FAIR TRADE AND GLOBALIZATION

Michael J. Hiscox
Department of Government
Harvard University

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1. Concerns about the Impact of Globalization in Developing Nations

In recent years, concerns about the impact of trade and investment on human rights and labor standards in developing nations have played an increasingly important role in political debates about globalization in Europe and the United States. In particular, labor unions, human rights groups, and other NGOs have raised alarms about "sweatshops" in developing nations that produce items for export (typically sewn or woven textile products) and are characterized by low wages, long working hours, unsafe and unsanitary conditions, child labor, and prohibitions against organization among workers. Many people fear that globalization has contributed to the spread of sweatshop production in developing countries as they compete to establish new export sectors and attract investment from footloose multinational firms (see Rodrik 1996; Klein 2000). The most adamant critics of globalization argue that this is part of a general "race to the bottom" in social and environmental standards in developing countries. These types of concerns have contributed to what appears to be a significant and growing political backlash against globalization in many western nations, mobilizing local activist groups and transnational NGOs and stirring uneasiness among voters about future trade agreements.

2. How to Address these Concerns?

Concerns about these issues have led to new demands, most ardently expressed by European and American labor unions and human rights groups, for the inclusion of minimum labor standards in regional trade agreements and for their incorporation into the multilateral WTO framework (see Rodrik 1996).[1] Such standards could then be enforced by trade sanctions: countries found to be violating the standards would be denied the preferential tariffs and other concessions members would ordinarily receive.[2]

An obvious and major concern with this type of approach is that imposing trade sanctions on developing countries for failing to meet labor standards could have a severe, negative impact on economic growth in these nations. Cutting off trade and investment flows to poor countries because their governments refuse to adopt higher standards would only make the situation worse for workers there. On the whole, economic sanctions do not have an impressive track record when it comes to forcing targeted countries to alter major policies or institutions (see Hufbauer, Schott, and Elliott 1990). Sanctioned governments tend to resist reforms demanded by foreigners,

[1] The WTO currently includes only a provision covering the use of prison labor – Article XX(e) of the original General Agreement on Tariffs and Trade (GATT).
[2] The labor side agreement to the NAFTA, which provides for improved enforcement of Mexico's existing labor laws, was a weak form of this approach. The agreement only allows for monetary fines for violations of existing laws regarding child labor, minimum wages, and health and safety codes. No complaints have ever reached this penalty stage. Similar types of labor standards provisions have since been included in the main text of US trade agreements with Jordan (2001), Chile (2003), and Singapore (2003).

especially in non-democratic regimes where leaders can ill afford a reputation for weakness. Being coerced into setting domestic regulatory standards that suit western nations, and undermine their economies' comparative advantage in labor-intensive production, is not an acceptable outcome for most governments in the developing world.[3] Indeed, governments in the largest developing countries, including China, India, and Indonesia, have already stated their firm opposition to the introduction of labor standards into WTO negotiations. Making demands along these lines thus runs the risk of stalling or derailing multilateral trade talks.

Even in the best case scenario, if higher standards *were* to be adopted by poorer nations faced with these kinds of threatened trade sanctions, this achievement could actually have adverse effects on economic growth rates in the developing world. As higher labor standards make production in developing nations more costly, multinational firms are likely to invest less in those locations, slowing the pace of economic growth and the spread of technology.[4]

A separate worry is that the campaign for linking labor standards with trade agreements (and trade sanctions) may be a protectionist wolf in sheep's clothing. Recent anti-sweatshop campaigns in the United States, organized by human rights groups and student activists, and targeting foreign investment and outsourcing by apparel manufacturers to nations such as Vietnam and China, have been backed financially by American apparel and textile unions. The fear is that such "Baptist and bootlegger" coalitions will be hijacked by protectionist interests that support restrictions on imports *regardless* of how they affect labor standards (and economic growth) in developing countries.

