sup>), suggest that highlighting liberalisation alone is a misrepresentation of the evidence. As a framework for this analysis some have suggested the importance of differentiating, ‘between a **promarket** and a **probusiness** orientation’<sup>133</sup>. Instead of picking liberalisation alone, those seeking to draw policy conclusions from India should look to the whole package of measures which contributed to expanding output and reducing poverty.

Indeed, those examining India’s liberalisation have gone some way to identifying non-market factors and argue that the state has been instrumental in expanding local capacity before liberalisation programs were launched. While protectionism prior to the 1980s take-off did correlate with *low* growth (again showing intervention does not prevent gains), the effects on the development of local capacity is seldom considered. For example, in the area of agriculture, which contributed the most to poverty reduction prior to the 1980s, analysis has seen ‘firm pay offs’ from significant non-market and interventionist policies in the form of government investments and subsidised credit<sup>134</sup>. Others make the same argument about the role of state capacity building in the manufacturing and IT sectors which have subsequently taken over the function of driving growth and poverty reduction<sup>135</sup>.

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<sup>131</sup> Rodrik 2004. *Industrial Policy for the Twenty First Century. Paper prepared for UNIDO* September

<sup>132</sup> Rodrik and Subramanian 2004. From “Hindu Growth” to Productivity Surge: The Mystery of the Indian Growth Transition. *IMF Working Paper* WP/04/77 p. 4 Srinivasan. 2005. Comments on "From 'Hindu Growth' to Productivity Surge: The Mystery of the Indian Growth Transition". *IMF Staff Papers* [Online] 52(2). Available at: <https://www.imf.org/External/Pubs/FT/staffp/2005/02/srinivas.htm> [Accessed: 20/03/08].

<sup>133</sup> Rodrik and Subramanian 2004. From “Hindu Growth” to Productivity Surge: The Mystery of the Indian Growth Transition. *IMF Working Paper* WP/04/77 (Original emphasis).

<sup>134</sup> Fann, et al. eds. 2003. *Investment, subsidies, and pro-poor growth in rural India*. Workshop on institutions and economic policies for pro-poor agricultural growth. Wye Campus, London: Imperial College. Cited by: Dorward, et al. 2004. A Policy Agenda for Pro-Poor Agricultural Growth. *World Development* 32(1). Fan and Hazell 1999. *Linkages Between Government Spending, Growth, and Poverty in Rural India*. Int Food Policy Res Inst IFPRI.

<sup>135</sup> Biswas 2004. Making a technopolis in Hyderabad, India: The role of government IT policy. *Technological Forecasting and Social Change* 71(8); Dedrick and Kraemer 1993. Information Technology in India: The Quest for Self-Reliance. *Asian Survey* 33(5); Rodrik and Subramanian 2004.

On this basis it should be considered that policy conclusions taken from the experience of China and India that simply isolate liberalisation are somewhat simplistic. This is because these suggestions miss what are likely to be essential intermediate variables in establishing beneficial outcomes for local actors and particularly the poor. Instead, alternative analysis concludes that: 1) while liberalisation certainly appears to enhance growth rates, it is not shown to be a universal prerequisite, 2) Indeed, while insulation of local economies does not preclude growth, it appears to be important in building the capacity of actors to derive benefits from the liberalisation process<sup>136</sup>. Enterprise requires many factors to be successful and the development of an appropriate base of capability is likely to be an essential criterion in making efficiency gains under market forces. In simple terms, if the market is a competitive race to be the most efficient, it should not be expected that the slowest (least capable) come last (despite greater motivation to catch up). Overall while liberalisation has been a key component in success, under more detailed analysis these cases suggest that poverty is best addressed through *appropriately regulated interaction with the world economy*. It is this principle that is taken forward to Part Four where it is suggested that Fair Trade might have the potential to carry out the same nurturing function for those currently involved in commodity production.

### **Growth in Hong Kong: the importance of establishing contingencies in promoting liberalisation**

Sidwell stands on slightly more stable ground in pointing to the example of Hong Kong as being support for poverty reduction through free market policies. However again, there are those who argue that even this country did not grow solely through liberal markets but that changes were also guided by government interventions. Some studies highlight the

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From “Hindu Growth” to Productivity Surge: The Mystery of the Indian Growth Transition. *IMF Working Paper* WP/04/77

<sup>136</sup> This is certainly not an original argument and these issues have been discussed extensively, from many different perspectives, since the middle of the last century. However for a contemporary account see: Greenwald and Stiglitz 2006. Helping Infant Economies Grow: Foundations of Trade Policies for Developing Countries. *American Economic Review* 96(2).

role of government intervention in building the capacity of business<sup>137</sup>, and increasingly so after the instability of the Asian Financial Crisis in 1997<sup>138</sup>. Other have noted that as the government subsidised public housing to roughly half the population, this might have meant that it has been actively involved in depressing the cost of labour<sup>139</sup>.

However, it is also important to consider how relevant the case of Hong Kong is to the promotion of liberalisation in other countries. This is because as an island entrepôt for the surrounding economies, Hong Kong benefited from its geographical position and function as an international trade hub on an unprecedented scale<sup>140</sup>. Robert Wade notes that "its economic growth is a function of its service role in a wider regional economy, as entrepôt trader, regional headquarters for multinational companies, and refuge for nervous money."<sup>141</sup> In short, Hong Kong took advantage of a very specific situation and it is thus far from clear if other countries can expect to see similar results based on the same policies. Indeed, context specific characteristics are increasingly recognised as important, and for this reason one-size-fits-all policies such as those advocated by Sidwell are finding themselves increasingly criticised<sup>142</sup>.

### **The Importance of Regulating Markets: Other evidence linking management and poverty reduction**

Indeed, it has become increasingly difficult to argue that strong growth has been promoted by exclusively free market policies bereft of significant unorthodox state interventions. Instead, it is increasingly accepted that other countries, like Japan,

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<sup>137</sup> Lau 1997. The Role of Government in Economic Development: Some observations from China, Hong Kong and Taiwan. In: Aoki, Kim and Okuno-Fujiwara eds. *The Role of Government in East Asian Economic Development: Comparative Institutional Analysis*. Vol. Oxford. 1997: Oxford University Press

<sup>138</sup> Newman 2000. Government intervention in the economy: a comparative analysis of Singapore and Hong Kong. *Public Administration and Development* 20(5).

<sup>139</sup> Wade 2004. *Governing the Market : economic theory and the role of government in east Asian industrialization*. Princeton: Princeton University Press. p. 332 Also see: Keung 1981. *Government intervention and housing policy in Hong Kong : a structural analysis*. Cardiff: Cardiff University, Dept. of Town Planning, University of Wales, Institute of Science and Technology.

<sup>140</sup> Feenstra and Hanson 2004. Intermediaries in Entrepôt Trade: Hong Kong Re-Exports of Chinese Goods. *Journal of Economics & Management Strategy* 13(1).

<sup>141</sup> Wade 2004. *Governing the Market : economic theory and the role of government in east Asian industrialization*. Princeton: Princeton University Press. p. 331 For a concretisation of this theory with more specific detail see: Feenstra and Hanson 2004. Intermediaries in Entrepôt Trade: Hong Kong Re-Exports of Chinese Goods. *Journal of Economics & Management Strategy* 13(1).

<sup>142</sup> Rodrik 2007a. *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Oxford: Oxford University Press.

Taiwan and Korea with comparably high rates of growth and poverty reduction have also been able to achieve this through *appropriately managed interaction* with the wider world<sup>143</sup>. Even the World Bank, which began by arguing that it was free markets that had brought about the Asian miracle, has been unable to ignore this evidence<sup>144</sup>. While there are still those that argue for the primacy of the importance of market processes, these commentators are finding this position increasingly hard to defend<sup>145</sup>.

However, on the other hand, it would be equally wrong to argue that simple intervention alone has been the key factor. As well as modification of price incentives that carefully managed the interaction of local economies with the international system,<sup>146</sup> these governments (and it should be noted that similar arguments have been made for the economic success of the now richer world<sup>147</sup>) also made more direct interventions in other areas such as credit provision, technology adaptation, research and design, investment planning, labour market planning, and the promotion of institutions that allow public-

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<sup>143</sup> Amsden 1989. *Asia's Next Giant: South Korea and Late Industrialization* Oxford: Oxford University Press; Chang 2002. *Kicking Away the Ladder – Development Strategy in Historical Perspective*. London: Anthem Press; Johnson 1982. *Miti and the Japanese Miracle: The Growth of Industrial Policy*. Chicago Stanford University Press; Wade 1990. *Governing the Market: Economic Theory and the Role of Government in East Asian Industrialization*. Princeton: Princeton University Press; Woo-Cumings 1999. *The Developmental State*. London Cornell University Press.

<sup>144</sup> Aoki and Okuno-Fujiwara 1997. *The Role of Government in East Asian Economic Development: Comparative Institutional Analysis*. Oxford: Oxford University Press; De Ferranti, et al. 2002. *From Natural Resources to the Knowledge Economy*. Washington, DC, : World Bank; World Bank 1993. *The East Asian Miracle: Economic Growth and Public Policy*. Washington: A World Bank Policy Research Report.

<sup>145</sup> Those that continued to argue that growth was primarily the result of liberal policies have been forced to reconcile the overwhelming evidence that shows states to have heavily intervened in economic incentive structures. Bhagwati (1985, 1988) makes the argument that these distortions did not hinder growth because it leaves room for 'private initiatives'. Noland and Westphal give more ground when they argue that the heavy state intervention, 'might have, at best, enhanced growth modestly in the Asian economies' (p. ix) and for example had the effect of extending a 7% growth rate to 9%. Noland and Pack 2003. *Industrial Policy in an Era of Globalization: Lessons from Asia*. Peterson Institute. However, while these discussions are useful in furthering our understanding of how to maximise growth they are further evidence that market intervention does inevitably retard efficiency, or economic growth, and may help to contribute in some sectors. This view perhaps best encapsulates the case that we want to make vis -à-vis the minimum price regimes involved in the Fair Trade governance.

<sup>146</sup> Aoki and Okuno-Fujiwara 1997. *The Role of Government in East Asian Economic Development: Comparative Institutional Analysis*. Oxford: Oxford University Press.

<sup>147</sup> For some representative examples of this literature see: Bairoch 1993. *Economics and World History: Myths and Paradoxes*. London: Harvester; Chang 2002. *Kicking Away the Ladder – Development Strategy in Historical Perspective*. London: Anthem Press. For a more micro perspective on the way that state intervention assisted with the development of business in the USA and Europe see: Micklethwait and Wooldridge 2005. *The Company: A Short History of a Revolutionary Idea*. Phoenix



private cooperation<sup>148</sup>. This nuanced view must also take into account the exact relationship between the state and the private sector and it is argued by many that this has been a key factor in differentiating successful intervention from that which has spelled inefficiency, waste and stagnation<sup>149</sup>.

