

HOW TO IMPLEMENT FAIR TRADE IN INDONESIA
(CASE STUDY: APIKRI SUCCESS IN IMPLEMENTING
FAIR TRADE IN YOGYAKARTA)

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ABSTRACT

Fair trade is one of the trading system that concern about the fairness and the development of the small producers that tend to be treated unfairly by free trade system since the main idea of competitive advantage from free trade incline to be exploitative towards these small producers. Indonesia has many small producers, artisans and farmers that do trading with international society, therefore, fair trade is supposed to be one of a beneficial trading system that Indonesia should implement. But the fact is that, fair trade is not developed well in Indonesia, even many NGOs and fair trade organization went bankrupt in Indonesia. One of the fair trade organization that still do well and have been categorized as success in implementing the fair trade system is APIKRI, a fair trade organization in craft industry that located in the special region of Yogyakarta. In this paper, we argue that based on APIKRI success, it's not impossible to implement the fair trade system in Indonesia that will bring a beneficial result to the majority of Indonesian producers which are the small producers, artisans and farmer.

Keywords: fair trade, international trade, small producers, handicraft producers.

Introduction

As one of the global trading system, free trade has a few weakness that tend to marginalized small producers and small or developing countries that have a trade cooperation with developed countries. The first problem of free trade is the strong competition (Hadiwinata and Pakpahan, 2004, 3), free trade is giving an

opportunity for every countries to find the cheapest products on the market that leads to unfair competition between developing countries and developed countries. With technology advances, better quality of human capital that supported with higher education, developed countries have more advantages when it comes to compete with developing countries, and this condition eventually lead to an unfair competition for developing countries and small producers.

Second problem is the inconsistency of the implementation of free trade itself (Hadiwinata and Pakpahan, 2004, 40). For example, free trade is known to be promoted mostly by western countries including the European Union, but while EU showed how they're being supportive to the implementation of free trade, the inconsistency showed through the implementation of Common Agricultural Policy or known as CAP as one of an act of trade protectionism. Through CAP, EU able to protect their agricultural goods since one of its policy is giving a subsidies to their farmers (Jeffery, 2003).

Third problem is the inability to handle the Non-Tariff Barriers (Hadiwinata and Pakpahan, 2004, 30), free trade supposed to be a trade cooperation but most of developed countries protecting their trades through the environmental and health constitution to prevent goods imported to their countries. For example the case between United States of America and Mexico about tuna-dolphin case on 1991 (World Trade Organization, 2018). In which US claimed that yellowfin tunas are swimming beneath dolphins, and according to the US, Mexico use a dangerous nets

in harvesting yellowfin tuna, the use of this net also causing most of the dolphins trapped and die. Later on, America give Mexico a restriction on importing yellowfin tuna. This case itself were handled through the old GATT dispute settlement body.

Problems such as an unfair competition between developed and developing countries, the inconsistency regarding trade protectionism, and problems that occur regarding the Non-Tariff Barriers give a realization to NGOs and other IR scholars about the urge to form a better, fairer trading system.

Fair trade is one of a non-conventional trading system, in fair trade we believe that even the small producers supposed to have gained benefit from trading. When we look on the current trade situation, we can argue that producers can gain good income from trading, because we, as a customer buy things with an expensive price. But the truth is, most of the small producers earn a really small income due to the situation and therefore, fair trade is one of the solution to help the small producers so they can receive the real aim from trading, which is gaining profit.

In order to implement fair trade on trading system, there are process that producers need to get through. Fair trade products can be differentiated with a fair trade logo that given from FLOCERT or World Fair Trade Organization. In order to receive this fair trade logo, producers need to get through an auditing process from auditor team from FLOCERT or WFTO. Fair trade logo is an essential things for fair trade itself, because this logo is a guarantee for the customer that the production process of this

product fulfill the *ten principles of fair trade* (World Trade Organization, 2018).¹

Indonesia, is one of the country that able to produce lots of agricultural goods such as coffee, cocoa, honey and tea, not only agricultural goods, Indonesia which have a cultural heritage, that makes Indonesia become a popular tourist destination for both local and international tourist. With this, Indonesia also developing goods in handicraft products such as painting, furniture, accessories, and statue with potential customer are tourist both from local and international, this then leads to the increasing of small artisans in Indonesia.

