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Oxford Development Studies ›
Volume 37, 2009 - Issue 4

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Commentary

Fair Trade, Diversification and Structural Change: Towards a Broader Theoretical Framework of Analysis

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Pages 457-478 | Published online: 02 Nov 2009

Cite this article https://doi.org/10.1080/13600810903305208

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Abstract

This paper responds to the argument that while Fair Trade governance might increase short-term welfare, it reduces long-term development prospects by discouraging diversification and structural change. Even though it is agreed that lower-value sectors, such as commodity agriculture, are unlikely to offer a long-term solution to global income inequalities, the importance of their short- and medium-term contributions cannot be ignored. Furthermore, critics have evaluated Fair Trade governance against the benchmark of perfect market organization. However, given the realities of the developing world, dismantling Fair Trade abandons poor producers not to theoretical free markets and successful diversification, but to market failures, capability constraints, and risk management issues—all of which present serious obstacles to

beneficial change. In light of this, analysis of the Fairtrade Labelling Organizations International is used to argue that, far from being detrimental, Fair Trade might actively contribute to diversification by alleviating some of the real-world obstacles that otherwise retard development.

Notes

The author would like to thank Mark Hayes, Adrian Morley, Roberta Sonnino and two anonymous referees for taking the time to offer very helpful comments on earlier drafts of this paper. However, the author naturally takes full responsibility for the final content, and therefore any contentions or inaccuracies that the reader may find within. A further acknowledgement is to the ESRC, which provided the author with studentship support during the development of this work.

[1] The term “conventional” highlights the argument that while the debate about Fair Trade is often couched in terms of “free trade versus Fair Trade”, this does not represent the policy option available. As Barratt Brown (1993) made clear, the very purpose of Fair Trade was to compensate for the effects of monopolistic and oligopolistic structures that dominate the commodity sectors. In other terminology, Fair Trade essentially seeks to replace “captive” governance, in which a small number of buyers capture the function of price giver, with a “relational” form of inter-firm coordination that considers the situation of producers in structuring the terms of interaction (Gereffi et al., 1995).

[2] More specifically, the generic concept of Fair Trade requires that: producer organizations aim to be sustainable and socially just; initial buyers pay prices that cover the cost of sustainable and just production; initial buying relations are stable and supportive; credit is provided upfront to assist with production; and that inputs are provided and managed in order to develop and expand the capabilities of producer groups and their associated communities. Such an interpretation is synthesized from summaries provided by Hira & Ferrie (2006, p. 108) and Moore (2004, p. 73), as well as the wider literature on Fair Trade theory and practice.

[3] Where the term “Fair Trade” refers to the generic concept, “Fairtrade” refers to the specific interpretation of the Fairtrade Labelling Organizations International. Where Fair

Trade has been applied as internal governance norms by some socially orientated organizations, FLO Fairtrade has provided a system of third-party governance that offers a specific concretization of these wider principles. It is this latter interpretation that has become the dominant version of Fair Trade in the market (by volume), and for this reason FLO Fairtrade is the focus of this study.

[4] Although the literature debates the short-term merits of such policy instruments in a variety of contexts, particularly Latin American Import Substitution Industrialization and East Asian export orientation, a general consensus notes that where there are benefits, these are contingent on the development of endogenous productivity (Baer, 1972, 1984; Bhagwati, 1988; Bruton, 1998; Noland and Pack, 2003; Prebisch, 1963).

[5] Especially given its contribution to avoiding balance of payment constraints on economic development (Thirlwall & Hussain, 1982).

[6] Numerous authors make the point that the market allocates resources on the basis of private profit and that there is no reason why private financial returns will equate with developmental or social returns (Chang & Grabel, 2004a, p. 155; Rodrik, 2004).

[7] Given the self-reflexive component of sustainable development, there is a reason to deconstruct the concentration on supply-side structural change and suggest that diversification of northern demand should also play a part in building endogenous growth in poorer regions. However, for simplicity, this is not an issue that will be addressed here.