The conclusion from this evidence appears to be that while appropriate incentives are likely to be a necessary component of successful growth strategies, orthodox policies that often stem from this fact<sup>150</sup> are likely to be complimented by well managed unorthodox components<sup>151</sup>. These unorthodox elements usually include intervention in incentive systems and resource allocation which seek to *actively manage the national economies interaction with international markets*. This means that instead of taking a black and white approach to free markets versus intervention, it is more appropriate to consider all policies that have been deployed to fostered successful economic development in poorer countries<sup>152</sup>.

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<sup>148</sup> Kuznets 1988. *An East Asian Model of Economic Development: Japan, Taiwan, and South Korea. Economic Development and Cultural Change* 36(3); Lall 1992. Technological capabilities and industrialization. *World Development* 20(2); Rodrik 2007b. *One Economics: Many Recipes*. Princeton & Oxford: Princeton University Press ; Yoon-Je Cho and Kim 1995. *Credit Policies and the Industrialization of Korea*. World Bank Publications.

<sup>149</sup> On arguably the most important characteristic of successful state intervention see: Evans 1995. *Embedded Autonomy: States and Industrial Transformation*. Princeton, NJ,: Princeton University Press. For some comparative case studies of similarities and essential differences that between Latin American and Asian countries see: Collins and Bosworth 1996. *Economic Growth in East Asia: Accumulation versus Assimilation*. In: Brainard and Perry eds. *Brookings Papers on Economic Activity* Brookings Institution Press ; Etzkowitz and Brisolla 1999. Failure and success: the fate of industrial policy in Latin America and South East Asia. *Research Policy* 28(4). This has also been the difference between successful and more problematic national examples of growth in Asia, in that those with problems have failed to adopt the development state model in an appropriate way. While for many liberals the Asian crisis was seen as a long over due symptom of the development state structure, more sophisticated analysis has highlighted the fact that those countries where the crisis started were not good representations of the development state model. Weiss notes that while the 'developmental state' model was used to explain the economic growth of countries namely Malaysia, Thailand and Indonesia, these states never institutionalised 'developmental market economies' of the kind found in Japan, Korea, and Taiwan. While government-business ties have often been close, they have rarely approached the 'governed interdependence' model of Northeast Asia. In consideration of the countries where the crisis began Weiss notes that 'Thailand's growth appears to owe little to a state-coordinated industrial strategy' as had failed to undertake structural change and was operating around a static comparative advantage based on low labor costs and cheap raw materials. See: Weiss 1999. *State Power and the Asian Crisis. New Political Economy* 4(3).

<sup>150</sup> For an inclusive picture of these essential macro policies see: Burki and Perry 1998. *Beyond the Washington Consensus: Institutions Matter*. New York: World Bank Publications.

<sup>151</sup> Rodrik 2007a. *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Oxford: Oxford University Press.

<sup>152</sup> It should be noted that this is not a point lost on those cited above in reference to state intervention in market incentives. See Noland and Pack 2003. *Industrial Policy in an Era of Globalization: Lessons from Asia*. Peterson Institute. For an overview of the ways that the state intervened to foster growth in

## Is It Clear That Liberalisation Reduces Poverty?

The above analysis highlights a significant amount of evidence which questions the argument that cases of strong economic growth and poverty reduction are attributable to liberalisation alone. However, it is also important to consider the results of those cases where policies have been more qualifiable as liberal.

For example, it is true to say that 'countries such as Mexico, Argentina, Brazil, Colombia, Bolivia and Peru did more liberalisation, deregulation and privatisation in the course of a few years than East Asian countries have done in four decades'<sup>153</sup>. However, the empirical record of these states show that the evidence is far from clear in establishing that liberalisation is the best way to promote growth<sup>154</sup> or reduce poverty<sup>155</sup>. For example, Ocampo finds that where, 'in 1980 35% of households were in a state of poverty, that proportion stood at 41% in 1990, and in 1994 the figure was still as high at 39%'<sup>156</sup>. To take an individual study of the relationship between liberalisation and growth, despite the aggregate income rise which accompanied Mexico's program of liberalisation between 1984 and 1992 (35 % average income expansion), abject poverty and inequality both rose<sup>157</sup>.

Although not a universal pattern<sup>158</sup>, this is not the only case where programs of liberalisation have been followed by increased incidences of poverty<sup>159</sup>. As Sidwell notes,

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the Asian Countries and India see: Sharma 1993. Markets and States in Development: India's Reformers and the East Asian Experience. *Asian Survey* 33(9).

<sup>153</sup> Rodrik 2007a. *One Economics, Many Recipes: Globalization, Institutions, and Economic Growth*. Oxford: Oxford University Press. p. 20

<sup>154</sup> Greenaway, et al. 1997. Trade liberalization and growth in developing countries: Some new evidence. *World Development* 25(11); Singh 1993. Asian economic success and Latin American failure in the 1980s: new analyses and future policy implications. *International Review of Applied Economics* 7(3).

<sup>155</sup> Cardoso and Helwege 1992. Below the line: Poverty in Latin America. *World Development* 20(1). pp. 26-31; Rosenthal 1996. On Poverty and Inequality in Latin America *Journal of Interamerican Studies and World Affairs* 38(2/3).

<sup>156</sup> Ocampo ed. 1998. *Income distribution, poverty and social expenditure in Latin America*. First Conference of the Americas. Organization of American States, Washington, 6 March.

<sup>157</sup> Szekely 1998. *The Economics of Poverty, Inequality and Wealth: Accumulation in Mexico*. Macmillan Press Ltd.: Basingstoke.

<sup>158</sup> Anderson 2005. Openness and inequality in developing countries: A review of theory and recent evidence. *World Development* 33(7). p. 1051

<sup>159</sup> Some among the literature include: Anand and Kanbur 1993. Inequality and development: A critique. *Journal of Development Economics* 41(1); Chen, et al. 1994. Is Poverty Increasing in the Developing World? *Review of Income & Wealth* 40(4); Gottschalk and Danziger 1985. A Framework for Evaluating the Effects of Economic Growth and Transfers on Poverty. *The American Economic Review* 75(1); Hurrell and Woods 1995. Globalization and Inequality. *Millennium* 24(3); Shorrocks and

in the case of Africa, programs of intensive market intervention were correlated with the failure to increase growth and reduce poverty<sup>160</sup>. However, it is not clear that liberalisation has succeeded in reversing this trend as while macro level analysis shows a reduction in poverty based on aggregate income levels, multidimensional, locally focused, livelihood approaches are much less positive<sup>161</sup>.

These mixed results, both within and between different methodologies, have raised concerns about advocating the one-size-fits-all policy of liberalisation that Sidwell suggests. Despite the necessity of creating winners, and by definition losers, during readjustment<sup>162</sup> ‘many commentators fear, however, that in the shorter run, one of the steps towards openness-trade liberalization harms poorer actors in the economy, and that, even in the longer run, successful open regimes may leave some people behind in poverty’<sup>163</sup>.

For this reason scholars have increasingly sought to move past studies that simply correlate liberalisation and growth, and instead understand the intermediate variables that are causing variations in the above results. Liberals who take this approach advocate a basic, non interventionist set of institutions<sup>164</sup> to ensure liberalisation results in economic growth, and often make concessions to the poor in the form of bolt-on poverty reduction strategies. However, this approach has been strongly criticised for many reasons<sup>165</sup>, and many argue that these provisions are not likely to help as they fail to address the fundamental reasons why the poor suffer during liberalisation<sup>166</sup>. This later argument is

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Hoeven 2005. *Growth, Inequality, and Poverty: Looking Beyond Averages*. Oxford: Oxford University Press.

<sup>160</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 19

<sup>161</sup> Hiranya 1999. Trade liberalization in sub-Saharan Africa: stagnation or growth? *Journal of International Development* 11(6).

<sup>162</sup> Dollar and Kraay 2004. Trade, Growth, and Poverty\*. *The Economic Journal* 114(493); Winters, et al. 2004. Trade Liberalization and Poverty: The Evidence so Far. *Journal of Economic Literature* 42(1).

<sup>163</sup> Winters, et al. 2004. Trade Liberalization and Poverty: The Evidence so Far. *Journal of Economic Literature* 42(1). p. 72

<sup>164</sup> Dollar and Kraay 2004. Trade, Growth, and Poverty\*. *The Economic Journal* 114(493).

<sup>165</sup> This point is made in specific reference to Poverty Reduction Strategy Paper that have been used by the IMF. See: Dijkstra 2005. The PRSP Approach and the Illusion of Improved Aid Effectiveness: Lessons from Bolivia, Honduras and Nicaragua. *Development Policy Review* 23(4); Whitfield 2005. Trustees of development from conditionality to governance: poverty reduction strategy papers in Ghana. *The Journal of Modern African Studies* 43 J Lazarus, ‘Participation in PRSPs: evidence from Armenia’, forthcoming, 2008.

<sup>166</sup> Ellis and Mdoe 2003. Livelihoods and Rural Poverty Reduction in Tanzania. *World Development* 31(8).

certainly supported by the analysis above – as the successful states of Asia have intervened much more fundamentally – and is explored in the rest of this paper.

Although many of the institutions required under orthodox liberal policy – such as secure property rights and fiscal discipline – are not necessarily refuted by this perspective, it highlights the importance of focusing on the capabilities of individual actors, businesses and sectors. Poulton et al. summarise the position when they note that: ‘Countries, sectors and particular groups within society (particularly the poorest) will only benefit from trade and marketing liberalisation if they are equipped to compete in newly competitive markets’<sup>167</sup>.

Based on this idea the next section will argue that although poor commodity producers are able to recognise market incentives, they are not necessarily able to take advantage. Thus, it is suggested that if the ability of certain groups to benefit from free markets is conditioned by their level of capacity, bolstering this capacity might be an important prerequisite to reducing poverty through liberalisation. On this basis it can be suggested that far from retarding long term poverty reduction, Fair Trade provides the possibility for resource reallocation by helping to alleviate the above constraint that free trade policies only seem to reinforce.

## **Conclusion**

The evidence offered in the Adam Smith Institute Report that free trade is fair trade because it is the best way to reduce poverty is an over simplification of the empirical evidence. This isolation of liberal and liberalising elements in economic policy totally fails to recognise the essential role played by unorthodox and interventionist state policies that have worked alongside more orthodox components.