3. Fair Trade as an Alternative Approach

The Fair Trade movement is probably best described as a form of social entrepreneurship aimed at creating trade relationships that bring specific improvements in labor and environmental standards, and health and education, to groups of citizens in developing nations. Fair trade organizations establish networks that connect marginalized producers and workers in developing nations with importers, retailers, and consumers in developed economies. It is a market-based approach that involves the "Fair Trade" certification and labeling of products made by cooperatives and firms that meet certain standards (in terms of prices paid to farmers, wages paid to workers, working conditions, environmental sustainability, and so on). This process allows concerned consumers in developed countries to identify and reward these producers by paying higher prices for their goods (relative to uncertified products), compensating them for the costs associated with improved standards and investments in education, health, and environmental sustainability.

The key players in this movement are the non-profit organizations that oversee certification and labeling, licensing the use of the "fair trade" trademark in each major market. The oldest and best

[3] Elliot and Freeman (2003, 75-84), have examined the history of the US Generalized System of Preferences (GSP), which provides for duty-free access to the US market for imports of specified products from eligible less developed nations. The GSP program includes efforts to ensure basic workers' rights as an eligibility condition. The loss or threatened loss of GSP eligibility appears to have improved labor standards in several cases in which complaints about violations of workers' rights have led to investigations, though not in the majority of such cases.

[4] The impact depends upon whether higher labor standards also markedly improve labor productivity, and existing empirical studies of the link between investment and labor standards are inconclusive: see Rodrik 1996; Morici and Shultz 2001; Kucera 2001.

know of these organizations is Max Havelaar, which was founded in the Netherlands in 1988. In the United States, fair trade certification is organized by Transfair USA, created in 1998. These separate national organizations (there are now about twenty) have created an umbrella international organ known as FLO (Fairtrade Labelling Organizations) to coordinate their activities and harmonize fair trade standards and methods of inspection and certification.[5]

The FLO has developed a set of generic standards for small farmers' enterprises (almost all the producers certified by FLO are small farmer cooperatives) and a separate set for larger enterprises and companies employing workers to produce goods for which specific fair trade standards have been developed. FLO has developed specific fair trade standards for the following products: coffee, tea, cocoa, quinoa, bananas, cane sugar, rice, seed cotton, wine grapes, nuts and oil seeds, dried fruit, fresh fruit and vegetables (other than bananas), fruit juices, herbs and spices, flowers and plants, and sports balls. The standards focus on 5 key issues:

- <u>Fair prices</u>: Producers must receive a guaranteed minimum floor price for each good and an additional "fair trade premium," set separately for each product by FLO.

- <u>Fair labor conditions</u>: Workers are assured freedom of association, safe working conditions, and wages consistent with legal minimums and regional averages for each occupation (and/or with any existing collective bargaining agreements). Discrimination, as well forced and child labor (under age 15), are prohibited.

- <u>Democratic and transparent organizations</u>: Farmers in cooperatives (and joint committees of workers and management in larger enterprises with hired labor) decide democratically how to invest revenues from the fair trade premium and keep accounts (for inspection) that record how these revenues are allocated.

- <u>Environmental sustainability</u>: Certain harmful agrochemicals (and GMOs) are prohibited, and producers must provide assessments of their impact on the surrounding environment and their practices regarding water supplies, soil erosion, waste disposal, etc.

- <u>Economic sustainability and access to credit</u>: Buyers must agree to long-term (minimum of one year) purchasing contracts with producers and provide advance financing to producers (up to 60% of the contract value).

The FLO organizations conduct inspections of producers in developing countries, examine their contracts with buyers, and monitor the chain of custody by which the goods are supplied to retailers in developed country markets. Retailers are licensed to use the "FairTrade" (or "Fair Trade Certified") trademark only when all the FLO standards have been met. By the end of 2006 there were some 586 certified producer organizations in 58 developing nations in Africa, Asia, and Latin America. Global sales of certified products were approximately $1.5 billion in 2005.

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[5] In addition to FLO, there are three other international fair trade organizations. The International Fair Trade Association (IFAT) is an association of fair trade producer cooperatives, export marketing companies, and importers and retailers, aimed at promoting fair trade. In 2004 the IFAT introduced its own trademarked label for identifying members as "fair trade organizations" – that is, enterprises that deal exclusively in fair trade goods. The European Fair Trade Association (EFTA) is an organization of fair trade importers, wholesalers, and retailers, set up to help promote and market fair trade goods in Europe. A similar organization, the Fair Trade Federation (FTF), has been established by importers, wholesalers, and retailers in the United States and Canada.

