15.1 CHALLENGES OF MARKETING AND ECONOMIC DEVELOPMENT : CONTEMPORARY ISSUES

ALTERNATIVE TRADE ORGANIZATIONS: AN EMERGING DISTRIBUTION SYSTEM FOR LESS DEVELOPED COUNTRIES

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ABSTRACT

Alternative trade, fair trade, and cooperative trade are all terms for an exchange of goods based on principles of economic justice, especially for the poor and powerless in the less developed countries. Numerous organizations, called alternative trade organizations, import farm products and handcrafts from these Third World nations and market them in the (over) developed countries.
This paper explores the nature of Alternative Trade Organizations (ATOs) , how and where they developed, and how they operate as a viable global distribution system.

THE WORLD TRADE SETTING

Marketing has played an important role in the development of industrialized countries. Until recently, however, its potential as a source of development in less developed countries (LDCs) has been largely ignored. The more recent discussion of this subject is driven by the notion that marketing has a potential to stimulate social as well as economic development, and that the economic and social roles of marketing need to be combined and adapted to the local environments of an international transaction (Hosley and Chow, 1988; Reddy , 1992; and Rao, 1992). As a response to this challenge, this paper explores the nature of Alternative Trade Organizations and their role in marketing products of less developed countries..
Beneath the din of battling rhetoric over new free trade agreements is a growing whisper that trade should be fair as well as free (Brown, Goold, and Cavanagh, 1992; Burkalter, 1992). What is fair trade? Too often "fair trade" has meant protected trade that favors a specific company, industry, or country. The act of trading implies an equal exchange between buyer and seller. But in today's world of transnational corporations (TNCs) , some argue that exchanges with Third World nations are anything but equal. The largest one hundred corporations in the world are all transnationals whose annual earnings each exceed the annual GDP of many developing nations (Dobson, 1993). Such size confers tremendous market power. TNCs control eighty percent of the world's land cultivated for export-oriented crops. Eighty to ninety percent of the trade in tea, coffee, cocoa, cotton, forest products, tobacco, jute, copper, iron-ore and bauxite is controlled by no more than six TNCs for each commodity (Dobson, 1992).
Some observers of international trade note that the growth of the transnationals during the last fifty years has come through exploitation of the natural and human resources of the less developed countries. Searching relentlessly for the cheapest sources of labor and raw materials, TNCs naturally migrate to small or weak nations where the corporation has the power advantage. Recently, Mexican Senator Sergio Quiros Miranda warned groups of small businessmen in his country, "Whenever you join in partnership with a business that is ten, fifty or 100 times larger and richer than you, you cannot expect to have equal say. What is sure to result is a subordinate relationship!" (Torres, 1992) For most of this century, TNCs have influenced governments (particularly the U.S.) to act in the world to protect the interests of business. If "the business of America is business", then protecting business interests was in the "national interest".
Now however, the interests of TNCs have grown beyond those of any one country. Corporations have replaced nations as the driving force behind efforts to manage the international trade system. Increasingly, international trade is occurring between subsidiaries and affiliates of the transnational corporations (Phillips, 1992; Kumcu and Vann, 1991). It is now the TNCs that benefit from less restrictive trade policies, not the trading nations as traditional economic policy suggests. A vertically integrated TNC trades not with other TNCs or countries, but between subsidiaries, within itself, across national boundaries. As nations compete for jobs by offering tax and

financial incentives to TNCs, corporations simply shift their production and profits to more accommodating countries, leaving the former host countries in a financial and economic bind. Nations lose not only individual jobs but whole industries and often suffer severe environmental damage through this powerful corporate mercantilism (Phillips, 1992).

THE HISTORY OF ATOs

Is there an alternative to such unbalanced and seemingly exploitative trade? YES, say those in the alternative trade movement. Alternative trade directly connects consumers of certain products in the developed nations to thousands of individual producers in Latin America, Asia and Africa and the rest of the world. Alternative trade organizations (ATOs), many of them non-profit, specifically aim to 1) pay fair prices for the goods they import, 2) encourage sustainable development in the Third World, 3) successfully market goods to consumers in the "first world", and 4) educate those consumers about the injustices suffered by the poor around the world. Alternative traders offer socially and environmentally concerned consumers a chance to vote with their dollars for organizations that place people before profit (Benjamin, 1988). Underlying the growth of the ATO movement is the growing recognition that the citizens of the "world neighborhood" overall, prefer a different kind of future. In the words of Morris, this hoped-for future is one that ensures "An environmentally sustainable economy characterized by shorter lines of distribution and locally owned and humanly scaled production units, where much of the authority and responsibility for decisions are shifted toward the people most affected by these decisions" (Morris, 1993, P. 103).