In a more sophisticated reading of the evidence, it has been noted that while market interventions have failed in some examples, this has been for reasons specific to the

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<sup>167</sup> Poulton, et al. 1999. Agricultural trade and marketing liberalisation in Sub-Saharan Africa and Latin America: The impact on growth and poverty. *Quarterly Journal of International Agriculture* 38(4). Also see: Ellis and Mdoe 2003. Livelihoods and Rural Poverty Reduction in Tanzania. *World Development* 31(8).

context and not because of inherent problems with governing markets. It is suggested that the difference between productive interventions (China, Japan, Korean, Taiwan, India etc) and those that have failed (Latin Americas, Africa and arguably some of the Asian states like Malaysia, Thailand and Indonesia<sup>168</sup>) has been the ability of governments to balance the need to increase local business capacity with the drive for quality and efficiency, necessary to compete in world markets.

Further, this section has identified significant evidence which questions Sidwell's argument that liberalisation clearly leads to a reduction in poverty. A more nuanced approach to the evidence shows that nothing should be taken as black and white. Free market policies can facilitate growth and poverty reduction, but equally increase the incidences of poverty if other variables are not considered. Finally it has been suggested that an important consideration is the capabilities of poorer members of society to benefit from market forces, and this will be explained in more detail below.

Concluding with the issue of methodology, perhaps the best way to sum up the Adam Smith report is to echo Sidwell's own words, '*Put simply*, tariffs everywhere should be reduced': perhaps those wishing to comment on how best to alleviate the plight of the poor might do well to observe that this is perhaps not an issue that even can, nor even should be 'put simply'.

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<sup>168</sup> See footnote: 149.

## Part Four

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### ***The Importance of Micro Realities: An alternative theory with which to consider Fair Trade***

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While many of Sidwell arguments lack cohesion, there is a serious contradiction with the notion that *poverty* alleviation can be left to *free* markets. This is because of the explicit assumption that this process relies on *free* individuals voluntarily seizing market opportunities'<sup>169</sup>. A more considered approach to understanding the issues shows that by definition, the poor lack the resources necessary to overcome external constraints on their freedom to achieve certain things. While some 'unfreedoms' that define poverty are fundamentals such as the limitations of hunger, the lack of freedom to derive an appropriate living is also a central consideration of this widely accepted interpretation.<sup>170</sup> Indeed, Sidwell implicitly accepts this theory himself when he argues that consumers should donate to charities that provide resources to develop people's capability to compete. However, perhaps because of the overall agenda, he then totally fails to consider this in his analysis of Fair Trade. An alternative approach suggests that where the poor are often physically unable to respond to market signals due to their lack of resources, Fair Trade can help bolster this capacity to become involved in markets that were previously off limits. Furthermore, it is suggested that in many cases free markets simply fail to offer the incentives necessary to promote the changes in production that Sidwell argues are necessary for long term poverty reduction. Under this analysis it is increasingly hard to accept that intervention to manage market incentives, such as that practiced in the Asian states mentioned above, cannot be justified.

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<sup>169</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 5

<sup>170</sup> As a compliment the process of 'development' was seen to alleviate these constraints on the unfreedom of poverty. Sen 1999. *Development as Freedom*. Oxford University Press: Oxford.

## The Developing World as an Unstable Environment

There is a large body of research that recognises the developing world as a precarious and unstable environment<sup>171</sup>. Developing countries in general are characterised by a high concentration of risk as a result of geographical and environmental factors such as variable and adverse weather, natural disasters and the prevalence of disease. There are also politico-economic factors such as unreliable infrastructure, economic instability from macroeconomic shocks (for example from fluctuations in commodity prices), lack of legal protection, and in some cases, exposure to open violence.

Rural areas have even higher concentrations of risk to welfare as they tend to have higher incidences of disease and environmental hazards<sup>172</sup>. This is certainly important for agricultural commodity producers who rely on products that are highly susceptible to these risks. Although some volatility in commodity prices has been caused by over production, for example the entry of Vietnam into the Robusta coffee sector<sup>173</sup>, the frequent source of short terms price volatility comes from natural phenomenon<sup>174</sup>.

This situation clearly requires a methodology for mitigating this threat to welfare, but agricultural areas are also characterised by a lack of formal institutions for achieving this<sup>175</sup>. Formal insurance and credit provision, that often acts as a substitute<sup>176</sup>, are not provided as appropriate markets have failed to emerge. To some extent this can be attributed to the absence of a legal system to secure property rights<sup>177</sup> but is mainly because sparse and low density populations cannot afford to meet the costs necessary to incentivise such services<sup>178</sup>. While this demonstrates how markets can often fail to

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<sup>171</sup> Fafchamps 2003b. *Rural Poverty Risk and Development*. Cheltenham: Elgar Publishing.

<sup>172</sup> Sauerborn, et al. 1995. Recovery of recurrent health service costs through provincial health funds in Cameroon. *Social Science & Medicine* 40(12).

<sup>173</sup> Niimi, et al. 2003. *Trade Liberalisation and Poverty Dynamics in Vietnam*. Poverty Research Unit, University of Sussex

<sup>174</sup> Moschini, et al. 2001. Chapter 2 Uncertainty, risk aversion, and risk management for agricultural producers. *Handbook of Agricultural Economics*. Vol. Volume 1, Part 1. Elsevier

<sup>175</sup> Fafchamps 2003a. *Rural Poverty Risk and Development* Cheltenham Elgar Publishing.

<sup>176</sup> Eswaran and Kotwal 1989. Credit as Insurance in Agrarian Economies. *Journal of Development Economics* 31(1).

<sup>177</sup> Soto 2000. *The Mystery of Capital: Why Capitalism Triumphs in the West*. New York: Basic Books.

<sup>178</sup> Besley 1994. How Do Credit Market Failures Justify Interventions in Rural Credit Markets? *World Bank Res Obs* 9(1). pp. 31-41 Clearly there are exceptions to this. For example see: Ifft 2001.

*Government vs Weather The True Story of Crop Insurance in India*

Centre for Civil Society; Lilleor, et al. eds. 2005. *Weather Insurance in Semi-Arid India*. Annual Bank Conference on Development Economics. Amsterdam.

develop given structural constraints, it means that risk and vulnerability are omnipresent factors in the lives of those who live in this context.

Given the high prevalence of risk, and the lack of formal institutions to offset it, economic actors seek to mitigate shocks to their welfare through informal systems of management<sup>179</sup>. Although a variety of techniques are employed<sup>180</sup>, one widely used method in response to economic uncertainty is production diversification<sup>181</sup> - the very policy recommended by Sidwell in response to low and volatile commodity prices<sup>182</sup>. Having said this, there are still producers who remain in sectors that do not provide enough to cover the costs of basic needs. Instead of diversifying into higher incomes and more stable production, these actors choose low income activities or adopt other techniques of managing risk. Importantly, it has been observed that these other strategies not only fail to increase income, but also involve the active reduction of basic and essential inputs such as nutrition and health (de Waal 1989). Bacon comments that ‘many of these mechanisms such as pulling children out of school to avoid expenses [and work in direct production] can diminish long-term development potential and maintain households in a ‘poverty trap’’<sup>183</sup>. Others have noted that this necessity to manage risk also reflects negatively in national economic growth<sup>184</sup>. As a result these techniques perpetuate poverty on numerous levels, and so explaining why these techniques are adopted in preference to diversification goes a long way to answering Sidwell’s call to understand why commodity producers are poor in the first place<sup>185</sup>.

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<sup>179</sup> Fafchamps 2003b. *Rural Poverty Risk and Development*. Cheltenham: Elgar Publishing.

<sup>180</sup> Which have been classified by some as, stint, hoard, protect, deplete, claim, move and diversify. For a summary see: Chambers and Conway 1991. *Sustainable Rural Livelihoods: Practical Concepts for the 21st Century. IDS Discussion Paper 296* p. 11

<sup>181</sup> Kazianga and Udry 2006. Consumption smoothing? Livestock, insurance and drought in rural Burkina Faso. *Journal of Development Economics* 79(2); Rischkowsky, et al. 2006. Urban sheep keeping in West Africa: Can socioeconomic household profiles explain management and productivity? *Human Ecology* 34(6); Rosenzweig and Stark 1989. Consumption smoothing, migration, and marriage: Evidence from rural India. *Journal of Political Economy* 97(4).

<sup>182</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 14

<sup>183</sup> Bacon 2005. Confronting the Coffee Crisis: Can Fair Trade, Organic, and Specialty Coffees Reduce Small-Scale Farmer Vulnerability in Northern Nicaragua? *World Development* 33(3). p. 502 Also see: Skoufias 2003. Economic crises and natural disasters: Coping strategies and policy implications. *World Development* 31(7); Varangis, et al. 2003. *Dealing with the coffee crisis in Central America: Impacts and strategies*. Washington, DC.: World Bank

<sup>184</sup> Elbers, et al. 2007. Growth and Risk: Methodology and Micro Evidence. *World Bank Econ Rev* 21(1).

<sup>185</sup> There are also factors associated with the physical nature of commodity crops. See: Nicholls and Opal 2005. *Fair trade : market-driven ethical consumption*. London: Sage. p. 37



## Risk Management is Costly

The fact is that, just as formal insurance needs to be paid for, diversification is also very costly. Despite assumptions, even the most (seemingly) simple income strategies require financial<sup>186</sup>, as well as social<sup>187</sup> and human<sup>188</sup> capital to meet barriers to entry for new activities. While financial capital is unlikely to be available to the poor, other necessities might be more prohibitive given that physical capital, social contact and knowledge often only serve very specific purposes. To illustrate the point Putnam notes that, 'both an egg-beater and an aircraft carrier enter into the American national accounts as little bits of physical capital, and yet they are not interchangeable. Try fixing your morning omelette with an aircraft carrier, or try attacking the Serbs with an eggbeater'<sup>189</sup>.

This Putnam notes is equally true of social capital<sup>190</sup> and the same point must be made about certain types of human capital – knowing how to use an egg-beater does not qualify you to control an aircraft carrier – and Adam Smith himself alluded to the role that specific education could have on income possibilities<sup>191</sup>. It should be further noted that while money (for the most part<sup>192</sup>) allows for the interchange of other forms of capital via markets<sup>193</sup>, this is more complex than theories often allow. Firstly, exchange is not cost free: education, socialisation and exchange all carry costs in terms of financial capital and opportunity cost. Perhaps more importantly, markets do not guarantee the ability to convert one type of capital into another: for example the sunk costs in crops and plants, or even capital tied up in tools, might not be recoverable in any degree. Where farming is all that producers have, converting this capital into that needed for other livelihoods might be impossible as chances of finding a buyer for low return physical capital are logically

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<sup>186</sup> Income, savings and credit.