The attractions of the fair trade approach are clear. Rather than focus on punishing bad behavior, fair trade labeling offers a way to make good behavior more profitable. Fair trade labeling can be seen in simple, microeconomic terms as a way to remove an inefficiency that exists due to incomplete information on the part of consumers.[6] With labels, the demand for different goods (and their equilibrium prices) reflects the degree to which consumers value the standards under which they were produced. Fair trade labeling is essentially a form of ethical product differentiation. Consumers who choose to pay for the labeled goods get to consume in a way that provides them with more satisfaction given their ethical concerns. Consumers who do not choose to pay the higher prices for the labeled goods (perhaps simply because they cannot afford it) are not forced to do so. Marginalized producers can improve working and living conditions without losing business. There is no risk of runaway protectionism (since there are no new government-imposed limits on trade) and no adverse effect on investment and growth in developing countries.

4. Issues and Difficulties

The Fair Trade movement has the support of some of the world's leading humanitarian organizations (including Amnesty International and Oxfam), but it has also attracted criticism from a variety of angles. A short list of major concerns or questions about fair trade would include:

a. Market distortions and overproduction?

A prominent criticism of the fair trade approach is that fair trade minimum prices for commodities create distortions in markets for those goods, encouraging overproduction and hindering the reallocation of resources to alternative types of production in developing nations. The argument is that if world prices for key developing country export commodities like coffee are low it is because there is too much production. By encouraging production of coffee by offering coffee producers artificially high prices, fair trade makes this situation worse (and makes the majority of coffee producers, who are not fair trade certified, worse off). According to this view, coffee growers in poorer nations need to get the "correct" signal from the market and switch to growing alternative crops.

This argument misses the point of fair trade certification: that is, fair trade certified products are differentiated from uncertified products. Fair trade certified coffee and uncertified coffee are not the same. They have different supply and demand curves. If the market for fair trade coffee supports a higher price for fair trade coffee, the "correct" signal this sends is that more coffee growers should switch to producing certified coffee. The key theoretical issue here is that all the costs associated with producing coffee under the FLO standards, including maintaining price minimums and paying a fair trade premium, are priced in the market: that is, consumers

[6] See Bonroy and Constantatos (2003) for a formal treatment in which lack of information about the moral quality of goods available to consumers leads to welfare losses, as conscientious consumers cannot identify (and thus adequately reward) high quality producers, and the latter are driven from the market by low quality producers. Elliott and Freeman (2003, 47-48) point out that this role for NGOs, as intermediaries who provide critical information to consumers, has a precedent in financial markets that rely heavily on ratings agencies such as Moody's.

voluntarily pay for these standards by purchasing the labeled goods. This is not a market distortion.[7]

b. Benefits (to whom)?

Some critics have pointed out that fair trade is not the most direct way of aiding poor groups. By one calculation, of an additional 20 cents paid for a pound of organic Fair Trade Certified bananas by consumers in the United States, only 5 cents per pound would go to the banana growers abroad (Nicholls and Opal 2004, 51). Importers, wholesalers, retailers all take a margin, and need to offset investments in establishing fair trade supply chains and their marketing costs. Critics also worry that retailers charge even higher percentage mark-ups on fair trade goods than on regular items because they know consumers expect to pay more for such goods (and yet are not sure precisely how much more is justified).

Certainly hand-to-hand grants from consumers to producers would be more direct and efficient, but that is an irrelevant benchmark – in practice one would have to establish a network for distributing such grants (or enhance existing government and private aid networks), calculate all the costs associated with operating such a network, allow for potential problems of corruption and incompetence, and consider the effects that aid would have on incentives to engage in productive investments and so on. Supporters of the fair trade model point out that the "external" benefits of the fair trade process (e.g., the development of collective and democratic organizations, the provision of information and access to credit, establishing long-term relationships with buyers) provide benefits to marginalized producers that go far beyond the fair trade premium they are paid for their goods.

c. The right standards?

