

Astrid Ohnmacht

*Fair trade and poverty alleviation*

*A critical analysis on the impact of fair trade networks*

Editorial



Aalener Schriften zur Betriebswirtschaft  
hrsg. von Prof. Dr. Robert Rieg

Band 1

**Astrid Ohnmacht**

**Fair trade and poverty alleviation**

A critical analysis on the impact of fair trade networks

Shaker Verlag  
Aachen 2007

**Bibliographic information published by the Deutsche Nationalbibliothek**

The Deutsche Nationalbibliothek lists this publication in the Deutsche Nationalbibliografie; detailed bibliographic data are available in the Internet at <http://dnb.d-nb.de>.

Copyright Shaker Verlag 2007

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without the prior permission of the publishers.

Printed in Germany.

ISBN 978-3-8322-6457-4

ISSN 1865-2379

Shaker Verlag GmbH • P.O. BOX 101818 • D-52018 Aachen

Phone: 0049/2407/9596-0 • Telefax: 0049/2407/9596-9

Internet: [www.shaker.de](http://www.shaker.de) • e-mail: [info@shaker.de](mailto:info@shaker.de)

*for Jana*



## *Table of Content*

<b>TABLE OF CONTENT</b> .....	<b>5</b>
<b>ACKNOWLEDGEMENT</b> .....	<b>9</b>
<b>FOREWORD</b> .....	<b>11</b>
<b>ABSTRACT</b> .....	<b>13</b>
<b>LIST OF ABBREVIATIONS</b> .....	<b>15</b>
<b>LIST OF FIGURES</b> .....	<b>15</b>
<b>CHAPTER 1 - INTRODUCTION</b> .....	<b>19</b>
<i>AIM</i> .....	21
<i>OBJECTIVES</i> .....	21
<i>HYPOTHESIS</i> .....	21
<b>CHAPTER 2 - METHODOLOGY</b> .....	<b>25</b>
<i>RESEARCH APPROACH</i> .....	25
<i>RESEARCH STRATEGY</i> .....	26
<i>TIME HORIZONS</i> .....	28
<i>CONSTRAINTS AND LIMITATIONS</i> .....	28
<i>DATA COLLECTION METHOD</i> .....	29
<i>DATA REQUIRED</i> .....	29
<i>SECONDARY DATA</i> .....	30
<i>SOURCES OF SECONDARY DATA</i> .....	32
<b>CHAPTER 3 - BACKGROUND: POVERTY AND FAIR TRADE</b> .....	<b>37</b>
<i>POVERTY AND INEQUALITY</i> .....	37
<i>The cause of poverty and inequality</i> .....	37
<i>Measurements of inequality and poverty</i> .....	38
<i>Poverty groups</i> .....	40
<i>FAIR TRADE</i> .....	41
<i>Defining fair trade and its purpose to reduce global poverty</i> .....	42
<i>The fair trade movement</i> .....	43
<i>Standards and Instruments</i> .....	44
<i>Efficiency of fair trade</i> .....	47
<i>Working in and against the market</i> .....	48

<b>CHAPTER 4 - IMPACT OF FAIR TRADE ON PRODUCER AND NON-PRODUCER GROUPS.....</b>	<b>53</b>
<i>DIRECT AND INDIRECT IMPACT OF FAIR TRADE .....</i>	<i>53</i>
<i>DIRECT IMPACT THROUGH THE PARTICIPATION IN FAIR TRADE .....</i>	<i>59</i>
<i>Income .....</i>	<i>59</i>
<i>Improved education .....</i>	<i>60</i>
<i>Female empowerment .....</i>	<i>61</i>
<i>Indigenous culture.....</i>	<i>62</i>
<i>Psychological benefit .....</i>	<i>63</i>
<i>INDIRECT IMPACT ON PRODUCER GROUPS .....</i>	<i>64</i>
<i>Benefits due to direct trade relationships .....</i>	<i>64</i>
<i>Support for Cooperatives .....</i>	<i>64</i>
<i>IMPACT OF FAIR TRADE ON NON-FAIR TRADE PRODUCER GROUPS.....</i>	<i>65</i>
<i>Impact on community .....</i>	<i>65</i>
<i>IMPACT OF FAIR TRADE ON POLICY MAKING .....</i>	<i>68</i>

<b>CHAPTER 5 - TRADE, LIBERALISATION AND POVERTY ALLEVIATION.....</b>	<b>73</b>
<i>LIBERALISATION AND ECONOMIC GROWTH .....</i>	<i>73</i>
<i>TRADE LIBERALISATION AND POVERTY ALLEVIATION.....</i>	<i>76</i>