More than 200 alternative trade organizations operate around the world. Some of them operate hundreds of retail outlets. Over one hundred ATOs are based in the United States and an equal or greater number are based outside the U.S., mostly in Europe. ATOs also exist in Japan and Australia. These organizations range in size and scope from small and targeted to large and comprehensive. Po Polsku (Lake Placid, NY), for example, works only with artisans in Poland and currently has about one hundred Polish folkcraft items in its mail order catalog. World Neighbors (Oklahoma City, OK), on the other hand, works in twenty-one countries of Asia, Africa and Latin America doing community development work which includes provision of health services, and farming and environmental conservation efforts, in addition to importing items from small handcraft cooperatives. ATOs also range in age from those just begun to the oldest, SERRV Self-Help Handcrafts (New Windsor, MD), which began after World War II to provide income to needy refugees. SERRV, a program of the Church of the Brethren, has grown to be one of the largest ATOs in the United States, marketing about 2300 quality handcrafts from 180 artisan groups in over forty countries. SERRV uses multiple marketing strategies to sell its products--retail gift shops, catalogs, and wholesale and consignment arrangements with church and civic groups (Elkin, 1992).

Alternative Trade Organizations market everything from silk scarves and jewelry to honey and cashews, but handcrafts and textiles are the most common items, as they represent the traditional culture of peasant communities. With few raw materials available to them, simple artisans invest their time and talents to create products of utility and beauty. Color photographs in ATO catalogs show simple musical instruments, wooden puzzles, alpaca sweaters, woven rugs, carved figurines, palm leaf hats, earrings, placemats and napkins, dolls, Christmas ornaments and hand-blown mugs made in Guatemala of recycled Coca Cola bottles (Elkin, 1992).

Benjamin and Freedman (1989) characterize the ATO movement as being the result of three distinct social trends. One is church related, another is an outgrowth of economic development efforts, and the third is based on political criteria. In the United States, the church-related groups are the oldest and largest. Two of the major groups are SERRV and SELFHELP Crafts (Akron, PA) which is run by the Mennonite Central Committee. SELFHELP also dates its beginnings to helping World War II victims and operates today on the same global scale as does SERRV. SELFHELP depends on volunteer staffing to keep costs low and to enable a high percentage of sales proceeds to be returned to Third World producers.

ATOs with an economic development focus began in Europe in the 1960s. The first Third World shops--stores selling goods produced by Third World cooperatives--were started by the Dutch branch of the development group Oxfam. They eventually spread successfully throughout Europe, Australia and New Zealand. By 1987, Oxfam-UK was selling $14 million worth of Third World products in 500 retail stores. The concept was brought to the United States by Jim Goetsch who, in 1970, founded Friends of the Third World (Fort Wayne, IN) and then helped start Third World shops in the U.S. (Benjamin and Freedman, 1989).

The third trend in ATOs, the political support groups, also have strong roots in Europe. One of the main groups in this category is Stichting Ideele in Holland. Stichting differs from both the development and church groups

in that it does not work directly with producers but with governments. It looks carefully at government policies to see if they are aimed at lessening inequalities within their societies and providing their citizens with decent education, health care and jobs. Based on these criteria, Stichting worked through the 1980s in the countries of Zimbabwe, Mozambique, Angola, Cuba, Nicaragua, and Vietnam (Benjamin, 1988).

Not all ATO's though can be neatly categorized as using only one of the three themes. Pueblo to People (Houston, TX), a fast-growing ATO selling food and crafts from Central America, focuses on both development and politics. It works with cooperatives to help them develop technical skills, but it also sees itself as part of a broader movement for social change. Jubilee Crafts (Philadelphia, PA) combines both a religious and a political emphasis. Though firmly faith-based, it is one of the most politically outspoken trade groups in the United States. It also "trades" in goods produced domestically by the poor in the U.S., motivated by the premise that powerlessness and injustice are characteristics of poverty anywhere in the world.

In spite of the fact that SERRV and SELFHELP have a longer history, the development and politically oriented ATOs in Europe have grown much faster and achieved a significant market share of the Third World import market. Switzerland, for example, with only six million people has more than 500 Third World shops. In the Netherlands, a fair trade mark is used to distinguish coffee grown by democratically run cooperatives of small-scale producers who receive a fair price for their coffee. Despite a premium selling price, this coffee is distributed not only through alternative networks, but also is available in ninety percent of supermarkets in the Netherlands (Elkin, 1992). Europe's tradition of social democratic politics has enabled ATOs to receive official support from unions and governments as well as strong consumer support.