<sup>187</sup> Associations with other individuals or networks of people.

<sup>188</sup> Health and knowledge. World Bank 1990. *World Development Report: Poverty*. New York: Oxford University Press.

<sup>189</sup> Putnam 2001. Social capital: Measurement and consequences. In: Helliwell ed. *The contribution of human and social capital to sustained economic growth and well-being* Ottawa: Human Resources Development Canada, p. 117

<sup>190</sup> Ibid.

<sup>191</sup> The example of the difference between a philosopher and a street porter appears illustrative of this point: Smith 1976. *The theory of moral sentiments*. Oxford [Oxfordshire]; New York: Clarendon Press; Oxford University Press. pp. 28-29

<sup>192</sup> Sharon 1992. The Cattle of Money and the Cattle of Girls among the Nuer, 1930-83. *American Ethnologist* 19(2).

<sup>193</sup> Simmel 1978. *The philosophy of money*. London; Boston: Routledge & Kegan Paul.

limited<sup>194</sup>. Thus, it can be concluded that access to diversification is dictated both by aggregate levels of capital as well as conditions of specificity.

The identification of these costs and limitations provides the important answer as to why poor producers remain in low return and volatile sectors that perpetuate their poverty. The simple truth is by very definition, the poor lack of a various types of capital<sup>195</sup> needed to meet this cost: those who need to diversify most, are those least able to carry forward such action.

Indeed, there is a large quantity of empirical evidence which suggests that those closer to the poverty line are likely to be less able to diversify in response to any given system of incentives<sup>196</sup>. In an illustrative case from Ethiopia and Tanzania, empirical work has identified that the poor ideally wish to pursue higher income strategies through investment in cattle, but simply lack the capabilities to operationalise this rational economic decision<sup>197</sup>. Instead, they use strategies which they can access including petty trade, dungcake and fire wood collection<sup>198</sup> as well as being more strongly involved in less capital intensive crop production<sup>199</sup>. Understanding these economic decisions on the basis of constrained capability (versus the idea that actors are free to respond to market incentives) is equally applicable to commodity producers. Although they might want to diversify or capture more income by moving up the value chain, the reality is that such a move is unlikely to be possible where actors are poor. This goes a good way to explaining why in response to price falls, producers increase output and effectively worsen market conditions instead of

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<sup>194</sup> The inadequacy of relying on markets to convert assets into other capital, usually financial, has been demonstrated in the case of those who invest in cattle. If a shock causes many actors to try and liquidate capital in one go, the return naturally falls and this can reach the point where assets simply cannot be sold due to over supply or non-existence demand. See: Fafchamps and Gavian 1997. The Determinants of Livestock Prices in Niger. *J Afr Econ* 6(2).

<sup>195</sup> Ellis and Mdoe 2003. Livelihoods and Rural Poverty Reduction in Tanzania. *World Development* 31(8). p. 1372 Also see: Moser 1998. The asset vulnerability framework: Reassessing urban poverty reduction strategies. *World Development* 26(1); World Bank 2000. *World Development Report 2000/2001: Attacking poverty* New York: Oxford University Press

<sup>196</sup> For examples see: Dercon 1995. *Wealth Risk and Activity Choice: Cattle in Western Tanzania* Fafchamps 2003b. *Rural Poverty Risk and Development*. Cheltenham: Elgar Publishing. Gilbert 1988. Home enterprises in poor urban settlements: constraints, potentials and policy options. *Regional Development Dialogue* 9(21-39). Kazianka and Udry 2006. Consumption smoothing? Livestock, insurance and drought in rural Burkina Faso. *Journal of Development Economics* 79(2).

<sup>197</sup> Dercon and Krishnan 1996. Income Portfolios in Rural Ethiopia and Tanzania: Choices and Constraints. *Journal of Development Studies* 32(6).

<sup>198</sup> Dercon 2003. *Insurance Against Poverty*. Oxford: Oxford University Press. p. 17

<sup>199</sup> Ellis and Mdoe 2003. Livelihoods and Rural Poverty Reduction in Tanzania. *World Development* 31(8).

diversifying away from the sector. It also helps answer the question why these individuals are poor in the first place.

## Further Costs that Dissuade a Response to Market Signals

The second reason that growth should not be expected to come from ‘individuals voluntarily seizing market opportunities’<sup>200</sup>, is that despite higher potential returns being indicated by the market, these alternative opportunities might be perceived as very uncertain<sup>201</sup>.

As with any, sector individual actors and economic theories alike recognise that new income strategies must be rendered profitable through processes of ‘self discovery’<sup>202</sup>, and ‘learning by doing’<sup>203</sup>. This means that even if commodity producers can access an alternative income strategy, they might not be able to make the operation adequately profitable for a certain period of time. This is likely to be less of an issue for those who have the capabilities to smooth their consumption in the meantime; however, again the irony is that those most in need of diversification are the least able to risk experiencing a decline in their income<sup>204</sup>.

An added problem with diversification within the agricultural sector is that there is usually a considerable time-lag before plants and crops yield produce of high enough quantity and quality to provide investors with a suitable return. Further, as noted above, these products are subject to uncontrollable natural shocks which create great potential for short term price volatility. This makes it incredibly difficult for producers

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<sup>200</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 5

<sup>201</sup> Rodrik 2004. Industrial Policy for the Twenty First Century. *Paper prepared for UNIDO* September

<sup>202</sup> This theory refers to the process of adapting exist production processes to local conditions and is equally applicable to transferring a car plant from the other side of the world, as it is to trying to copy the growing of a new agri-product from your neighbours field. For an introduction with empirical examples see, Hausmann and Rodrik 2003. Economic Development as Self-Discovery. *Journal of Development Economics* 72

<sup>203</sup> Learning by doing describes the idea that the more a production process is repeated the more efficient an individual or organisation will be a carrying it out. The important implication of this is that a considerable amount of ‘practice’ might be needed before an actor can undertake a process efficiently. See: Arrow 1962. The Economic Implications of Learning by Doing. *The Review of Economic Studies* 29(3). See: <sup>203</sup> Abramovitz 1986. Catching Up, Forging Ahead, and Falling Behind. *The Journal of Economic History* 46(2); Rosenberg 1982. *Inside the Black Box: Technology and Economics*. Cambridge: Cambridge University Press. Aiyar 2003. The Human Capital Constraint: Of Increasing Returns, Education Choice and Coordination Failure. *Topics in Macroeconomics* 3(1).

<sup>204</sup> Dercon 2000. Income Risks, Coping Strategies, and Safety Nets. *Working Paper, Centre for the Study of African Economies, Oxford University Working Paper WPS/2000.26*

to plan investment in diversification and is compounded by the fact that even incomes from current production strategies cannot be relied upon to provide income to fund such schemes. These examples provide concrete reasons why commodity producers are likely to be susceptible to what Wolff and De Shalit have called planning-blight<sup>205</sup>: where those facing uncertainty, especially in income, may find it very difficult to plan many aspects of life. This means that again, actors are far from free to respond to market incentives, and thus should not be expected to simply stop producing commodities in favour of other products of higher value as Sidwell suggests.

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<sup>205</sup> Wolff and de-Shalit 2007. *Disadvantage*. Oxford: Oxford University Press. p. 69

## The Consequences of Micro Realities: Why macro analysis is not enough

As commodity markets have already been largely liberalised<sup>206</sup>, it is argued by Sidwell that actors should be left to recognise incentive systems and move into other areas of production/income. However, as income diversification carries both immediate and perspective longer term adjustment cost, it must be accepted that taking up new income strategies might not be affordable to all actors. This implies that promoting diversification is not as easy as setting incentive structures.

Similarly, this analysis can further help to explain why liberalisation programs have often failed to improve the situation of the poorest members of society<sup>207</sup>. Although local actors are displaced from certain sectors by more capable and thus competitive producers, they are unable to re-orientate their production/income strategies. Although they could make a living in sectors for which they had built up the required capabilities (in terms of financial, social and human capital), these capability bundles might not appropriate to enter other areas of production.

Some might argue that self-employed (agricultural) producers should leave their current work and move into the wage labour in either the manufacturing or service sectors. This, after all, contributes to the structural economic change that is widely recognised as essential in the broader development agenda. However, because employment opportunities are limited, barriers to entry on the ground are again significant. Human, social as well as financial capital is required to undertake migration<sup>208</sup>, as well as being a further prerequisite in obtaining wage employment<sup>209</sup>. There are issues of how individuals sustain themselves in periods of transition and as early as the 1960s, it was recognised

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<sup>206</sup> Akiyama, et al. 2003. Commodity market reform in Africa: some recent experience. *Economic Systems* 27(1).

<sup>207</sup> For empirical cases from which this argument is derived see: Ellis and Mdoe 2003. Livelihoods and Rural Poverty Reduction in Tanzania. *World Development* 31(8); Poulton, et al. 1999. Agricultural trade and marketing liberalisation in Sub-Saharan Africa and Latin America: The impact on growth and poverty. *Quarterly Journal of International Agriculture* 38(4).

<sup>208</sup> Gelderblom 2007. Does poverty constrain migration in South Africa? Evidence, explanations and implications. *Development Southern Africa* 24(2).

<sup>209</sup> For a general account of how social capital effects employment see Montgomery 1991. Social Networks and Labor-Market Outcomes: Toward an Economic Analysis. *The American Economic Review* 81(5). For an example of barriers to entry to wage labour in the developing world see Ruthven and Kumar 2002. Moving Mud, Shifting Soil: Change and Development in Wage Labour Livelihoods in Uttar Pradesh, India. *Overseas Development Institute Working Paper 176* (September).

that rural-urban migrants could not expect to simply walk into a more remunerative work<sup>210</sup>. Instead, evidence shows that migrants have to spend time in less remunerative urban sectors before improving their overall situation and often require support through social networks<sup>211</sup>. For a complete picture it is also necessary to factor in local knowledge that references the poor working conditions, labour rights violations and low remuneration of many industrial workers<sup>212</sup>. The only rational reaction to this set of incentives would be to stay in agriculture where security appears considerably higher than in the intimidating world of (urban) wage work (we are after all discussing decisions made by human beings).

### **Why Free Markets Do Not Necessarily Promote Diversification**

In a final point there is a wider market failure that greatly reduces the ability of the poor, or indeed anyone in the developing world, from adopting income strategies in non-traditional enterprise. The problem is that while the wider value of starting businesses with no local precedent (or undertaking diversification into non-traditional enterprise) is enormous<sup>213</sup>, this is not reflected in market prices. The result is that free markets often fail to provide enough personal incentive to entrepreneurs to initiate a break with the current economic structure<sup>214</sup>.

