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Fair trade governance and diversification: The experience of the National Smallholder Farmers' Association of Malawi

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ABSTRACT

This paper provides an empirical contribution to the theoretical debate concerning the impact of fair trade governance on the essential development processes of diversification and value chain upgrading. Two main positions currently shape this debate: one that argues the payment of 'above market' prices will promote reliance by Southern producers on low value agricultural production; another that fair trade might actually alleviate barriers to diversification and facilitate export opportunities. Responding to a lack of empirically grounded literature, the paper focuses on involvement by the National Smallholder Farmers' Association of Malawi (NASFAM) with two dedicated fair trade marketing networks. Based on qualitative case study research, analysis shows that dedicated fair trade organisations have played a significant role in promoting export diversification: particularly through the facilitation of market access and provision of the financial, social and physical capital needed to support such changes. Beyond this however, the study also highlights the importance and limitations of 'moral geographies' that permeate the construction of ethical credentials beneficial to the international marketing of Southern export producers in Northern consumer markets.

1. Introduction

Discussion surrounding the optimal arrangements for coordinating interactions between domestic and international trade is extensive. Much of the mainstream political economy literature has focused on the debate between liberalisation and state intervention (Moudud and Botchway, 2007; Smith, 2008). However, the emergence of formalised, non-state systems of governance has brought with it a burgeoning academic interest. In the most part, such private governance is intended to compensate for the perceived marginalisation of interests not sufficiently protected under the majority of existing arrangements (usually described as the 'conventional' status quo). For example, governance has focused on environmental issues (for example see: Clark and Kozar, 2011) or improving the socioeconomic fortunes of certain communities (for examples see: Barrientos and Dolan, 2006). This is particularly true where these are identified to have had limited opportunities to develop beneficial economic participation – and this paper specifically focuses on efforts to support Malawian smallholder farmers as a prime example of a community whose economic well-being has been undermined throughout its history.

One of the most significant private governance approaches to such situations has been constructed around the concept of 'fair trade', which, broadly speaking, aims to improve returns derived by Southern producers supplying certain (often commodity agricultural) goods into Northern markets (Nicholls and Opal, 2005, p. 6). This is not to say that fair trade activity is homogeneous however, and there are numerous sets of associated practices (Smith, 2013; Low and Davenport, 2006). The most prominent of these are administered by Fairtrade International and Fair Trade USA,[1] where independent certification is provided for a range of commodity goods produced and traded in accordance with stated requirements – usually, although not always, including the setting of minimum prices, the provision of credit and the additional payment of a Social Premia to producer groups (Doherty et al., 2012, p. 4). Other fair trade activates do not carry external certification, but have similar operational practices – for example, the payment of 'fair prices' negotiated through transparent dialogue and the provision of direct capacity building or funding for producer development – and are legitimized by reference to wider social reputations of actors (Raynolds, 2009, p. 1086). The key operational principles of fair trade

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[1] "Fairtrade" and "Fair Trade" are trademarked terms used in this article to refer to specific certification systems. By contrast, the (un-capitalised) term "fair trade" refers to the generic concept, often defined by key stakeholder as "a trading partnership, based on dialogue, transparency and respect, that seeks greater equity in international trade" (FINE, 2001, p. 1).

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however, are to actively manage prices, credit arrangements, the duration of relationships and the level of North–South investment (Davenport and Low, 2012; Reed, 2012).

Overall, fair trade practices have received growing support from Northern stakeholders. Corporate brands and retailers have commercialised an increasing volume of certified goods (Doherty et al., 2012) and governments have supported fair trade through grant funding and their own procurement (Fisher, 2012). As a result, global retail sales of Fairtrade certified goods alone rose 12% between 2010 and 2011, to €4.9 billion (Fairtrade International, 2012, p. 3), and sales of non-certified products have grown 40% between 2001 and 2009 (Boonman et al., 2010, p. 23), with sales in dedicated fair trade shops topping $1 billion (Doherty et al., 2012, p. 2).