Trading is one of so many options that people can do in order to fulfill their daily needs, but in Indonesia there are several problems in trading that makes trading didn't give a beneficial result for the producers as it supposed to be. First problem is the long supply chain, long supply chain means there's lots of actors that involve in the trading process. With a long supply chain, trading process isn't as simple as a producers sells goods directly to consumers, but there's also involvement of middleman between the trading process and with the involvement of middleman

¹ 10 principles of fair trade according to World Fair Trade Organization: 1. Creating Opportunities for Economically Disadvantaged Producers, 2. Transparency and Accountability, 3. Fair Trading Practices, 4. Payment of a Fair Price, 5. Ensuring no Child Labour and Forced Labour, 6. Commitment to Non Discrimination, Gender Equity and Women's Economic Empowerment, and Freedom of Association, 7. Ensuring Good Working Conditions, 8. Providing Capacity Building, 9. Promoting Fair Trade, 10. Respect for the Environment. "10 PRINCIPLES OF FAIR TRADE". Accessed through <http://wfto.com/fair-trade/10-principles-fair-trade> on May 20th 2018.

causing the price in market skyrocketed while the producers only gain a little from the trading process.

The other problems that occur on the trading process in Indonesia is that there were many big retail companies in Indonesia that have strength in capital. With a strength in capital, big retail company able to get closer to customer by opening store here and there and importing goods from other countries, with this big retail company able to reach the potential customer easily rather than the small producers. The small producers able to reach the potential customer through the traditional market, but with the existence of big retail company, the culture of trade are slightly changing which then the potential customer more likely to buy things from the store rather from then traditional market. With many existence of big retail company, small producers in Indonesia are expected to compete with them with an unfair starting point.

Third problems that occur in the trading process in Indonesia is the production process. In Indonesia, in order to suppress the cost of production, small producers still using the help of child labor, and with the cultural backgrounds, it's also a common thing for small producers to use the help from the children. Beside the child labor, the gender discrimination still happens a lot in the production process, for example, a wage difference between man and woman.

With many trading problems that Indonesia facing, fair trade is supposed to be a good solution to be implemented on Indonesia

trading system. Fair trade already entering Indonesia for more or less 40 years, since 1957, OXFAM already promoting fair trade principles in Indonesia the existence of OXFAM then leads to establishment of other organizations that having a goal to implement fair trade in Indonesia. But after years passing by, only few of fair trade organization in Indonesia that still survive and actively promoting fair trade such as Samadi Justice Foundation, OXFAM-GB Indonesia, and Mitra Bumi Indonesia.

When most of the fair trade organization in Indonesia went to bankruptcy, one of a fair trade organization in the field of handicraft still do well. Foundation for the Development of the Indonesian Handicraft Producers that abbreviated as APIKRI still survive in implementing the ten principal of fair trade. APIKRI is founded on 1987 in Special Region of Yogyakarta, in 2000 APIKRI join the World Fair Trade Organization (WFTO) and in February 2016, APIKRI officially received the fair trade logo from WFTO after going through the auditing process.

The fact of APIKRI's success in implementing fair trade leads to the research question for this paper, which is "From APIKRI success how we can implement fair trade system in Indonesia?" This paper will try to identify the obstacles that appear when we implemented fair trade, also this paper will also give a statement about what it needs for a fair trade system to work in Indonesia, using APIKRI's success on implementing fair trade as the case study.

Analysis

In modern era, no single state can fulfill its own needs in a field of energy, agriculture, or fisheries therefore they need to work with others, according to Hadiwinata, *the realization of the autarky condition make countries realize the importance of creating relations with other countries* (Hadiwinata, 2017, 89). One of many relations that a country can make is through trading relations, to make trading relations between countries easier and more efficient, countries then agree on the term of free trade.

