

## Does Fair Trade Promote International Development?

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Some years ago the senior editor of the Sunday *New York Times* called and asked me as CEO of Ten Thousand Villages what this fair trade phenomenon was all about. He asked, “I presume that you call up someone in Mumbai and say that you want five thousand pieces of something; you agree to open a Letter of Credit (LC); then you sit back and wait for the goods to arrive?” I responded, “No, it is not that simple. Rather we go to the people in the village who produce the items we want and work out a contract taking their context and limitations into account. Ideally the price is set by determining a fair local price before adding the costs of freight, etc. to obtain landed cost. Fair traders are concerned about the needs of both the supplier and the consumer. It is good business when all parties (producer, buyer, seller, consumer) win.”

In this short article, I intend to focus on the two billion at the bottom of the world’s pyramid, as these people are the primary audience of today’s fair traders. I will look at what I believe is missing, at the implications of inaction, and at the enormous untapped potential of these people if we facilitate their connection to our marketplaces. Finally, I write a short word about responsibility. These are my experiences not only from working closely with friends and partners at the bottom but also with those at the top over the past forty years.

### **International Development to Date**

Many different approaches continue to be tried. Very few have been uniformly successful, which is why we still look for “the model, the solution.” Schumacher’s

*Small Is Beautiful* enabled a producer to understand and manage well because the smallness enabled him or her to see it all, understand the integration of each of the parts, and, of course, adapt them to improve the product.<sup>1</sup>

Given the growing interest in nurturing a healthy soil and product, be it milk, corn, or beef, it is easy to understand why today's organic practices and products are becoming popular. Producing organic products, at least yet today, moves us toward smaller rather than larger operations. The single largest fair trade product is organic coffee produced by tens of thousands of small (often two acres or less) farmers.

Yet sadly today, far too few of the millions of international development dollars reach the hands of the intended poor (I use this term with deep respect), who would generally know what to do with it if the aid only came to them in a usable form. Impatient donors, be it private, public, or international, seldom allow time for making good decisions or for identifying effective strategies.

The Secretary of Agriculture for the government of Bangladesh once called me into his office and said, "Paul, you know something about using rural credit. I have twenty minutes, and I want you to tell me everything you know." I said that there was very little experience in using credit by the rural poor and therefore it would be good to consider giving twenty-five of his people, who knew and understood the rural poor, \$1,000 each, with the understanding that they should experiment and report back to him in six months or a year. He responded, "A good idea but I can't do that because the US Agency for International Development has given me one year in which to spend \$14 million developing a rural credit program."

Today there are a number of good rural and urban credit programs around the world.<sup>2</sup> Yet, too many of them simply do not connect with the realities of the poor. This is equally true in the areas of health, education, and food production programs.

While I am focusing primarily on the micro where fair trade has made its greatest contribution, international development has made strong contributions in the building of community and country infrastructure, a necessity to giving the poor adequate access to the markets. India and many other countries are currently held back because of inadequate roads, bridges, power, and water sources.

## The Missing Ingredients

There are two missing ingredients in many of today's international development efforts. We forget or do not understand that to earn some income is essential to procuring good health care, education, clothing, and other quality-of-life necessities. Second, we seriously underestimate how important it is to engage

the actual participant, the poor person, in the decisions about how the work is to be done. There is invariably a lack of income and a lack of participation by the most primary stakeholder in the current approaches of many current international development efforts.

Paul Polak, in his book *Out of Poverty*, tells us that in visiting a Nepali farmer whom he had known for some years, he bluntly asked him one day, “Why are you poor, and what could you do to stop being poor?” The Nepali farmer responded simply, “I’m poor because I haven’t found a way to earn more money.”<sup>3</sup> A greater focus on helping the poor generate income is essential for the poor to break the cycle of poverty. Fair trade has focused on the poor and disadvantaged, beginning with their resources, skills and contexts, buying products from them, and giving them an income for the work they produce. This is development with dignity because it provides an opportunity for these persons to produce valuable, quality goods in exchange for income. The income first and foremost is used to feed their families and to send their children to school.

