

Fair Trade & Poverty Reduction: Case of Japan

By Kan Hiroshi SATO

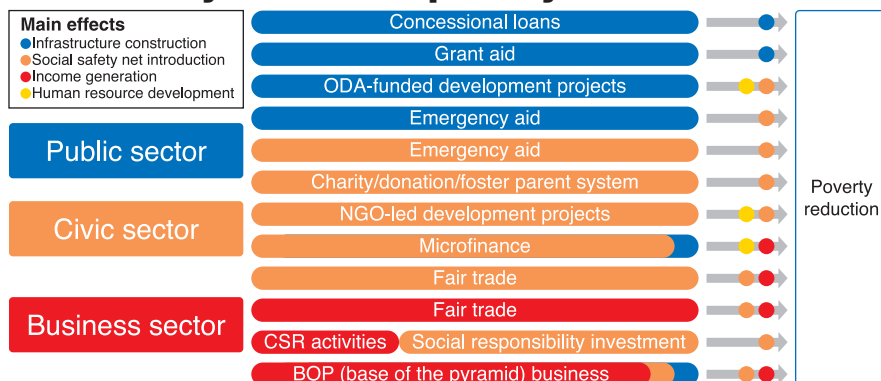
With poverty reduction high on the agenda of the United Nations' Millennium Development Goals, international organizations and national governments across the world as well as international nongovernmental organizations (NGOs) are addressing the challenge with huge amounts of funds. On the one hand, public organizations such as UN agencies and bilateral aid bodies in Japan and other industrialized countries are moving to fight this problem with the help of the business sector under public/private partnership. This is based on the perception that it is difficult to resolve the question of poverty with official development assistance (ODA) and NGOs alone. Such moves are embodied by the Growing Sustainable Business (GSB) initiative of the UN Development Program (UNDP), the Global Development Alliance (GDA) of the US Agency for International Development (USAID) and Challenge Funds of the British government's Department for International Development (DFID). These public/private initiatives are largely intended to utilize know-how, human resources and financial strengths owned by private businesses for achieving a variety of goals set by public organizations. In many cases, therefore, it is public bodies that play as main actors, with private businesses positioned as their supporters.

On the other hand, private businesses are ramping up independent initiatives from the viewpoint of corporate social responsibility (CSR) or as social businesses. These initiatives usually call for not simply making donations but working together with international and local NGOs which have know-how with regard to poverty reduction. In this way, they contribute to reducing poverty in the developing world. A series of activities now being undertaken by venture capital firms set up by George Hara (cf. p.22) are close to such initiatives. In this case, it is a private business that serves as a main actor.

Further, there is fair trade as a third way. Involving consumers in developed countries, it aims to help farmers and other producers in developing countries improve their living standards through purchases of products. In this case, main actors are traders and consumers (Chart 1).

CHART 1

Various ways to reduce poverty



Source: Kan Hiroshi Sato (author)



Photo: Fumiko Ikegaya *Sri Lankan women work at a black tea plantation supported by fair trade.*

Hallmarks of Fair Trade

Fair trade differs from traditional activities of public organizations, NGOs and corporate CSR activities in that it is undertaken within the framework of “supporting producers in developing countries through trade.” The key principle of fair trade is that there should not be “asymmetrical relations” in which resources such as funds, human resources, technologies, equipment and materials unilaterally flow into developing countries from developed countries. The relationship between developed and developing countries should absolutely be “equal” through trade, with payments made in exchange for products.

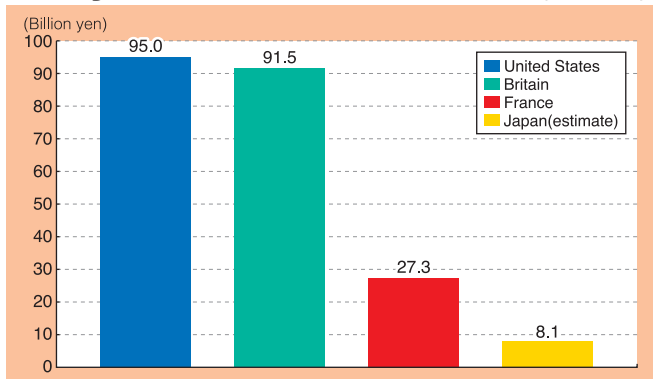
In reality, however, there is an overwhelming gap between consumers in developed countries and producers in developing countries in terms of financial resources, knowledge and networks available. Adding a tinge of this inequality, trade deals are conducted in ways somewhat favorable to producers in developing countries — different from ordinary commercial transactions based on free-market mechanisms. Specifically, fair trade aims at the following, among others: (1) securing enough revenues for producers in developing countries to live “decent” lives by guaranteeing favorable prices (higher than market levels) at which consumers in developed countries buy products from producers in developing countries, (2) donating to producers’ bodies as “social premiums” a certain percentage (usually around 10%) of prices at which traders certified as those engaging in fair trade buy products, and (3) paying producers part of prospective purchase prices in advance to help them meet the needs of production and living costs and thus reduce the risk of their dependence on high-interest lending. Hence, trades are carried out in a way favorable to producers in developing countries. With these measures, marginalized producers can secure revenues necessary for daily lives and appropriate some of them for education and healthcare of their children. Under this scenario of fair trade, producers become gradually able to lead self-reliant, sustainable lives and eventually extricate themselves from a state of poverty.