There is plenty of room to debate the specific fair trade standards that are currently applied by FLO. In particular, many orthodox economists worry about the prohibition on the use of child labor, and there is considerable controversy over limiting the application of GMO technologies in developing nations.

The standard argument against banning child labor is that this can reduce household income for poor families in developing nations, since the elimination of jobs for children in the formal sector does not lead to a proportionate increase in demand for adult workers, and wages and conditions for children are far worse when they must find employment in the informal sector.

Fair trade supporters defend their standards, of course, pointing out that the higher prices paid for fair trade products make it possible for producers to replace child workers with adult employees,

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[7] And one can raise further objections about the assumptions that underpin the orthodox ("hands off") approach and its criticisms of fair trade – for instance, that markets for labor and capital in developing nations are such that price signals lead to reallocations of resources between sectors, especially where marginalized producers in the poorest nations have limited information about alternative forms of production and little or no access to financing. One can quibble, too, with the notion that world commodity prices (in the presence of rich nation agricultural subsidies) provide an appropriate guide to the most efficient allocation of resources in developing nations. Purists will argue that there are "first-best" solutions to all these problems that do not involve fair trade initiatives (e.g., eliminating European and U.S. agricultural subsidies, reforming labor and capital markets in developing nations), but are strangely silent about if and when such solutions will materialize.

and that producer cooperatives typically choose to invest revenues from the "fair trade premium" to fund local schools. FLO standards also mandate that organizations that become certified, in which children under the age of 15 have been employed in the past, must implement a "remediation" program to ensure that any child who loses a job does not enter a worse form of work and can afford to go to school. (The producer must cover the costs of education and/or hire adult members of the family so that the family can cover such costs, and/or pay the family the equivalent in lost income.)

In general, it is plausible that the fair trade certification and labeling process might be adapted in the future to allow for different combinations or gradations of standards. In particular, there seems to be no strong reason for tying labor and environmental standards so firmly together. Organic or "no-GMO" labels might be separated from a label that only addressed wages and working conditions, for instance, although this might raise the possibility of confusion and "label fatigue" among consumers.

d. Credibility?

Any label that makes claims about how a good is produced faces the general problem that consumers themselves cannot verify such claims by examining the item. They must put their faith in the organization doing the labeling. If producers (or retailers) themselves made claims about how their goods were made according to fair trade standards it is unlikely that consumers would regard them as credible. FLO plays the key role as an agent for ethically sensitive consumers – all the FLO member organizations are independent, non-profit NGOs, with strong ties to humanitarian groups and strong reputations for working to improve human rights and living standards in developing countries. They are generally transparent in terms of their finances, activities, and governance.

In recent years the fair trade labeling organizations have been criticized for "selling out" to large retailers in an effort to expand the fair trade market and promote their labels. In the United States, for instance, Transfair USA has come under fire for working with large corporations like Starbucks, Dunkin' Donuts, Walmart, and McDonalds, licensing them to use the "Fair Trade Certified" label to sell certified coffee in their stores. Critics worry that these corporations are using fair trade as a form of deception or cover ("greenwashing"), engaging in minimal efforts to enhance their public image and divert attention away from more general failings or abuses in terms of their social and environmental responsibilities.

It seems unreasonable, however, to require that large corporations switch immediately and wholly to selling fair trade certified products. Many of the products that these firms sell are not yet covered by FLO certification standards, or are currently available from certified producers in relatively small quantities. Transfair's position is that it should continue to allow corporations to test the market for fair trade goods and gradually develop new supply chains and increase the quantity and variety of their fair trade product lines (pointing out that even relatively small commitments to fair trade by large corporations can have substantial and positive effects for marginalized producers in developing nations).[8]

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[8] In the United States, Transfair's decision to work with large corporations like Starbucks has created some tension within the fair trade movement and debate about the meaning and credibility of the label. A number of smaller retailers selling only certified goods have begun using the new IFAT "Fair Trade Organization" label, rather than Transfair's the "Fair Trade Certified" mark, to distinguish themselves from the large retailers for whom sales of fair trade items constitute only a tiny fraction of overall sales.

e. Practical limitations (the size of the market)?