Providing an income-earning opportunity can make all the difference. I think of an incident related to me by a colleague working with poor farmers in Myanmar. The organization in cooperation with Stanford University and others was promoting a foot operated pump for irrigation through a market-based approach. In introducing the pump for sale in farm villages, they organized pump demonstrations, where the pump was set up so that farmers could use it and test it. On one occasion, an elderly farmer took his turn on the pump but would not get off for others to use it. As others waiting to use it complained, he turned to them and said, “Leave me alone. I am dreaming of my future.”

Projects must be built in discussion with the producers. The goal is to help these families break the ugly cycle of poverty. Producers, who are also poor, must be treated fairly and with transparency, both of which are critical values of fair trade. In this case, the farmers were actively engaged in setting up the foot-pump project. It was their project.

## The Call for Markets

The single greatest demand of producers in the developing South is for more access to markets. Therefore fairness is terribly important. The call for more markets also reinforces the point above, that is, just give us an opportunity to earn some income, and we will be fine.

Greater market access will not automatically address the needs of the developing world. It is not adequate to say that if we just increase our total trade with China, India, Rwanda, or Haiti, the poor will ultimately be better off as the new

jobs, opportunities, and capital trickle down to them. We frequently hear that greater trade will “raise all the boats” on the economic sea. What if you do not have a boat? It is precisely those who have limited or no resources, who are perceived (falsely) to have no skills, who do not have good social or economic connections that would help them connect to the greater trade for whom international development is to be directed, and who need to be traded with, that should be given opportunity and treated with fairness.

Fair trade accepts the premise of the traditional supply chain and how the markets work. However, fair trade insists that every participant along the chain from producer (and their suppliers) through to the consumer get a fair deal, which is why transparency is such a critical value. Fair trade does not accept that it is okay for the “large or the quick” to treat others, especially the poor who are producers, unfairly. We routinely accept the demand to be fair when the producer, the supplier, the trader, and the consumer all live in the same community. It is essential to getting along because we will all know how we are treating each other. Why should it be different when the person is unknown and is from outside our community? They are still our neighbors.

Apple recently faced public relations difficulties when their consumers demanded that the Chinese producers of their products be treated fairly. We will experience more of this.

## **The Choice: Enough to Eat or Violence?**

The so-called terrorists who attacked the luxury hotels in Mumbai were simple rural Pakistani farm boys who participated for money and perhaps fame. Political people used them. Would these youth have been so vulnerable had they had reasonable income-earning employment?

University of Cairo sociologists tell us that those who killed President Sadat, Bishop Samuel, and others were from rural upper Egypt. These were extremely frustrated, unemployed individuals. Despite university degrees, they could not find paying jobs, returned home, and fell into the hands of angry religious people.

Unfortunately the poor often do not have a choice of enough to eat or not. Poverty leads to frustration, desperation, and all too frequently to dishonesty and violence. I do not believe that any community, region, or nation can live in peace for the long term as long as some within do not have enough to eat or a place to sleep and are unable to live a minimum quality of life.

## Fair Trade Is Relevant

There are those who contend that fair trade is idealistic; perhaps it may be alright for a few small nongovernmental organizations (NGOs), but it has not been taken up by most of the global economy, nor is it an important strategy for middle and large corporations. Before accepting this conclusion too quickly, we know that within the past generation, recycling and the production and promotion of organics have been adopted on a grand scale. Why not fair trade too?

Starbucks, Proctor & Gamble, Nestle, The Body Shop, and a number of the chocolate manufacturers carry fair trade brands and are increasing their volume. Customers are demanding it. Wal-Mart and others now pride themselves in telling us that they know who produced such and such an item, although this is not synonymous with fairness. There are still too few products labeled Fair Trade, although the World Fair Trade Organization ([www.wfto.com](http://www.wfto.com)) is developing an identity mark to be placed on products. There are others. A fair trade label on the products of a small producer from a developing country has value in the marketplace in both North and South. It gives them credibility.

First and foremost, fair trade demands that all parties in the supply chain through to the consumer be treated fairly and transparently. Fair trade illuminates the process and demands fairness for everyone. This is critical to good international development. Second, a fair trade label or mark identifying which products have been produced and sold under fair trade criteria give the producer credibility and the consumer confidence that they are part of a fair procurement and marketing system.

The WFTO website referred to above identifies the principles of fair trade and presents the Charter of Fair Trade. There are many businesspersons that do not call themselves fair traders but who de facto act as fair traders, ensuring that everyone involved is treated fairly.