This phenomenon was first noted in accounting for stalled industrialisation in South Eastern Europe in 1943, where it was identified that enterprise is unlikely to grow up in isolation from similar businesses as concentration of production creates demand for the product<sup>215</sup>. There are also ‘sequential externalities’ from new business which mean that where firms exist upstream in a possible supply chain, downstream firms are more likely to be set up. However, the opposite is true, and where there are no forward or backward

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<sup>210</sup> Todaro 1969. A Model of Labor Migration and Urban Unemployment in Less Developed Countries. *The American Economic Review* 59(1).

<sup>211</sup> Hagan, et al. 1996. New Kid in Town: Social Capital and the Life Course Effects of Family Migration on Children. *American Sociological Review* 61(3).

<sup>212</sup> This view is taken from considerable time spent in the developing world, specifically with reference to the study of labour rights in industrial zones, where the perceived level of risk from taking wage positions is considerable.

<sup>213</sup> Rodrik 2004. Industrial Policy for the Twenty First Century. *Paper prepared for UNIDO* September 214 Ibid.

<sup>215</sup> Rosenstein-Rodan 1943. Problems of Industrialisation of Eastern and South-Eastern Europe. *The Economic Journal* 53(210/211).

linkages, setting up in a new sector is not likely to be attractive for an individual despite the overall potential returns to the wider economy<sup>216</sup>.

For example, a farmer might recognise that growing coffee is not the best income strategy as it returns a low and volatile income. Instead they wish to diversify into higher value horticulture<sup>217</sup>, but cannot find any suppliers of inputs nor immediate buyers for the product. This diversification is just not a feasible income strategy to a rational individual despite analysis that advocates such a strategy to promote structural change. In the same way, no one will ever start an avocado export company or an avocado seed company because again there are no suppliers or markets available. It might be argued that with lower tariffs, up and down stream links could be supplied by outside companies. However, it will be necessary to first establish a business before commercial relations will be considered by potential partners (given that they will already have arrangements with other companies), and thus the high levels of uncertainty which retard domestic investment still exist.

The implication of this last problem is that while it can be recognised that developing countries need to diversify out of low and unstable commodities, making the initial steps are very difficult. This might help to explain why countries find it so hard to break monoculture export patterns imposed by historical precedent<sup>218</sup>. This also helps explain why successful growth has been associated with state intervention that aims to coordinate business development, provide inputs and facilitate the flow of information<sup>219</sup> (suggested in Part Three). Again the idea that individual economic actors should be left to voluntarily respond to naturally occurring market incentives does not seem to hold up under alternative, and arguably more appropriate, analysis.

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<sup>216</sup> Murphy, et al. 1989. Industrialization and the big push. *Journal of Political Economy* 97(5).

<sup>217</sup> This is a path that is advocated to improve incomes. See: Weinberger and Lumpkin 2007. Diversification into Horticulture and Poverty Reduction: A Research Agenda. *World Development* 35(8).

<sup>218</sup> As far as we are aware this theory has not been offered before, nor is there any empirical work which might help to concretise the validity of this hypothesis. However, it certainly appears that there might be some room for pursuing this line of investigation in a future agenda.

<sup>219</sup> Rodrik 2004. Industrial Policy for the Twenty First Century. *Paper prepared for UNIDO* September

## ***Conclusion***

It has been suggested that relying on macroeconomic theory, such as that offered by Sidwell, fails to account for the observed micro realities which characterise a large proportion of the developing world. It was suggested that instability of the environment makes planning exceptionally difficult while a lack of appropriate capabilities is likely to limit the poor from diversifying into high value income/production strategies. It was also suggested that without intervention, it is possible that naturally occurring markets will fail altogether in providing the necessary incentives for certain aspects of structural economic change. This implies that when thinking about poverty reduction strategies it is wise to look to systems that account for these micro realities. With this in mind it will be argued below that far from retarding diversification, an appropriate application of Fair Trade governance might in fact offer poor producers an escape from the poverty trap that liberalisation only appears to heighten.



## How Fair Trade can Alleviate Capability Constraints for Poor Producers

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The above analysis presented significant evidence with which to question Sidwell's claim that instead of making market interventions, individuals should be allowed to voluntarily seize opportunities to increase income and reduce poverty. These findings correlate with those from Part Three where it was argued that far from liberalisation being the best way to reduce poverty, the most significant gains have been achieved through strong state intervention in building local business capacity. Based on these conclusions, the section below argues that far from retarding diversification, Fair Trade can build capacity and thus move producers into a position where diversification is a real option as opposed to a (simplistic) theoretical possibility.

Although Sidwell suggests that Fair Trade rejects the idea that diversification is necessary and that instead producers 'must keep producing the same crops'<sup>220</sup> (again for which no evidence is cited), this is a total misrepresentation of the position of Fair Trade. In fact, the Fairtrade Foundation fully recognizes the need for producers to capture greater value even if it does reject the idea that unregulated markets are the best way to achieve this<sup>221</sup>. Ian Bretman, Deputy Director of the Fairtrade Foundation, has explicitly noted that the 'need to make changes whether it's improving productivity or diversifying or developing

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<sup>220</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 14. It should be noted that the evidence cited in support of this statement refers to a documentary film. Although valuable as a case study, this source does not hold the credibility necessary to make such the universal claim. (Imhof and Lee 2007)

<sup>221</sup> It should be noted that the correlation drawn between agricultural production and low returns has been observed on both the local and international levels: Barrett, et al. 2001. Nonfarm income diversification and household livelihood strategies in rural Africa: concepts, dynamics, and policy implications. *Food Policy* 26(4); Ellis and Mdoe 2003. Livelihoods and Rural Poverty Reduction in Tanzania. *World Development* 31(8). p. 1379; Prebisch 1950. The Economic Development of Latin America and Its Principal Problems. *Economic Bulletin for Latin America* 7; Reardon, et al. 2001. Rural Nonfarm Employment and Incomes in Latin America: Overview and Policy Implications. *World Development* 29(3); Singer 1950. The Distribution of Gains between Investing and Borrowing Countries. *American Economic Review* 15. However, it has been suggested that what is important is not the physical qualities of these goods, but their economic character. See: Kaplinsky 1993. Export Processing Zones in the Dominican Republic: Transforming manufactures into commodities. *World Development* 21(11). This in turn supports the argument that agriculture might still offer a viable growth strategy for Africa, see: Wood and Mayer 2001. Africa's export structure in a comparative perspective. *Cambridge Journal of Economics* 25(369-394).

in another way'<sup>222</sup> is a key aspect of reducing poverty. Indeed, the Fairtrade Foundation has responded to liberal economic critique by arguing that it: 'Ignores the feedback from hundreds of producers that the stability and security offered by Fairtrade enables them to invest in diversification which otherwise would be too big a risk'<sup>223</sup>.

This statement maps directly on to the points that have arisen in our elaboration of micro realities, and is further backed by other independent case study evidence.<sup>224</sup> With all this in mind, it is suggested that far from retarding efficiency and diversification, Fair Trade regulation stabilises the lives of producers to make diversification psychologically viable while contributing the resources to make it materially realisable.

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<sup>222</sup> Ian Bretman (Deputy Director of the Fairtrade Foundation) – quoted in: The Independent 2007. Fair Trade is Booming- but is it still a fair deal? Save & Spend. Saturday 24th February. pp. 4-5.

<sup>223</sup> Fairtrade Foundation Website

[http://www.fairtrade.org.uk/press\\_office/press\\_releases\\_and\\_statements/feb\\_2008/response\\_to\\_adam\\_s\\_mith\\_insitute\\_report.aspx](http://www.fairtrade.org.uk/press_office/press_releases_and_statements/feb_2008/response_to_adam_s_mith_insitute_report.aspx)

<sup>224</sup> For case studies on the impact of Fair Trade see: Aranda and Morales 2002. *Poverty Alleviation through Participation in Fair Trade Coffee: The Case of CEPCO, Oaxaca, Mexico*. Colombia: Colombia State University; Bacon 2005. Confronting the Coffee Crisis: Can Fair Trade, Organic, and Specialty Coffees Reduce Small-Scale Farmer Vulnerability in Northern Nicaragua? *World Development* 33(3); Becchetti and Costantino 2008. The Effects of Fair Trade on Affiliated Producers: An Impact Analysis on Kenyan Farmers. *World Development* 36(5); Bird and Hughes 1997. Ethical Consumerism: The Case Of "Fairly-Traded" Coffee. *Business Ethics: A European Review* 6(3); Doherty and Tranchell 2005. New Thinking in International Trade? A Case Study of The Day Chocolate Company. *Sustainable Development* 13; Jaffee 2007. *Brewing Justice: Fair Trade Coffee, Sustainability, and Survival*. London: University of California Press; Jones, et al. 2000. Fair Trade: Overview, Impact, Challenges. . *Study to Inform DFID's Support to Fair Trade* ; Lamb 2008. *Fighting the Banana Wars and other Fairtrade Battles*. London: Rider; Littrell and Dickson 1999. *Social Responsibility in the Market Place*. London: Sage; Murray, et al. 2003. One cup at a time: poverty alleviation and Fair Trade coffee in Latin America. ; Nigh 2002. *Poverty Alleviation Through Participation in Fair Trade Coffee Networks: Comments on the Implications of the Mexico Reports*. Colombia: Colombia State University; Pérezgrovas and Cervantes 2002. *Poverty alleviation through participation in fair trade coffee networks: The Case of Union Majomut, Chiapas and Mexico*. Fair Trade Research Group; Reynolds, et al. 2004. Fair Trade Coffee: Building Producer Capacity via Global Networks. *Journal of International Development* 16; Reynolds 2002. *Poverty Alleviation Through Participation in Fair Trade Coffee Networks: Existing Research and Critical Issues*. Colorado: Colorado State University; Renard and Perez-Grovas 2007. Fair Trade Coffee in Mexico. In: Reynolds, Murray and Wilkinson eds. *Fair Trade*. London: Routledge ; Rhonchi 2002. *Monitoring Impact of Fair Trade Initiatives: A Case Study of Kuapa Kokoo and the Day Chocolate Company*. London: Twin; Ronchi 2002. *The Impact of Fair Trade on Producers and Their Organizations: A Case Study with Coocafe in Costa Rica*. Brighton: University of Sussex; Smith, et al. 2004. Ethical Trade in African Horticulture: gender, rights and participation. *IDS Working Paper* 223; Tallontire 2000b. Partnerships in fair trade: Reflections from a case study of FDI direct. *Development in Practice* 10; Taylor 2002a. *Poverty Alleviation Through Participation in Fair Trade Coffee Networks: Synthesis of Case Study Research Questions and Findings*.