There is a great deal of doubt about whether the fair trade market could reach a size large enough to have a substantial impact on standards in developing nations. Total sales of fair trade goods in the United States in 2005, the latest year for which data are available, amounted to roughly $391 million. To put this in perspective, this represents only about one fortieth of the U.S. market for "organic" products ($15.1 billion in 2005). But the market for fair trade goods does appear to be growing at a remarkable rate. In the United States, the market grew by over 60% between 2004 and 2005, and between 2001 and 2005 the average annual rate of growth was only slightly less (around 50%); world sales of fair trade goods grew by almost 40% from 2004 to 2005. This is an extraordinarily rapid expansion. By comparison, the much commented upon growth in the organic market – sales in the US have grown by around 20% each year since the early 1990s – looks almost sluggish (and total retail sales in most western markets grow by only around 2% annually). If sales of fair trade goods in the United State continue to grow at the same rate, the fair trade market will match the current size of the market for organic goods (that is, it will top $15 billion) by 2012.

The biggest question is really whether the fair trade model can be extended to cover factory manufacturing, and in particular, apparel makers. To date, FLO has developed product specific standards for only one type of manufactured product, sports balls, and has certified only four producers. In 2006 Transfair USA released a report on the feasibility of extending the certification system to the apparel sector, concluding that it would not be able to make such a leap in the "near term." The main difficulties and challenges involve whether and how to set minimum prices, fair trade premiums, minimum or "living" wages, standards that could be applied to short-term contractors as well as direct suppliers, and standards for home-based (piece) workers, and how comprehensive to be in terms of the certification of all material inputs and all links in the supply chain. The general trade off, of course, is that the more rigorous and comprehensive the standards and certification process, the more this is likely to limit the development of the fair trade apparel market.

There are lingering doubts, too, about whether there is enough demand among ethical consumers to allow for the extension of the fair market approach to manufactured goods (and apparel, in particular). The available survey evidence indicates that a majority of consumers are willing to pay more for manufactured products made under good labor standards. A survey administered by the Program on International Policy Attitudes (PIPA) in the United States in 1999 found that 76% of respondents indicated that they were willing to pay $25 for a $20 garment that was certified as not being made in a sweatshop (PIPA 2000).[9] Of course, what people *say* they will do when asked in a survey, and what they will actually *do* when it comes to spending their own money, may be two very different things. But evidence from two recent field experiments conducted in retail stores does suggest that consumers in varied settings respond positively to labels indicating that manufactured items have been made under "good working conditions" and buy more of such items at higher prices (see Kimeldorf, et.al. 2004; Hiscox and Smyth 2005).

[9] A 1999 poll by the National Bureau of Economic Research (NBER) found very similar results: roughly 80% of surveyed individuals said they were willing to pay more for an item if assured it was made under good working conditions. For a discussion of the survey evidence see Elliot and Freeman 2003, pp.29-35.

5. Fair Trade in Europe and the United States

The fair trade movement began in Europe in the 1960s. The British humanitarian organization, Oxfam, played an important role by initiating a "helping by selling" program in 1965, marketing imported handicrafts in the UK in Oxfam stores. In the 1970s, "World Shops" selling coffee and craft goods from disadvantaged producers in developing nations began to spread through Europe. And the first fair trade certification and labeling initiatives began in Europe in the 1980s. In the United States, Equal Exchange was the main pioneer in the fair trade market, importing and roasting only "fairly traded" coffee beginning in 1986. A worker-owned cooperative that now also imports tea and cocoa, Equal Exchange began using the FLO certification process in 1999, when Transfair USA began serious labeling operations for the American market.

While Europe has led the United States in developing the fair trade market, sales of fair trade certified goods have increased rapidly in North America in recent years. Table 1 reports some basic data on the growth in fair trade sales in various markets. Aggregate sales of fair trade certified goods rose by around 350% in the United States between 2001 and 2005 and by 60% between 2004 and 2005;[10] for Europe as a whole, sales rose by 191% and 27% over those same periods. Europe still accounts for almost two-thirds of world sales of fair trade products, while the United States accounts for less than a third.