Every child knows what fairness is. If fair trade can encourage every business regardless of size to treat all participants along the supply-to-consumer chain fairly, imagine how much better our world would be. Unfortunately, greed, avarice, violence, and dishonesty can frequently be found in the marketplace. Legal measures, regulations, and audit demands are necessary to keep these unfair motives in check, but let us not lose sight of the ideal. All great companies will always have fairness as one of their core values.

## The Potential

C. K. Prahalad and Stuart L. Hart in their article and later in Prahalad's book, *Fortune at the Bottom of the Pyramid*, speak of the four billion people on our planet who are not considered part of the market because they do not have any money to buy anything.<sup>4</sup> This is beginning to change as companies become familiar with what China, India, Korea, and Thailand can produce for us. The danger is that the transactions will take place primarily among those 100–250 million at the top of the pyramid as they trade with each other. These trades and the Free Trade Agreements will seldom reach the bottom two billion in the next generation. Yet, I have frequently heard from the poor themselves: "Don't underestimate what we can produce for you." It is imperative that we engage people at all levels of the pyramid, for each has a part to contribute if invited to do so. Maximizing profit by paying unfair wages while avoiding concern for safety will result in more of the recent garment-workers factory fires in Bangladesh.

Just imagine how much we all would benefit if every human being were given the freedom and the opportunity to contribute what they could! In my experience and awareness, thousands of people have been affected and have been able to escape the cycle of poverty. Strategies to engage people at the different levels of the pyramid will vary. Prahalad says that first we will need to destroy some myths. Do we all need Freon-filled refrigerators to preserve food? We also know that this will not be a quick exercise, nor will it need to cost nearly what we think it might. The poor are eager to participate.

What is important is that we begin. It can be done. Others have done it. See the extraordinary work of International Development Enterprises ([www.ideorg.org](http://www.ideorg.org)) and look at the work of Bhavana ([www.bhavanaworldproject.com](http://www.bhavanaworldproject.com)), a facilitating organization led by people with strong experience in both world marketplaces. These people at the bottom of the pyramid are truly untapped resources.

## Personal and Global Responsibility

Poverty is ugly. It contributes to violence, to dishonesty and to huge societal problems whose attempted solutions must be paid for and are expensive. It is a far cheaper and a much more dignity filled solution to find a way to engage these individuals in being productive in the marketplace. In six years in Bangladesh, the question that I had to answer many, many more times than any other was: "Do you have a job for me?"

These people are my neighbors. They are the neighbors of the United States of America. I have never been able to adequately justify the extreme poverty

of Haiti and the Dominican Republic, two small countries just off our shore where we seemingly feel no responsibility unless there is a crisis. We claim to be problem solvers. We have no difficulty deciding to go anywhere in the world with our powerful military machine. We also give more aid to other countries than anyone else. Why cannot we assist our next-door neighbors?

Faith has heavily influenced what I have done and how I have acted throughout my life. I have poor neighbors. Jesus tells us that the two greatest commandments are to love God completely and to love our neighbor as much as we do ourselves. Let us remember this and turn to practicing fairness in the marketplace. Fair trade and trading fairly contributes substantially to international development. It is love of neighbor, but is it as much as we love ourselves? Simply providing more aid or a bigger trade agreement will have little effect on those at the bottom of the pyramid. We need to involve the poor in the actions by providing opportunities alongside training and some aid at times.

Remember the potential of the bottom two billion.

## Notes

1. E. F. Schumacher, *Small Is Beautiful: Economics as if People Mattered* (New York: Harper Perennial, 1989 [1973]).
2. See the Mennonite Economic Development Associates website for such projects at [www.meda.org](http://www.meda.org).
3. Paul Polak, *Out of Poverty: What Works When Traditional Approaches Fail* (San Francisco: Berrett-Koehler, 2008), 51.
4. C. K. Prahalad and Stuart L. Hart, "The Fortune at the Bottom of the Pyramid," *Strategy+Business* 26 (2002): 1–14; C. K. Prahalad, *The Fortune at the Bottom of the Pyramid: Eradicating Poverty through Profits* (Upper Saddle River: Prentice Hall, 2005).