## The Provision of Credit

For those lucky enough to be FLO-Fairtrade certified in certain product categories, buyers are required to pay up to 60 % of the final gate price upfront if producers request this support<sup>225</sup>. This advance is credit to invest in the cost of production and has been facilitated in recent times by organisations such as Shared Interest who act as a middle-man institution for the payment of these funds<sup>226</sup>. As stated above, one of the classic problems with rural economies in the developing world is that they lack affordable formal credit institutions<sup>227</sup> and in recent times farmers have found it harder to gain access to credit to cover these costs<sup>228</sup>.

As the FLO framework makes credit available to producers it means families do not need to use their own resources to engage in production (in the case of the poor this might mean forgoing any number of essential inputs from education to nutrition) and as a consequence resources might be freed for other investments opportunities. This is especially important as it can take some time for the final balance to be remitted to farmers and it is interesting to note that one case study identified this time to be considerably longer in the case of organic certification (73 days) than Fairtrade (41 days)<sup>229</sup>. (It is worth noting that in the case of some FLO Fairtrade product specific standards, buyers are also required to pay the final balance within 48 hours of the shipment being accepted in its destination<sup>230</sup>).

Credit is almost universally agreed to be an essential element in the development of successful economies as it allows investment in quality enhancement and the

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<sup>225</sup> Fairtrade Labelling Organizations International. 2007c. Generic Fairtrade Standards for Hired Labour. FLO. ; Fairtrade Labelling Organizations International. 2007d. Generic Fairtrade Standards for Small Farmers' Organizations. FLO. And see for example, in the case of coffee: Fairtrade Labelling Organizations International. 2007b. Fairtrade Standards for Coffee for Small Farmers' Organizations. FLO.

<sup>226</sup> Mellor and Moore 2005. Business for a social purpose: Traidcraft and shared interest. *Development* 48(1).

<sup>227</sup> Besley 1994. How Do Credit Market Failures Justify Interventions in Rural Credit Markets? *World Bank Res Obs* 9(1).

<sup>228</sup> Bacon 2005. Confronting the Coffee Crisis: Can Fair Trade, Organic, and Specialty Coffees Reduce Small-Scale Farmer Vulnerability in Northern Nicaragua? *World Development* 33(3). p. 505

<sup>229</sup> Ibid.

<sup>230</sup> Fairtrade Labelling Organizations International. 2005a. Fairtrade Standards for Bananas for Small Farmers' Organisations. Article: Article 9.1.

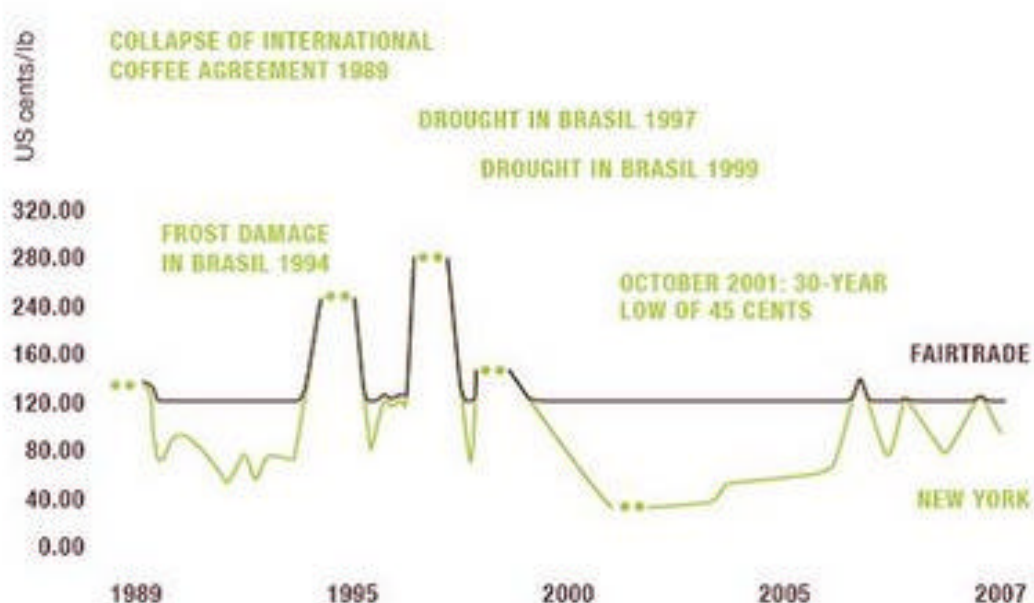
diversification into higher income strategies<sup>231</sup>. As is noted below, in some cases the Social Premium has been allocated to start local credit unions. This means that Fair Trade also offers access to credit that can be used to smooth consumption and thus overall standards of welfare<sup>232</sup> or build the capacity of producers in other areas. Even those who have criticised Fair Trade from other perspectives have been able to accept that this is a beneficial element (it appears indicative that no where in the Smith report is the provision of credit mentioned); Philip Booth and Linda Whetstone who make the same macroeconomic critique as the Smith report note that:

Another important commercial aspect of Fairtrade coffee is that producers can be paid before they supply the product to intermediaries. The producers effectively receive credit. This credit is available on reasonable terms. There is no question that this is desirable<sup>233</sup>.

## Minimum Prices as a Stabiliser

Fair Trade also helps stabilise the life of poor producers through the provision of minimum prices. This element of the regulations guarantees that producers will be paid the return necessary to cover the cost of sustainable production for at least some percentage of their crop. For the most part this is a higher price than is available on the world markets. Although it is correct that much of those crops grown as Fair Trade (up to 85 % in some cases<sup>234</sup>) cannot be sold as such, selling some portion of output at a higher price must be seen as welfare enhancing<sup>235</sup>.

THE ARABICA COFFEE MARKET 1989-07: COMPARISON OF FAIRTRADE AND NY PRICES



NB Fairtrade Minimum price = 121 cents/lb + 5 cents/lb Premium. When the New York price is 121 cents or above, the Fairtrade price = New York price + 5 cents/lb Premium. The NY Price is

Indeed, a range of case studies provide statistical support for this argument, as well as quantitative evidence which shows that many of the producers testify to the value of this input<sup>236</sup>. These opinions are backed by third party analysis that stresses the importance of building financial capital to the process of rural income diversification<sup>237</sup>.

Some commentators and producer groups have noted that minimum prices failed to increase for some time during the 1990s<sup>238</sup>. However, while consumers should consider it a responsibility to pay attention to price levels that make claims about sustainable production, this is not an issue of which the FLO is unaware. For this reason, minimum price levels for coffee have been revaluated this year and, 'From 1 June 2008 all Fairtrade Certified coffee producers will receive at least 125 USD cents per pound for Fairtrade certified washed Arabica and 120 USD cents for unwashed Arabica, or the market price, if higher...For Fairtrade Certified organic coffee an extra minimum differential of 20 cents is being applied.'<sup>239</sup>

It is true that manually managed prices require time and resources to track input prices and maintain adequate levels to cover the costs of sustainable productions (the next scheduled revaluation of coffee prices is June 2010). However, in light of the above analysis, this is likely to be preferable to market mechanisms as these impart a lower return and condemn farmers to a standard of living likely to preclude reorientation of production/income strategies.

While it might be accepted that minimum prices do increase the possibilities of diversification, Sidwell's position makes two objections. The first is that higher incomes might also be available through a concentration on better quality products and/or investment in other certification like Utz – which empowers producers in negotiation by

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<sup>236</sup> Kilian, et al. 2006. Is sustainable agriculture a viable strategy to improve farm income in Central America? A case study on coffee. *Journal of Business Research* 59(3). Lamb 2008. *Fighting the Banana Wars and other Fairtrade Battles*. London: Rider. p. 134 For a case that highlights the limited but yet very positive impact of Fairtrade price regimes see: Jaffee 2007. *Brewing Justice: Fair Trade Coffee, Sustainability, and Survival*. London: University of California Press.

<sup>237</sup> Ellis and Mdoe 2003. Livelihoods and Rural Poverty Reduction in Tanzania. *World Development* 31(8).

<sup>238</sup> This view derives from personal interviews and conversations with producer representatives, and generally references the conditions of local inflation that have increased the cost of vital inputs to the reproduction of those social and business life.

<sup>239</sup> (Fair Trade Labelling Organizations International 2008)

providing a standard of quality as well as technical and market information<sup>240</sup>. This certainly has the potential to be beneficial as one of the reasons commodity producers were being driven into poverty after the deregulation of international coffee markets was their disempowered position in negotiations<sup>241</sup>.

However, this still leaves prices to be ‘determined in the negotiation process between buyer and seller’<sup>242</sup>. In our view this means that under certain market conditions – especially where this standard becomes more common, prices are expected to fall – such certification does little to counter these original problems. Indeed, one study from Nicaragua found that while organic certified coffee was sold at the farm gate in 2000-2001 for \$0.84/Lb, Fairtrade certified was more valuable at \$0.84/Lb<sup>243</sup>. A study that compared five certification systems discovered that on average FLO Fairtrade certified coffee returned a higher price to cooperatives for Arabia in 2004 than coffee certified under either Utz, Rain Forest Alliance or Organic labels<sup>244</sup>. Although this empirical evidence is limited, it does suggest that Fairtrade might be a preferable system, if increasing incomes is seen as important in the diversification process<sup>245</sup>. However, this is an area that would clearly benefit from further research, investigation and certainly cooperation by third party certifiers such as Utz.

The second objection is that while minimum prices might provide resources to facilitate diversification which was not previously possible, guaranteed income disincentivises farmers to carry this out. However, this argument can be questioned on a variety of levels. Firstly, it fails to recognise some of the fundamentals of its own theoretical underpinning. Under the economic models deployed by Sidwell, economic actors are utility maximising, rational decision makers, and will thus seek to improve their returns when it is cost

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<sup>240</sup> Utz Certified. *Do farmers get a fair price for their coffee?* [Online]. Available at: <http://consumer.utzcertified.org/index.php?pageID=211#> [Accessed: 20/04/08].

<sup>241</sup> Nicholls and Opal 2005. *Fair trade : market-driven ethical consumption*. London: Sage. pp. 18,33-38

<sup>242</sup> Utz Certified. *Do farmers get a fair price for their coffee?* [Online]. Available at: <http://consumer.utzcertified.org/index.php?pageID=211#> [Accessed: 20/04/08].

<sup>243</sup> These prices are not the same as Fairtrade guaranteed minimums as those levels are set for the price of the coffee at the first order cooperative which must deduct business its own business costs as well as making community investments.