The European ATO movement has been strong and successful. Oxfam Trading in the United Kingdom and GEPA-Aktion Dritte Welt Hadel (GEPA) in Germany are each larger than all North American ATOs combined. Oxfam Trading operates 625 retail shops, making it the sixth largest retailer in Great Britain; GEPA has operating revenues in excess of $17 million annually. Yet compared to Pier One Imports, America's largest commercial retailer of Third World crafts, even these organizations seem small. Pier One had sales of $680 million in 1991, compared with an estimated $200 million world total for alternative trade organizations (Elkin, 1992).

ATO DISTINCTIVE CHARACTERISTICS

What distinguishes ATOs from commercial importers like Pier One Imports? One persistent theme among alternative traders is to reduce the power and profits normally accrued by middlemen bringing goods to market. MacDonald describes the typical import process for a finely woven basket selling for $14.95 at Pier One. No more than $1 goes to the Filipino woman who spends a whole day making it. The basket may pass through the hands of half a dozen middlemen and be marked up 300 percent before it even leaves the Philippines. After Pier One pays $3 to an exporter and as much as $9 for import duties, distribution, shipping, handling, and advertising, it is left with a profit of $2. In contrast, says MacDonald, when the same basket is purchased for $14.95 from Bridgehead Trading's (an Ottowa, Canada ATO) catalog, $7 goes to the Filipino basket maker. Bridgehead keeps its overhead low and buys directly from the Bohol Basket Weavers Cooperative in the Philippines (Elkin, 1992).

Alternative traders don't eliminate middlemen to maximize their own profits. Their goal is to bring benefits to the poor producers. ATOs not only pay fair prices, often many times what commercial traders pay, they pay up front and establish long term contracts that a village cooperative can depend on. ATOs also provide free services--such as instruction in packaging, shipping, or bookkeeping, or advice on product design and marketing--that traditional commercial traders have neither the interest nor the time to offer. Alternative traders even help producers take over aspects of production and marketing that are traditionally controlled by middlemen and commercial traders. Processing and packaging raw agricultural products such as coffee, tea, fruits and nuts significantly increases profits on these commodities. With training, organizational assistance and small capital investments, small village cooperatives can take over these activities usually performed by members of the distribution system in the importing country.

ATOs also tend to be more sensitive than commercial traders to the needs and problems of producer groups. Working across national boundaries and cultural barriers with the poorest, the least educated, the least skilled in things like keeping books and quality control, it is not surprising that problems develop. But most ATOs take a long range development view and work with producers to iron out their problems rather than cutting them off if they make mistakes.

Although fair trade is a worthy goal in itself, there are tremendous ripple effects from organizing for the

cooperative effort needed for production. ATOs prefer to deal with small producer co-ops that have demonstrated a commitment to social and economic justice within their own organizations and communities. With good leadership and democratic participation, each member becomes empowered. Women, usually the poorest and weakest, benefit the most. Renno (1992) writes of visiting a weaving co-op in Guatemala. The Mayan women work at home producing a high quality traditional craft. They earn $20 per month for eight days work, compared to $1-2 for a 12-hour day in terrible sweat shop conditions. Profits from the group have built a co-op building, purchased thread, and provided building materials for a clinic and communal kitchen. Their income has resulted in improvements to the road and water supply and built a small new school. The women, making their own membership and financial decisions, have been a catalyst for their community's development. According to Renno, "Fair Trade is an organizing tool, not only economically, but socially and culturally."

A second ripple effect comes from the higher prices ATOs pay directly to artisans and farmers. When an increased value is placed on village products, the local middlemen often are pressured to pay higher prices (Benjamin, 1988).

Another distinctive characteristic of ATOs is their commitment to educate the consumers who purchase products. Organizations which sell through mail order use their catalogs to explain where and under what conditions the products are made. Pueblo- to- People explains the social and economic conditions of the artisan groups from which it buys. The catalog also includes for sale books and resource materials about the Latin American countries where Pueblo to People works. Some distributors attach tags to the products they sell which explain where and how the products are made. Many ATOs sell at county and city fairs, churches, and schools and use that opportunity to do educational work. With every sale comes a chance to deepen the customer's understanding of poverty in less developed countries, and to provide a mechanism for responding constructively.

The paradigm of strategic cooperation is another distinctive characteristic of ATOS. Instead of the spirit of competition that marks commercial distribution channels, the overall goal of ATOs is to strengthen the movement, with each group supporting the others. For example, SERRV and SELFHELP share information on the producer cooperatives they buy from. Friends of the Third World (FTW) provides technical assistance to other ATOs while Jubilee Crafts encourages other groups in their educational efforts (Benjamin and Freedman, 1989).