History of Fair Trade & Fair Trade Market in Japan

In Europe and the United States, it is said that fair trade originates from charity bazaars at churches. In Japan, however, fair trade of this kind can rarely be seen because Christianity is of much less social significance than in Europe and the United States. In many cases, fair trade in Japan originates

CHART 2

Today's fair trade market (sales by country)



Note: 2007 figures except for Japan (2008)

Source: World Fair Trade Organization (WFTO, formerly IFAT = International Fair Trade Association); Japan's data from Institute for International Trade and Investment (2009)

from sales of handicraft and other goods by NGOs as a byproduct of their social development activities for developing countries.

The market scale of fair trade in Japan reached an estimated 8.1 billion yen in terms of annual sales in 2008, less than a 10th the comparable figures of 95.0 billion yen in the United States and 91.5 billion yen in Britain (both in 2007). Also, the amount of per-capita purchase in fair trade was only \$0.5 a year in Japan, falling far below the world's highest figure of \$27 in Switzerland (Charts 2 & 3).

What is more, the ratio of products with the "FAIRTRADE" logo authorized by Fairtrade Labelling Organizations International (FLO), the worldwide Fairtrade product certification body, to overall products involved in fair trade has reached around 90% in Europe compared with only 17% in Japan, according to a 2009 survey.



Currently, fair trade in Japan is said to be supported mainly by women in their 30s who live in urban areas (particularly in the Kanto area that includes Tokyo), with the bracket of people with annual income of 5-7 million yen accounting for the highest percentage among the buyers of fair trade products, according to a 2007 survey by team Choco-Revo. This means that only the bracket of those who have both a relatively large amount of money at their command and interest in social problems to some extent buy products that are of social significance, albeit priced at relatively high levels.

Contribution by Japanese Fair Trade Bodies

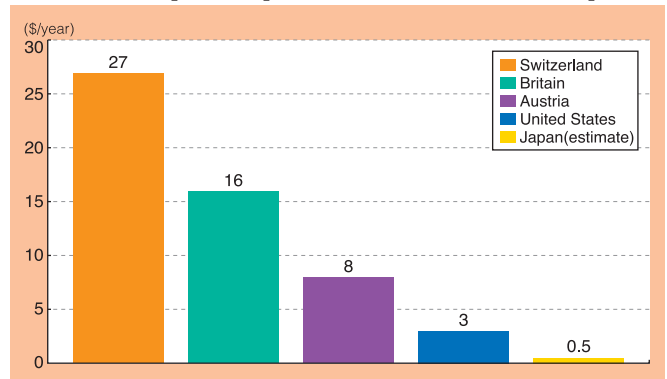
As mentioned above, fair trade activities are yet to be established in the social system of Japan. However, it seems that Japanese fair trade organizations are contributing to reducing poverty in developing countries to some degree.

(1) Social development-related fair trade organizations

It is Alter Trade Japan, Inc. that can be regarded as the pioneer of Japanese fair trade organizations. Since as early as the mid-1980s, it has contributed to improving living standards of Philippine producers through banana imports from that country's Negros Island. SHAPLA NEER, a "Citizens' Committee in Japan for Overseas Support," is one of the oldest NGOs established in this country that launched support for rural development in Bangladesh in the 1970s. These organizations also set up their independent fair trade divi-

CHART 3

Amount of per-capita fair trade consumption



Note: 2007 figures except for Japan (2008)

Source: WFTO (IFAT)

sions in the latter half of the 1990s and have since practiced fair trade by trial and error as front-runners of such marketing in Japan.

(2) Business-related fair trade organizations

While handling products similar to those of SHAPLA NEER, Nepali Bazaro is an NGO that supports producers in Nepal, focusing its activities on fair trade. Beginning to operate in 1992, it issues catalogs of products with the *verda* brand and sells them by mail and by wholesale to fair trade retail stores. It has obtained certification from the World Fair Trade Organization (WFTO). Meanwhile, People Tree commands the biggest sales among Japanese fair trade organizations, logging 800 million yen in annual sales. Established in 1995, it is not engaged in development projects in any particular region but sticks to its policy of supporting producers of goods it handles. With sophisticated catalogs, People Tree has taken the initiative globally in bringing fashion sense into fair trade products.

Contribution by Japanese Public Bodies

The Japan International Cooperation Agency (JICA), the giant of Japan's ODA, is engaged in such projects as social development and the "One Village, One Product" movement as part of efforts to promote local industries. But it extends no direct support for fair trade activities. The Japan External Trade Organization (JETRO), charged with the mission of trade promotion, does not explicitly support fair trade, either. But both JICA and JETRO have schemes to help foster local industries by dispatching experts to developing countries and to boost production by receiving trainees from them. Fair trade producers and distributors can be included in targets of these activities. On top of that, JETRO's Pilot Demonstration Project for Development and Import Schemes is meant to support efforts to explore and develop products Japan can import from developing countries on a trial basis. It calls for extending up to 5 million yen per year in financial assistance to each company that has a promising business idea. The project has a track record in importing shea butter products and pu-erh tea from Africa.

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