<sup>244</sup> Reynolds, et al. 2007. Regulating sustainability in the coffee sector: A comparative analysis of third-party environmental and social certification initiatives. *Agriculture and Human Values* 24(2). Information taken from table on p. 155.

<sup>245</sup> Ibid. Information taken from table on p. 155.

effective to do so. This means that while minimum prices (like minimum wages<sup>246</sup>) are a safety net, this does not preclude individuals being motivated to achieve higher levels of welfare. Actors are still constantly exposed to market incentives and are free to sell the same or other products at world prices whenever they wish, or leave the Fair Trade system all together. Further, as Sidwell notes, individual producers often only see a portion of their full crop sold as Fair Trade, and this means that as in the case of Chinese agricultural<sup>247</sup>, incentive structures are part fixed and part market determined. This means that incentives to increase overall quality still exist, but that this is now viable as fixed prices from Fairtrade increase the chances of making the necessary investments<sup>248</sup>. Finally, as case study evidence shows, it is possible that more detailed price incentives will grow up within the Fairtrade system as it matures<sup>249</sup>.

Again, while there is a need for more empirical data to aid understanding, Sidwell's arguments lack cohesion and suggest an ideological rather than a pragmatic motivation. In short, the argument that buying Fair Trade retards diversification is far from 'clear'. An alternative view is that the eventual outcome is likely to be dictated by other variables (just as it appears to be contingent in case of state intervention) and it is these factors that should perhaps form the centre of ongoing research agendas.

## Long Term Contracts as a Stabiliser

Economic stability is likely to be further enhanced as buyers are required to give estimations of the quantities required in future purchases. These long term contracts should be seen as a further improvement over the market conditions of uncertainty<sup>250</sup>. In his analysis, Hayes concludes that perhaps long term contracts are in fact the most

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<sup>246</sup> In the same way, anyone with any contract – for either the supply of goods or labour – has a guaranteed income for a certain time period, unless they lose their job through returning unacceptable quality. Thus rejecting Fair Trade for fixing incomes is tantamount to rejecting both minimum wages, and any contract that guarantees income.

<sup>247</sup> Qian, et al. eds. 2002. *Coordinating Changes in M-form and U-form Organizations*. Nobel Symposium Harvard.

<sup>248</sup> Even if this leads to lower quality being sold as Fair Trade, this can be considered a trade off against the alternative where the poor producer has no opportunity to make such investments. This is a micro version of the macro trade off argument discussed in: Greenwald and Stiglitz 2006. Helping Infant Economies Grow: Foundations of Trade Policies for Developing Countries. *American Economic Review* 96(2).

<sup>249</sup> Parrish, et al. 2005. What Tanzania's coffee farmers can teach the world: A performance-based look at the fair trade-free trade debate. *Sustainable Development* 13(3). p. 182

<sup>250</sup> Nicholls and Opal 2005. *Fair trade : market-driven ethical consumption*. London: Sage. pp. 40-41

important element of Fair Trade relationships<sup>251</sup> as they are likely to help producers plan future investment in either quality improvement or diversification. However, points of contention are the specific definition of long term, and the legal grounding of such obligations. This is another area that certainly deserves more research and potentially reform.

## The Social Premium

The final element of Fair Trade which contributes to reducing uncertainty and building capabilities is the Social Premium. These funds are allocated by local committees and have been spent on business development, diversification, as well as improved quality and efficiency.

For example, as the premium became more substantial, the coffee producers of Majomut in Mexico<sup>252</sup> added new business infrastructure, including an electronic selector, a training centre and improvements to their central offices<sup>253</sup>. Some of the money is also allocated for the development of a community organic promoter program. In La Selva<sup>254</sup>, before the social premium is allocated for community projects around 5 percent is used for recapitalization of the business<sup>255</sup>. In Tanzania, the Moshi Rural cooperative has used premiums to repair weighing scales and bought spraying equipment as business investments<sup>256</sup>. Money has also gone into building the human and physical capital of the community which has in turn allowed families to diversify their incomes. In Oaxaca, Chiapas and El Salvador<sup>257</sup>, Fair Trade cooperatives have provided training and marketing

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<sup>251</sup> Hayes ed. 2005. *On the efficiency of Fair Trade*. Association for Heterodox Economics.

<sup>252</sup> For this case see: Taylor 2002b. *Poverty Alleviation Through Participation in Fair Trade Coffee Networks: Synthesis of Case Study Research Question Findings*. Sociology Department Colorado State University Pérezgrovas and Cervantes 2002. *Poverty alleviation through participation in fair trade coffee networks: The Case of Union Majomut, Chiapas and Mexico*. Fair Trade Research Group

<sup>253</sup> Taylor 2002b. *Poverty Alleviation Through Participation in Fair Trade Coffee Networks: Synthesis of Case Study Research Question Findings*. Sociology Department Colorado State University, p. 14

<sup>254</sup> For this case see: Murray, et al. 2003. One cup at a time: poverty alleviation and Fair Trade coffee in Latin America.

<sup>255</sup> Taylor 2002b. *Poverty Alleviation Through Participation in Fair Trade Coffee Networks: Synthesis of Case Study Research Question Findings*. Sociology Department Colorado State University, p. 13

<sup>256</sup> Parrish, et al. 2005. What Tanzania's coffee farmers can teach the world: A performance-based look at the fair trade-free trade debate. *Sustainable Development* 13(3). p. 184

<sup>257</sup> See: Aranda and Morales 2002. *Poverty Alleviation through Participation in Fair Trade Coffee: The Case of CEPCO, Oaxaca, Mexico*. Colombia: Colombia State University, p. 19 Pérezgrovas and Cervantes 2002. *Poverty alleviation through participation in fair trade coffee networks: The Case of Union Majomut, Chiapas and Mexico*. Fair Trade Research Group, p. 16



assistance to families to develop alternative income sources. These alternative income strategies have included the production and marketing of artisan goods, the establishment of community stores, the development of bakeries, and the improved production of basic grains.

In the case of the Kuapa Kokoo Farmers Union (KKFU), the producer community associated with Devine Chocolate, the Social Premium has been channelled into funding microfinance schemes. Indeed, the commercial success of the producer community has meant that by 2003 46 % of Kuapa farmers had become members of Kuapa Kokoo Credit Union (compared with 33% in 2001)<sup>258</sup>. This expanded availability of credit has then aided the development of other income generating schemes such as soap making<sup>259</sup>.

In the area of stabilising community life more broadly there is a growing body of case studies that show the Fairtrade Social Premium has significantly contributed to welfare. The Social Premium has been used by the Kuapa Kokoo Farmers Union to improve access to clean water and 19 % of all village societies now have access to this relative luxury. According to Doherty and Tranchell, communities have seen a reduction in water borne diseases as well as the time it takes to collect water from its source<sup>260</sup>. This has often meant that girls now have more time for education<sup>261</sup>.

The concern with health goes further in that over 100,000 people (members and non-members) in communities with Kuapa societies have received free medical care and prescriptions via mobile clinics<sup>262</sup>. In other communities like UCIRI in Oaxaca for example, the social premium has been invested in latrine construction and the provision of lorena stoves; both of which have multiplier effects in terms health and development<sup>263</sup>. The UCIRI and CEPCO communities also provide medical assistance for producers in the form of community health services and medical supplies for

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<sup>258</sup> Doherty and Tranchell 2005. *New Thinking in International Trade? A Case Study of The Day Chocolate Company. Sustainable Development* 13 pp. 173-174

<sup>259</sup> Ibid. p. 170 Ronchi 2003. *Fair Trade Impact Monitoring and Evaluation Progress Report*. Brighton: University of Sussex

<sup>260</sup> Doherty and Tranchell 2005. *New Thinking in International Trade? A Case Study of The Day Chocolate Company. Sustainable Development* 13 p. 170

<sup>261</sup> Ibid.

<sup>262</sup> Doherty and Tranchell 2005. *New Thinking in International Trade? A Case Study of The Day Chocolate Company. Sustainable Development* 13 p. 174

<sup>263</sup> Raynolds, et al. 2004. Fair Trade Coffee: Building Producer Capacity via Global Networks. *Journal of International Development* 16 p. 1117

members and non-members<sup>264</sup>. The Moshi Rural cooperative in Tanzania has laid on electricity to their local government run dispensaries to refrigerate medicines<sup>265</sup>.

Education has also been a target for the Social Premiums. Four new schools have been constructed by the Kuapa Kokoo Farmers Union to serve children in a 4km radius<sup>266</sup> and education inputs are also noted in a range of other studies<sup>267</sup>. This might be attributed to the requirement that certified producer organisations are obliged to secure access to primary education for the children of all permanent workers within one year of certification<sup>268</sup>. This situation should be considered in contrast to the Utz standards that only require producers 'stimulate' this process, 'through awareness raising meetings with their parents'<sup>269</sup> and the total absence of education requirements in Rainforest Alliance governance<sup>270</sup>. This higher standard can be considered notable as education has been seen to improve an individual's economic potential, as well as their ability to discuss, debate and to negotiate in a variety of contexts for positive ends<sup>271</sup>. This is important as it enhances abilities to function as an 'agent of change' and contribute to changing the 'rules of the game'<sup>272</sup> – a change which has been identified as the *sine qua non* of genuine poverty alleviation strategies<sup>273</sup>.

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<sup>264</sup> Ibid.

<sup>265</sup> Parrish, et al. 2005. What Tanzania's coffee farmers can teach the world: A performance-based look at the fair trade-free trade debate. *Sustainable Development* 13(3). p. 184

<sup>266</sup> Doherty and Tranchell 2005. New Thinking in International Trade? A Case Study of The Day Chocolate Company. Ibid.13 p. 170

<sup>267</sup> Moberg 2005. Fair Trade and Eastern Caribbean Banana Farmers: Rhetoric and Reality in the Anti-Globalization Movement. *Human Organization* 64(1). p. 12; Reynolds, et al. 2004. Fair Trade Coffee: Building Producer Capacity via Global Networks. *Journal of International Development* 16 p. 1117; Ronchi 2002. *The Impact of Fair Trade on Producers and Their Organizations: A Case Study with Coocafe in Costa Rica*. Brighton: University of Sussex. pp. 7-8

<sup>268</sup> Fairtrade Labelling Organisation International. 2005. Generic Fair Trade Standards for Hired Labour. Article: 1.1.2.2.

<sup>269</sup> Certified. 2006. Code of Conduct. Utz Certified. Article 10.H.

<sup>270</sup> Murray and Reynolds 2000. Alternative trade in bananas: Obstacles and opportunities for progressive social change in the global economy. *Agriculture and Human Values* 17(1).

<sup>271</sup> Sen 1997. Editorial: Human capital and human capability. *World Development* 25(12).