Through free trade, countries were given a freedom to choose with whom they decided to have trading cooperation with, by using the comparative advantage principles that according to David Ricardo, *they can then exchange their goods for what is produced more cheaply elsewhere* (Burchill et al, 2005, 73). This comparative advantage principle definitely beneficial and efficient for most of countries, but the effect of finding goods that produced with the cheapest price causing most of the small producers in mostly developing countries suffering in order to produce a good and competitive product with a cheap price.

Conventional trade economy known as comparative advantages have been promised benefits for anyone who does free trade. Symbiotic mutualism, that's the classic trade theory jargon. However, confidence in this classical view became extinct because many countries, especially developing country suffered losses due to free trade (Yusida and Juwita P. R. Suwondo, 2014, 277).

Michael Barratt Brown argue that a trade supposed to be giving an advantage to the producers so that trading then could bring welfare to its producer (Hadiwinata, 2004, 57). Brown give a criticize to the free trade system, according to Brown, free trade tend to reduce all the production cost, and this cause the small producers to gain nothing from the trading process. Therefore, Brown suggested a new trading system named fair trade that will bring a benefit to the small producers. The fair trade system are basically a trading system that going against the conventional trade. Fair trade give a concern about the advantage of trade for the small producers with one of its principle is fairness.

When we talking about the success of fair trade system in Indonesia, we can take an example of APIKRI case, many factors contributed to the success of APIKRI. And from the APIKRI success, we also learned that despite their successes there's also many obstacles in implementing fair trade.

The obstacles in implementing fair trade

Fair trade is one of a non-conventional trade, therefore there'll be more obstacles and challenges in implementing fair trade rather than the conventional trade. Another challenge in implementing fair trade system in Indonesia is how this fair trade issues still categorized as an uncommon issues for most of the people in Indonesia (Sri, 28 December 2017, interviewed by Author).

a. Producers

Small producers in Indonesia tend to have a limited education therefore it is hard for them to access the information regarding fair trade that mostly described in English. Other than that, one of the problems in the small producers in Indonesia is the lack of entrepreneur spirit, since they have no passion on entrepreneur they have no plan about the future of the business nor able to identify the potential market well. The lack of their entrepreneur spirit affecting their willingness to fully contribute in implementing fair trade system. The limitation on capital also become the obstacles for the small producers, most of small producers tend to be categorized as the illegal business entity since they didn't have a good money management that makes small producers unable to receive credit from bank since they're unable to provide the bank with a transparent money management. The lack of capital also causing the small producers hesitant in making sample of their products even for marketing purpose.

b. Customer

Most of the local products and goods are often to be taken for granted by Indonesian customer. The lack of appreciation is one of the problem in Indonesian market, most of Indonesian customer tend to have more preference over import products rather than local brand

products. Therefore, it is hard and pretty challenging for Indonesian product to reach its domestic market.

c. Ten principles of fair trade

In order to get the label from World Fair Trade Organization or to implement the fair trade system itself, we must followed the ten principles about fair trade. Most of the small producers in Indonesia find it complicated and hard to comply with these ten principles of fair trade.

Another issue about this fair trade system is that when small producers want to receive the logo of fair trade, they need to pay a pretty expensive price so an organization like FLOCERT and WFTO able to do the auditing process and make sure that the ten principal of fair trade being complied by the small producers.

What should be done?