As a way of facilitating this strategic cooperation, an annual conference for ATOs was begun so that fair traders could share information and resources with each other. An outgrowth of the annual conferences was the formation of the North American Alternative Trade Organization (NAATO). This organization has continued to evolve as conference participants realized how mutual cooperation and further promotion of the alternative trade message could work to their benefit.

Recognizing the need for a more formal organization (NAATO has functioned as an unincorporated association), representatives attending the 1994 North American Alternative Trade Conference examined several possible organizational formats and discussed key issues before making decisions for the future. The central issues, as presented by the organizing committee were:

"1) Should the mission statement emphasize NAATO's role as part of a political movement promoting an agenda of fair trade, or 2) Identify the group primarily as a trade organization dedicated to strengthening member producers and retailers and facilitating alternative trade? Moreover, should NAATO include disadvantaged producers in the industrialized world or exclusively represent organizations involved in trade between Southern producers and Northern sellers (Freitas, 1993)?"

The third question addressed the inclusion of organizations such as Watermark (Camden, NC), a rapidly growing domestic artisans cooperative with an aggressive marketing strategy and a strong training component. The answers to these questions would determine whether North American ATOs would continue cooperating under one umbrella or split into subgroups.

Resisting the temptation to narrowly define fair and alternative trade and the organizations which promote and transact it, the decisions made at the June 1994 conference emphasized inclusiveness. A new stronger national organization was desired, one with the flexibility to respectfully accommodate various viewpoints and agendas. While the specifics are not yet defined, it seems likely there will be multiple categories of membership in the new organization, with room for importers, producers and trade facilitators.

NAATO will be re-born as the Fair Trade Federation which will incorporate and file for status as a 501 (c) (3) nonprofit trade association. The newly elected Board of Directors will seek to create an alternative trade network whose primary focus, according to the mission statement, is to "empower groups of the disadvantaged by marketing their products and raising consumer awareness in North America (NAATO, 1994).

There is another ATO association, the International Federation for Alternative Trade (IFAT), headquartered in Amsterdam, Holland, which is quite restrictive in its membership requirements. IFAT has been effective in Europe, using its collective voice to increase the flow of alternative trade information, to speak out against specific injustices, to improve market access, and to facilitate international partnerships (Lucas, 1992). It is clear that cooperation has paid dividends for the European alternative traders who are considered to be about ten years ahead of those in the United States.

SUMMARY AND FUTURE DIRECTIONS

American ATOs know they have some catching up to do, especially if they want to compete successfully in mainstream commercial markets as the Europeans have done. Operating as small businesses while shunning "normal" business principles has given some ATOs an identity crisis. Juggling multiple goals (personal dignity, environmental sustainability, cultural preservation, and community development) is more difficult than simply focusing on sales and profits. Relying on affluent consumers to pay premium prices for hand produced goods has been challenged as paternalistic and somewhat unrealistic. ATOs in the U.S. recognize their need to become more professional and aggressive as well as increasingly creative in their marketing and financing efforts. Product innovation and design are key areas where ATOs can provide expertise which allows the poor to break their historical cycle of dependency on a few unstable products (Benjamin and Freedman, 1989; Renno, 1992). Through its willingness to work with progressive governments, Stichting Ideele operates with a wider vision than do U.S. ATOs. Stichting wants to take the place of normally exploitative transnational corporations in joint ventures with Third World governments who need access to new technologies and markets. Stichting has begun a tuna fishing business in Cape Verde in West Africa, an island with no fishing industry. Ownership is 51 percent government and 49 percent Stichting, with Stichting looking out for the best interests of the country. Profits will be reinvested and eventually Stichting will sell its interest back to the government. It is truly a unique experiment that may open up an entirely new role for ATOs (Benjamin and Freedman, 1989).

A growing public interest in environmental issues may bring an expanding market to alternative trade, believes Paul Freundlich, founder of Co-op America and a national leader in the fair trade movement (Lucas, 1992). "Green" concerns have certainly played a part in the growth of ATO sales in Europe. When that occurs also in North America, it will open up the larger market necessary for ATOs to have an increasing impact on the overwhelming poverty of the Third World.

No commercial traders or marketers need fear that Alternative Trading Organizations will, any where in the near future, take over as the global channels of distribution. Their numbers and influence will expand, however. As activists and even some public policy makers around the world call for more equitable, less exploitative conditions of world trade, marketers in commercial trade may find themselves needing a new image, one reflecting social and economic justice. They may well turn to fair trade as a model for a gentler and kinder form of international trade.

This paper explored the purpose and origin of alternative trade organizations. Further study of this emerging channel of international trade is warranted as time goes by. Of interest to marketers would be the effect of the changing world economies on the alternative trade movement. Another possible area of future research could focus on issues of power and control in this non traditional and cause-oriented channel of international trade.

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