<b>CHAPTER 6 - CASE STUDY: FAIR TRADE AND THE FIGHT AGAINST POVERTY .....</b>	<b>81</b>
<i>DEBT CRISES AND NATIONAL LIBERALISATION POLICIES .....</i>	<i>81</i>
<i>MARKET LIBERALISATION AND POVERTY.....</i>	<i>83</i>
<i>COFFEE CRISIS .....</i>	<i>83</i>
<i>IMPACT OF PARTICIPATION IN FAIR TRADE NETWORKS .....</i>	<i>85</i>
<i>DIRECT IMPACTS OF FAIR TRADE ON PRODUCER GROUPS .....</i>	<i>87</i>
<i>Income .....</i>	<i>87</i>
<i>Social premium.....</i>	<i>88</i>
<i>Improved education .....</i>	<i>89</i>
<i>Female empowerment .....</i>	<i>90</i>
<i>Indigenous culture.....</i>	<i>90</i>
<i>Psychological benefit .....</i>	<i>90</i>



<i>INDIRECT IMPACT ON PRODUCER GROUPS</i> .....	91
<i>Impact on national policy level</i> .....	92
<i>IMPACTS OF FAIR TRADE ON NON- PRODUCER GROUPS</i> .....	92
<i>Impact on community and non-fair trade farmers</i> .....	92
<b>CHAPTER 7 - CONCLUSION AND RECOMMENDATIONS</b> .....	<b>97</b>
<i>CONCLUSION</i> .....	97
<i>RECOMMENDATIONS</i> .....	101
<i>LIMITATIONS OF THE RESEARCH</i> .....	102
<i>FURTHER RESEARCH</i> .....	102
<b>REFERENCES</b> .....	<b>105</b>
<b>ABOUT THE AUTHOR</b> .....	<b>113</b>



## *Acknowledgement*

I would like to express my gratitude to all those who have supported me in writing and production of this study. First of all, I would like to thank my tutor Andrew Harrison for his guidance and stimulating advice. I am obliged to Robert Rieg and the SHAKER editorial for giving me the opportunity to publish my work and make it available for further discussion. Anke Ohnmacht, Heiko Wrobel and Yasir Akhtar have enriched my work especially in the final stage of the completion.

Special thanks go to my dear friend and mentor Joseph Onibokun who continuously encouraged me with valuable suggestions and taught me to work hard and focus.



## *Foreword*

This dissertation is of a very high overall standard. Its main strengths are its coherent methodological framework, its extensive use and critical evaluation of literature and the quality of its analysis. The fair trade issue is treated perceptively, particularly in relation to the qualitative evaluation of the implications for fair-trade producers. There is also scholarly attention to detail. Much of the material is drawn from disparate sources that have not been generally juxtaposed in the existing literature. The dissertation therefore provides a distinctively different perspective on the issues.

Andrew Harrison, Teesside University



## *Abstract*

This paper uses a combination of explanatory, descriptive and case study research strategy to evaluate the potential of fair trade to reduce poverty in developing countries. The rapidly growing market and the increasing acceptance of fair trade as a developmental model have already led to fundamental changes in the approach of the fair trade movement to address inequality and global poverty. The paper identifies the direct and indirect impact of fair trade on producer and non-producer groups in relation to national and international policy decision making.

As fair trade operates within and against the current free trade market, the relationship between liberalisation policies and economic performance as well as the effect of trade on inequality and poverty in developing countries are analysed. It appears that open market policies have the potential to highly contribute towards income growth which tends to increase inequality and poverty on the short run. If complemented by social protection policies and the necessary institutional infrastructure trade liberalisation has the potential to promote poverty alleviation.

Based on these findings, the paper concludes that fair trade networks provide the potential in promoting poverty alleviation through economic, social and environmental development. But given the current mechanism and limitations, fair trade cannot sufficiently address this issue. However, existing research studies on fair trade networks provide a valuable source to design effective measures to global poverty reduction through trade.





### *List of abbreviations*

ATO	Alternative Trade Organisation
CAP	Common Agricultural Policy
CNOC	National Network of Peasant Coffee Organisation
DFID	Department for International Development
EFTA	European Fair Trade Association
FLO	Fairtrade Labelling Organisation
IFAT	International Federation for Alternative Trade
ICA	International Coffee Agreement
ILO	International Labour Organization
MNE	Multinational Enterprises
NEWS	Network of European World Shops
NGO	Non-governmental Organization
PTC	Peasant Training Centre
TPG	Total Poverty Gap
UK	United Kingdom
UNCTAD	United Nation Conference on Trade and Development
WB	World Bank
WTO	World Trade Organization

### *List of figures*

	Page
Table 1. Issues faced by small farmers and fair trade solutions	49
Table 2. Summary of impact studies on fair trade producer	57
Table 3. Debt reductions in Mexico during 1983 and 2003	82
Table 4. Comparison of role of INMECAFE and fair trade	85