By knowing the obstacles that happening in implementing fair trade in Indonesia, we then could also identify things that needed to be done in order to implementing fair trade system.

a. Empowerment for small producers

From the side of the producers, one of the problem is the lack of entrepreneurship spirit, most of small producers in Indonesia tend to have no idea about how they going to plan their business in the future. Therefore, the government and the fair trade organization like APIKRI should encourage the

small producers to have a passion on its job by providing workshops and trainings that will be useful for the development of small producers. The government can also give more concerns about the education of the small producers by providing classes about foreign language and the basic use of internet. The other problems of the small producers are the limitation on capital, and we realized that by complying the fair trade system, the limitation of capital can be solved. The third principle of fair trade, *fair trading practices* is encouraging customer to give the first term payment up to 50% to help the small producers in buying the necessities that needed for producing the products. As we know, it's quite challenging for Indonesian products to reach domestic market, therefore one of the solution is to find a way to international market. But the consequences about international market is how there'll be more competition on the market, therefore by providing workshops and trainings and capacity buildings for small producers, hopefully the small producers able to create a unique and competitive products and able to maintain the good qualities of its products.

b. Being active

By the success of APIKRI we can learned how APIKRI actively involved in lots of fair trade forum. To work together with people that has a same vision give an advantage for APIKRI, as we know fair trade issues are still not common in Indonesia, therefore it'll be more challenging to sell a

product with a higher price than the market to the people that have no concerns about the fairness and human rights value over the production process. So, by APIKRI being actively involved in many fair trade events, it'll be easier and more efficient to find a suitable and potential customer that willing to buy fair trade products with their awareness of fair trade value. Most of the small producers also find that the implementation of ten principles of fair trade quite handful and complicated, and that's one of APIKRI's role to encourage, guiding and helping the small producers to comply ten principles of fair trade. By being active to involve in lots of fair trade conference, APIKRI able to meet their potential customer across the world, and by being actively participated on a conference like this, APIKRI also learn more about new trend. For example, APIKRI realized how the European market are having a concern on the environment, with this idea and the fair trade principal number eight about the environmental sustainability, APIKRI then get an idea to make an eco-friendly craft using the leaf, aloe vera, and even using a reusable material that used to be thrown away before.

c. Government contribution

Government also play a role for the success of fair trade implementation, if we take a look in APIKRI case, the local government of Bantul, are being supportive with APIKRI. The local government of Bantul often gives lots of information to APIKRI about the international or local forum

or conference related with fair trade. Which in the case of APIKRI, by being active on a fair trade forum like this, given the opportunity for APIKRI to develop their business. APIKRI also find that government are also giving contribution by providing fund that can be used for creating workshops, trainings and capacity buildings for small producers. Most of all, government take a role in providing the infrastructure, so the distribution of goods can do well.

d. The promotion of fair trade

Fair trade is a non-conventional trade, despite how good the main idea of fair trade itself, we can't expect people to have a concern about fair trade or support fair trade if they have no idea about fair trade itself or even knew the existence of fair trade. A solution that could be done about the lack of knowledge on fair trade is we can use the social media. Social media is one of a good way to promote issues, therefore we could use this opportunity to promote fair trade especially to the young generation. It will be a good thing for a young generation to have a good knowledge about fair trade.

Conclusion

From the research that have been done, we then able to identify the obstacles and challenges that occur when we about to implement fair trade system, after knowing the obstacles, we can figure out a few solutions to solve the obstacles we're facing. These solutions itself are also the answer why APIKRI can survive with the fair trade system in Indonesia.

From this paper we also realized the importance of actors that involved such as producers, customer, government and the organizations itself. All of the actors have a different role and to make fair trade works we need all actors to work together and maximize their potential. To make this fair trade system applicable, we need to have producers that willing to work hard and understand the basic principles about fair trade. The government and the fair trade organization are need to play its role to support the success of fair trade system by empowering the small producers through workshops, trainings and capacity buildings, also promoting fair trade value in Indonesia in order to raise awareness about fair trade in Indonesia, and to build as many networks as possible through their involvement in fair trade forums or other events related with fair trade.

To implement this fair trading system in our daily life is pretty much a challenge, but once this system already worked, it will bring an advantage for the small producers or farmer that tend to be treated unfair or having the negative impact from free trade. To comply ten principles of fair trade is quite challenging because

in order to do and complying fair trade, people must have changed their behavior. For people to change their behavior it will take lots time and efforts, but from APIKRI case, how they success in complying ten principles of fair trade, we can learn that it's not impossible to implement a fairer and better trading system in Indonesia.

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