In terms of per capita spending on fair trade goods, reported in Table 2, European consumers generally exceed American counterparts, often by very large margins. Swiss consumers spend roughly 20 times more on fair trade on average than do Americans, while British consumers spend almost 5 times more. The average European spends roughly twice as much as the average American on fair trade goods.

The available survey evidence suggests that European and American consumers actually have very similar views or values when it comes to ethical consumption. In surveys conducted in Britain, around 80% of consumers indicate that they are willing to alter their buying choices, and pay more for goods, for ethical reasons. One 2003 UK survey, for instance, reported that 74% of respondents agreed with the statement: "If I had more information about companies' social, environmental and ethical behavior, this would influence my decisions about what I buy" (Laing 2004, 36). A 2004 survey found that 84% of UK consumers said they were willing to pay more for products that help people in developing countries improve their standard of living (Nicholls and Opal 2004, 183). These responses are very similar to the ones obtained in surveys of US consumers. The 1999 NBER study, noted above, found that around 80% of US consumers said they would be willing to pay more for products they knew were made under good working conditions (Elliott and Freeman 2003, 29).

The major difference between European and American consumers appears in measures of levels of awareness of fair trade labels and certification. European consumers, in general, seem to be much more aware of fair trade than counterparts in the United States. One 2002 survey reported that 42% of Swiss respondents were aware of fair trade labels, and rates of awareness were also

[10] Much of this rapid growth may be accounted for by the "mainstreaming" of fair trade beginning in 2000 when Starbucks introduced fair trade coffee into its stores. In 2003, Green Mountain Coffee Roasters began producing fair trade coffees for large supermarket chains, and in 2004 Walmart began selling fair trade coffee. Starbucks alone quadrupled its purchases of fair trade coffee between 2001 and 2004.

impressive in Germany (40%), Austria (38%), France (34%), and Britain (24%). A separate survey conducted in Britain just two years later found that 39% of UK consumers recognized the fair trade label. By contrast, the data on label awareness in the United States indicate that only a very small proportion of American consumers are aware of fair trade. A 2004 survey of coffee consumers by the U.S. National Coffee Association reported that only 12% of that group – presumably the very consumers most likely to have come in contact with Transfair's "Fair Trade Certified" label in cafes and coffee shops – were aware of fair trade (see Nicholls and Opal 2004, 189-90).

It does appear that the fair trade movement in Europe has received considerably more support from the European Commission and EU member governments than its counterpart has received from the U.S. government. In 1994, the European Commission issued a declaration of support for strengthening "Fair Trade" between Europe and developing nations. The European Parliament passed a resolution voicing its support for fair trade initiatives in the same year, and it passed resolutions calling on the Commission to support importers of fair trade bananas and other fair trade goods in 1997 and 1998. The Commission published a special survey on consumer attitudes towards fair trade bananas in 1997, reporting that labeled bananas would be commercially viable in several EU member states. A statement calling for the promotion of fair trade initiatives was also included in the 2000 Cotonou Agreement between the EU and African, Caribbean, and Pacific nations.

In the years since 2000, government agencies in different European nations have begun purchasing fair trade certified coffee and tea (and both are now served in the European Parliament building). The European Commission has co-financed (via EuropeAid) a project with the EFTA called "Fair Procura" aimed at raising awareness among European, national, regional, and local authorities about the impact of public consumption of fair trade goods in developing nations and securing commitments from policy-makers to include fair trade criteria in public procurement legislation. Several European governments are also providing grants to cover the costs of certification for producers in developing countries. In 2006, the European Parliament unanimously adopted a resolution on "Fair Trade and Development" that called for an EU-wide approach to supporting the fair trade movement.