[8] Indeed, while the development of infrastructure used to be of prime concern, it is now recognized that this is unlikely to be enough (Krueger, 1995, p. 23) as education (Borensztein et al., 1998; de Mello, 1997) and health (Anand & Sen, 2000; Bhargava et al., 2001; Bloom et al., 2004) all play important roles in stimulating productivity.

[9] For an explanation of the difference between distress-push/coping and demand-pull/accumulation diversification, see Bezemer et al. (2005).

[10] Specifically, formal insurance markets, and credit—which is often used as a substitute (Eswaran & Kotwal, 1989)—are largely inaccessible (Hoff & Stiglitz, 1990, p. 235).

[11] For examples, see Fafchamps (2003), Kazianga & Udry (2006), Mordoch & Haley (2002), Rischkowsky et al. (2006) and Rosenzweig & Stark (1989).

[12] This theory refers to the process of adapting any existing production processes to any new local conditions. For an introduction with empirical examples, see Hausmann & Rodrik (2003).

[13] There is evidence to suggest that cooperatives can provide access to technology for individuals from which they would otherwise be isolated (Milford, 2004, p. 64). It is also worth noting that these investments have occurred in spite of the theoretical argument that cooperatives have short-term time horizons (Porter & Scully, 1987).

[14] For an illustrative example, see Appendix 1 from the FLO product standards for bananas produced by small farmers' organizations.

[15] A third response would be to question the assumption that consumers of Fair Trade care only about the physical component of the products. Instead, some consumers clearly show a preference for socially embedded qualities, which should be considered equally in evaluating the utility derived from consumption (Golding & Peattie, 2005; Mann, 2008). In this way, analysis could also consider diversification of consumption patterns in evaluating the potential of any given export.

[16] Indeed, there is evidence from the craft (and thus non-FLO-certified) sector that because producer groups depend on specific northern organizations for access to international markets, they have not engaged in diversification strategies (Traidcraft Market Access Centre, 2005, p. 28, cited in Le Mare, 2008, p. 1928).

[17] On this basis it would be recommended that the FLO try to influence demand so as to balance the distribution of benefits between producer groups. This would also reduce the risk of some organizations becoming reliant on Fair Trade while others remain excluded. One possibility for such management would be to set maximum Fairtrade returns per head of certified groups, after which the remaining output would have to be sold conventionally.

[18] See the criteria stated under “Economic Development” and “Process Requirements” (FLO, 2008a, 2008b).

[19] Local food security is of course an issue that cannot be ignored by the development agenda.

[20] Indigenas de la Sierra Madre de Motozintla.

[21] It is argued that such a strategy is problematic as coffee is best roasted and packed closer to retailers (Scholer, 2004). However, with modern technologies the problems of both perishability and matching products to consumer demands are far from insurmountable.

[22] Unión de Comunidades Indígenas de la Región del Istmo.

[23] Where some areas have developed specializations in certain crops due to political factors, this has often overlapped with, or been the result of, ecological limitations on what can be successfully grown (Fridell, 2007, p. 176). This is clearly important in judging the viability of diversification options.

[24] La Central de Cooperativas Cafetaleras del Norte.

[25] It should be noted that the attempt to move into clothing manufacture was ultimately unsuccessful. However, research shows that this failure was due to the inadequacy of support offered by northern partners, not to the principles of Fair Trade themselves (Smith, 2007a).

[26] Certificadora Mexicana de Productos y Procesos Ecológicos.

[27] This would of course need to be balanced by softening such standards where local and international conditions reduce such options. Another nuance would be to encourage producer to contribute to domestic food security where this is appropriate.

[28] Specifically, it is suggested that FLO (who set standards) and FLO-CERT GmbH (who audit producers) collaborate to integrate a significantly intensified programme of research as part of their auditing operations.

Related Research Data

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Networks: Between markets and hierarchies
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