<sup>272</sup> Bebbington 1999. Capitals and Capabilities: A Framework for Analyzing Peasant Viability, Rural Livelihoods and Poverty. Ibid.27(12).

<sup>273</sup> Yapa 1998. The Poverty Discourse and the Poor in Sri Lanka. *Transactions of the Institute of British Geographers* 23(1). Cited in, Bebbington 1999. Capitals and Capabilities: A Framework for Analyzing Peasant Viability, Rural Livelihoods and Poverty. *World Development* 27(12).

## **Conclusion**<sup>274</sup>

While the previous section argued that incentive structures are not likely to be enough to stimulate diversification, this section has hinted at how Fair Trade might help producers affect this important process. It has been suggested that the minimum price, working in conjunction with long term contracts, do not have to be seen negatively, but in fact can be interpreted as necessary to stabilise the immediate lives of those involved in commodity production. These key features of Fair Trade are then complimented with advanced credit and the payment of a Social Premium to make resources available for business development and income diversification. It is accepted that the payment of minimum prices presents the risk of blunting market incentives but it should be emphasised that this issue is much more complex than the Adam Smith report makes out. The first point is that producers are ill equipped to respond to market prices anyway and the outcome of set prices regimes, as shown by our analysis of state managed incentives, depends very much on the specifics of relationships involved. Further there is no difference between the provision of minimum prices to producers and the payment of minimum wages to workers. This is an almost universally accepted method of preventing members of any society falling into poverty: Fair Trade is simply occupying regulatory space that states have failed to fill.

For these reasons it appears to us, that anyone who has ever bought Fair Trade goods can be pleased with their decision. They have stabilised lives and even though this is a small step in reducing poverty, it's a big change to an individual who has been given a freedom of options that they otherwise would not have enjoyed.

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<sup>274</sup> On a methodological note the evidence cited above is a limited selection of points which have been taken from a much larger, if not still limited, set of case studies. It would be much more credible to offer statistical evidence that X % of certified producer groups have increased income by Z %, or Y % of producers' children now attended school on a regular basis. However, this information is not available and therefore we cannot speculate on what it might say; although we can present the research agenda for further consideration. The only intention here is to provide some concrete example of how Fair Trade can build capacity in the developing world in either business development or the community as a whole.

## Overall Conclusion

This paper is presented in response to the report *Unfair Trade* issued by the Adam Smith Institute at the beginning of Fairtrade Fortnight in March 2008. In his report the author contended that, far from being an appropriate trade based strategy to alleviate poverty, Fair Trade was an inefficient and inappropriate use of consumer resources. The policy implications of this argument were that consumers should withdraw patronage from Fair Trade and instead support more worthy certification and charity alternatives. Furthermore, it was asserted that universal liberalisation of economic markets was the best way to reduce poverty.

The conclusion of this paper is that the arguments presented by the Adam Smith Institute are highly questionable and in no way concrete enough to support the policy implications that were claimed. In the first instance, it can be considered that the methodology employed by the author lacks credibility from the perspective that the think-tank's broad objective is to promote solutions to social problems, *through the use market liberal policy*. Given that Fair Trade sees the payment of minimum prices as an important means of poverty reduction, it can be considered that, from the very outside, the conclusion was always likely to be negative. Thus, it must be borne in mind that the report was not an attempt to evaluate the effectiveness of Fair Trade, but to discourage its use in favour of mechanisms that fit with liberal economic theory.

This methodology is manifest in the content of the Adam Smith report as many arguments fail to cite either credible theory or empirical evidence from which they might have emerged. Those sources which are cited are arguably often of dubious credibility and inappropriate content, while in some cases, cited sources fail outright to contain appropriate material for the points they supposedly support (for a critique of specific instances of this last case please see Appendix One of this paper).

In addition to asking questions of some of the criticisms levelled against Fair Trade this paper also briefly explores the argument that free trade has proved the best means of reducing poverty. Through a more extensive exploration of the academic literature this paper questions the idea that China and India uphold the case that 'free trade makes you rich'. Instead, it suggests that these cases more convincingly represent the

alternative position that growth is best achieved *through the managed interaction of local economies with international markets*. Closer exploration shows Sidwell's simple methodology of equating correlation with causation seriously wanting. More complex qualitative case studies of these countries show that despite slow liberalisation, both governments have been heavily involved with the administration of their economies.

This case is further strengthened through the comparative study of possibly the best examples of liberal regimes, those of Latin America, and the successful development state models in East Asia. Where commitment to liberalisation has been comparatively high, countries have not been guaranteed the reward of economic growth that they were promised. Even where growth has been achieved, poverty has in fact been seen to rise in some cases and commodity producers have certainly been affected for the worst. On the other hand, the interventionist regimes of Japan, Taiwan and South Korea have been highly successful in both facilitating considerable economic growth and reducing levels of poverty. While economic growth can be associated with orthodox policies, these have been complimented with a considerable level of unorthodox components and it is this policy mix that appears to best account for all these examples of poverty reduction.

The paper further explores the idea that producers should be left to voluntarily seize market opportunities and again observes that more in-depth understanding finds the position questionable. The literature on micro decision making and specifically that on risk management demonstrates that the poor, by definition, often lack the necessary capability bundles to carry out diversification. This means that they are often unable to carry out decisions rationalised under a given system of market incentives. In addition, aversion to further costs and the trepidation likely to surround predictions of success are also strong reasons that help explain why the poor do not respond to incentives as theory predicts. The final structural problem with Sidwell's argument is that in some cases market prices fail to represent wider social benefits of carrying out an activity. This means that markets often fail to provide adequate motivation for new enterprise in non-traditional sectors. It stresses that while this can apply to movement into totally different value chains, these barriers are equally applicable to seemingly simpler vertical and horizontal diversification.

In the light of this understanding, the primary tenants of the Fair Trade framework, (and specifically FLO Certification, as administered by the Fairtrade Labelling Organizations International) are reinterpreted. It proposes that minimum prices, far from automatically retarding diversification as Sidwell suggested, in fact contribute to the facilitation of this process. Guaranteed income, long term contracts and credit stabilise the fragile lives of southern producers, and give them the time and resources necessary to carry out production changes that emerge from incentive systems.

This alternative approach does not neutralise the need for the Fair Trade movement to continue to respond to critique by adopting suitable programs of incremental reform. Analysis undertaken for this paper does find sympathy with the argument that interminable minimum price regimes might not be *the optimal strategy* for long term sustainable development (note that this is not the same as arguing that they inherently retard efficiency and diversification). However, this response does not contain all the conclusions that have come out of our study, and current research in BRASS aims to offer a more robust analysis of the potential reforms that have been hinted at. What this paper shows is that a more sophisticated understanding of economic theory and micro realities goes a long way to questioning the view that Fair Trade is 'irrelevant'<sup>275</sup> or that free market policies are the best way to reduce poverty.

A final point for emphasis is that Fair Trade, and indeed any mechanism designed to alleviate poverty, should never be treated with a lax attitude to evidence or simplistic frames of analysis. More forcefully put, those that seek to influence public policy or private behaviour with ill considered approaches are not only likely to be inaccurate, but also demonstrate an inappropriate attitude to issues of great importance. Consumer behaviour in the global north directly affects the material existence of those in the south, and those that seek to shape this behaviour need to take an appropriately rigorous attitude in offering their opinions.

This paper does not strive for a monopoly of truth on the best way to alleviate poverty, but has made best efforts to use evidence responsibly in questioning those who claim to know the ultimate answer. In this light, this paper does not seek to promote Fair Trade as perfect or the only solution to reducing poverty. Liberalisation in both northern and

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<sup>275</sup> Sidwell 2008. *Unfair Trade*. London: Adam Smith Institute, p. 11

southern markets must play a part, and it should be acknowledged that a variety of certifications and charities can contribute to making this process more beneficial for the poor.

Most importantly, it is vital that all the issues presented both in the Adam Smith report and this paper are considered critically. Even if more specific conclusions find themselves in question, the general point of this paper must stand: ongoing research and evaluation is essential to develop our understanding of these issues but will only prove valuable if underpinned by appropriate standards of evidence and framed by developed and nuanced interpretation. Reform may well be an important part of a Fair Trade future but what is without question is that appropriate research and discussion must form part of tomorrow's agenda.

## Appendix One

As stated in the beginning of this paper, one of the most fundamental issues in our analysis has been the use of evidence deployed in the Adam Smith Report. As well as finding fault with the general standards of evidence employed, it seems enlightening to highlight instances where information has been misreferenced. In order to help individuals make up their own minds on the strengths of the differing positions, a summary of information that appears to have been incorrectly represented can be found below.

### Page 9

“‘[I]t’s so important that we have one open and rigorous system. If people really want to help, then they should buy Fairtrade”

**Harriet Lamb, Director of the Fairtrade Foundation’**

In our opinion this quotation has been misreferenced as it deviates from the conventional system of identifying who is responsible for a quoted statement. The method used by Sidwell implies that the statement came from Harriet Lamb, the director of the Fairtrade Foundation. However, on reading the footnote it is discovered that the statement was in fact made by John Kanjagaile (Export Manager, Kagera Co-operative Union, Tanzania). Under normal conventions Harriet Lamb’s name should not appear under the statement because her only connection is that she used it in her book in a story designed to present the opinions of others.

### Page 11

‘In practice, then, Fair Trade pays to support relatively wealthy Mexican farmers at the expense of poorer nations<sup>17</sup>’.

The reference 17 then cites, ‘Is Fairtrade coffee a good idea?’, Alex Singleton, Globalisation Institute blog, 17/1/2005; *Shaping Global Partnerships*, FLO International Annual Report 2006/07, p. 14.

Checking these references it is discovered that the page from the FLO report is a map charting the number of producers certified in each country and the blog by Alex Singleton mentions only his theoretical idea that Mexico is a wealthy country and not in need of Fair Trade. Nothing in either of these sources backs the argument that Fair Trade makes some worse off in Mexico.

### Page 13

‘According to Oxfam, in the time it takes five hundred people in Guatemala to fill a large container with coffee, the same amount of coffee can be picked in Brazil by five people and a mechanical harvester. Fairtrade supports inefficient, labour-intensive cooperatives in a battle they can never win, trapping them in their poverty<sup>24</sup>’.

The citation references the Oxfam report *Mugged: Poverty in your coffee cup*, Oxfam International, 2002, p.18.



Checking this reference it is discovered that although the citation is placed at the end of the second sentence, it is only the previous statement that comes from Oxfam. This is misleading as it makes it seem like the opinion expressed in the last line comes from Oxfam when in fact it represents the opinion of the author.

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