6. The Fair Trade Approach: Supporters and Critics

Supporters of the fair trade movement regard globalization as an opportunity to improve living and working conditions in developing nations. They argue that this opportunity can be seized by creating more direct mechanisms by which concerned citizens in developed nations can reward producers in developing nations for improving labor standards and creating enterprises that are economically and environmentally sustainable. Many supporters of fair trade do not suggest that it should be the *only* instrument used for addressing prevailing concerns about globalization. Some, like labor economist Richard Freeman, also support the inclusion of labor standards in trade agreements and think the labeling initiatives could be at best useful complement and at worst a partial substitute.

Critics of fair trade have taken a variety of different positions. Some critics deny that globalization is an opportunity for development at all, and argue that the developing world would do better with more insulation from trade and efforts to diversify production, seeing fair trade as another type of unequal or exploitative relationship between rich and poor. Many anti-globalization activists and commentators probably fit in this category. Such critics are particularly concerned that minimal commitments to fair trade might be used as “cover” for corporations who continue act in ways that exploit or marginalize the poor.

Other critics allow that globalization can provide an opportunity for development in poorer nations, but maintain that fair trade initiatives are generally ineffective in addressing the fundamental problems and that tougher regulatory forms of management are needed. These analysts (e.g., economist Dani Rodrik) argue that the fair trade market has limited potential and that efforts to develop it further may distract from more direct and comprehensive approaches to improving conditions in poorer nations by government action.

A final set of critics take a much more favorable view of globalization and just worry that fair trade initiatives have unintended consequences that limit the efficiency-enhancing effects that free markets bring to developing nations (e.g., Jagdish Bhagwati, Alan Deardorff; also see recent articles in *The Economist* and *The Financial Times*). These critics are particularly worried about fair trade minimum prices for commodities that interfere with the signaling mechanism of the market and stall the reallocation of resources to alternative types of production in developing nations. They are also critical of fair trade standards that prohibit child labor, arguing that such prohibitions can reduce household income for families in developing nations and make conditions worse for children.

Most of these debates can be resolved with better empirical evidence about the impact of fair trade initiatives and the potential size of the fair trade market (and its potential for expansion into manufactures). The debates do raise important questions about the degree to which the different approaches to addressing concerns about globalization might be complementary or offsetting, and whether private-sector partnerships between NGOs and businesses might be able to provide solutions that would be preferred to government regulation.

Table 1: Total Sales of Fair Trade Products

	Annual Sales (million euros)			Growth in Sales (%)	
	2001	2004	2005	2001-05	2004-05
Austria		15.8	25.6		62.0
Belgium		13.6	15.0		10.3
Denmark		13.0	14.0		7.7
Finland		7.6	13.0		71.1
France		69.7	109.0		56.4
Germany		57.5	70.9		23.3
Ireland		5.1	6.6		29.4
Italy		25.0	28.0		12.0
Luxembourg		2.0	2.3		15.0
Netherlands		35.0	36.5		4.3
Norway		4.8	6.7		39.6
Sweden		5.5	9.3		69.1
Switzerland		136.0	143.1		5.2
United Kingdom	100.3	205.6	276.8	175.9	34.6
Total EUROPE	260.0	596.2	756.8	191.1	26.9
United States	75.8	214.6	344.1	353.9	60.3
Canada		17.5	34.8		98.9
Japan		2.5	3.4		36.0
Australia/NZ		0.9	2.5		184.1
TOTAL		831.7	1141.6		37.3

Sources: FLO Annual Report; Nicholls and Opal (2004)

Table 2: Spending on Fair Trade Products

	Per capita annual spending (euros)		
	2001	**2004**	**2005**
Switzerland		18.38	19.34
United Kingdom		3.42	4.61
Luxembourg		4.00	4.60
Austria		1.93	3.12
Denmark		2.41	2.59
Finland		1.46	2.50
EUROPE	0.78	1.79	2.27
Netherlands		2.15	2.24
France		1.15	1.80
Ireland		1.24	1.61
Norway		1.04	1.46
Belgium		1.30	1.43
United States	0.26	0.72	1.16
Canada		0.54	1.08
Sweden		0.61	1.03
Germany		0.70	0.86
Italy		0.43	0.48
Aus/NZ		0.04	0.11
Japan		0.02	0.03

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