Despite this success, fair trade has also been highly controversial. Some authors have suggested that certification fails to socially (re)connect actors (Dolan, 2010) or that fair trade offers only 'shaped advantage', "by which a limited number of producers enter the global market under more favourable terms, utilizing enhanced institutional capacity and marketing skills to tap into a growing niche market" (Lyon and Moberg, 2010, p. 8). In other cases, research even identifies significant contradictions between expected outcomes and empirical impact for specific producers and their organisations (Moberg, 2005). One of the most powerful critiques however, is premised on the view that prices emerge from the balance of supply and demand, and that therefore, the only means to increase returns to producers is to better balance these at the international level. Producers of low value goods are therefore expected to shift their efforts to the production of higher value alternatives (Collier, 2008; LeClair, 2002, p. 957). As a consequence, even when material benefits are realised by fair trade (for an example see: Utting, 2008), it is argued that this "retards the diversification of production that is fundamentally necessary for the economic advancement of developing countries" (LeClair, 2002, p. 957). Originally conceived for the production of handicraft goods, this critique has been extended to agricultural commodity exports (Sidwell, 2008) – the promotion of which also potentially threatens domestic food security (Brown, 2007) – and has been projected into public discourse in the mainstream media (see for example: Chambers, 2009; The Economist, 2006). In response, academics have proposed wider theoretical lenses that aim to re-embed analysis in the lived realities of trade relationships (Hayes, 2006, 2008; Smith, 2009) – and therefore arguably sought to contribute towards freeing "policy imagination" from the ideological binaries that have tended to characterise debate around state strategies (Chang, 2012). Having said this, there has been no direct empirical investigation of how fair trade governance interacts with the diversification strategies of southern stakeholders.

Given the growing scale of fair trade activities, the current article responds to this shortfall in empirical understanding by critically analysing the experience of the National Smallholder Farmers' Association of Malawi (NASFAM). This organisation offers an insightful case study, as Malawi is in significant need of diversification away from agriculture (which contributes for 35% of GDP) and particularly reliance on tobacco exports that currently account for around 70% of foreign exchange (Booth et al., 2007, p. 6; Harrigan, 2003, p. 847; Malawian Government, 2009; Orr, 2000, p. 348; Tsutomu, 2009, p. 358). At the time of fieldwork, dealing with this structural situation was also greatly complicated by the persistent use of an overvalued exchange rate and on-going balance of payments crisis, as well as continuing concerns for food insecurity.[2]

To present this work, the paper first summarises the theoretical discussion of fair trade and diversification, and building on the call for more socially and geographically situated investigation, argues for the importance of considering the 'moral geographies of food'. Following a discussion of the methodological and theoretical approach, the next section provides background on Malawi and NASFAM. The fifth and primary section then discusses NASFAM's experiences of fair trade in the marketing of groundnuts, produced by the Mchinji Area Smallholder Farmers' Association (MASFA), and Kilombero rice,[3] from the Kaporo Smallholder Farmers' Association (KSFA) (see Map 1 for the physical geographical context of the study). Here it is argued that far from retarding diversification and structural change, fair trade has played a key role in building local and regional assets (of economic, social and physical capital), and facilitating a shift into higher value export markets without inherently threatening food security. Theoretically, analysis makes a wider contribution to understating how private agricultural certification might impact processes of diversification and broader structural change in certain contexts. More specifically, the article extends recognition of the importance, but also the weakness of 'social resources' embedded in the ethical identity supplied by fair trade (Doherty and Meehan, 2006 – see below); and specifically by reinterpreting these through the lens of 'moral geographies' and their role in the marketing of internationally traded goods.

2. Fair trade, diversification and structural change

Despite great popularity, there is on-going debate about the merits of fair trade. One critical discussion concerns the interaction between fair trade and the vital and interlinked development processes of (1) diversification into other economic activities (either because more diverse portfolios spread risk or new activities offer improved returns); (2) value chain upgrading (where actors graduate into functions of greater value adding and therefore larger returns); and (3) broader structural change (or general transitions in the wider economy from low to higher value added activities) (Smith, 2009, pp. 459–460). In respect of these processes, critique grounded in neoclassical economic theory asserts that the payment of above market prices blunts the incentive for southern producers to diversify away from low value into higher return activities (see: LeClair, 2002, p. 956). This is especially pertinent as fair trade now works primarily within commodity agricultural where there is significant short-term price volatility and arguably long-term real price decline vis-à-vis more highly processed and especially manufactured goods (Maizels, 1994; Ocampo and Parra, 2003; Prebisch, 1950). In other words, far from promoting the long-term interests of southern producers, fair trade might be perpetuating economic marginalisation in dead-end livelihoods that are likely to crash due to a lack of 'natural' market equilibrium. In this light, neoclassic analysis rejects fair trade 'interventions' in favour of allowing 'natural' price incentives to structure economic behaviour; and therefore, better promote economic development (Collier, 2008). In a related point, some have suggested that fair trade price interventions undermine domestic and regional food security (see discussion in Brown, 2007, p. 275) in an extension of the previously identified tensions of export-led-development – where producers themselves "speak of the contradictions of producing a product that is more or less useless in their local world" (Benson and Fischer, 2007, p. 807).

Alternatively, others reject the focus on price incentives as the only important variable in production decisions or that policy should further assume the universal presence of perfect markets

[2] It should be noted however, that since the completion of fieldwork, the government of Malawi has liberalised the country's exchange rate under pressure from the International Monetary Fund.

[3] Kilombero rice is a versatile and aromatic, long-grain variety of brown rice, eaten alongside maize as a staple food in northern Malawi.