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Fair Trade – Is It Really Better for Workers? A Case Study of Kaisa Grass Baskets in Bangladesh

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FAIR TRADE – IS IT REALLY BETTER FOR WORKERS?
A CASE STUDY OF KAISA GRASS BASKETS IN BANGLADESH

by

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ABSTRACT

This paper analyzes the extent to which fair trade organizations increase wages for rural poor women in Bangladesh. Fair trade is a fusion of market-oriented business with grass-roots activism attempting to reduce poverty through market mechanisms by creating trading partnerships between poor artisans and rich consumers. The intent of fair trade organizations is to return a greater share of value-added to the artisans as wages or other non-monetary benefits. Information for this study was collected through interviews with a variety of fair trade organizations, staff and artisans in Bangladesh over the summer of 2005. To test the hypothesis that fair trade organizations increase incomes for the rural poor, particular attention was given to an NGO, a Non-Profit company, and a For-Profit business that export nearly identical kaisa grass baskets. Worker incomes hover around subsistence levels and are not very different from what agricultural day laborers in the surrounding areas receive. The For-Profit business pays more in wages than the NGO and Non-Profit company, bringing into question the effectiveness of Fair Trade as a mechanism for raising incomes of the poor in low income countries such as Bangladesh .

Key words: fair trade; Asia, Bangladesh

I. INTRODUCTION

This paper presents findings from research performed over the summer of 2005 with fair trade organizations that export kaisa grass baskets from Bangladesh. Additional information regarding the cost structure was gathered in the fall of 2005 from the main buyer of the baskets of two of these fair trade organizations. General information was gathered from interviews with senior-level managers and artisans. For the case studies, particular attention was given to an NGO, a non-profit company, and a for-profit business. The objective is to compare and contrast these organizations as they relate to the cost structure, production process of kaisa grass baskets, and wages paid to artisans.

“Fair trade” is a partnership between artisans in poor countries and customers in rich countries whose goal is to provide poor artisans a means to ensure a sustainable livelihood through long-term business partnerships between artisans, exporters, retailers, and customers in which the artisans receive a greater share of the final selling price than mainstream businesses provide. This paper does not purport to define the concept of “fair trade” in a rigorous manner. Rather, it provides an empirical look at self-described fair trade organizations to see if they achieve the goals which virtually all definitions of the movement seek to achieve – an improvement in the incomes and welfare of the artisans involved. Accordingly, we compare “fair trade” production of a particular product – kaisa grass baskets – with “normal” for-profit production of this same product in order to compare outcomes for the workers who are the supposed beneficiaries of fair trade production and marketing practices.

It should be noted that this paper presents only one example of fair trade production and therefore cannot be taken as indicative of outcomes in production of other fair trade products or in other countries. However, it is instructive the look at the division of value added in this example since it is one where comparisons to non-fair trade production and marketing can be readily made.

II. HISTORICAL BACKGROUND AND STRUCTURE

The concept of fair trade was pioneered in the post-World War II era as a means to promote alternative trading partnerships between rich customers and poor artisans. (See Morris 1999 and Jones, Comfort and Hillier 2004) The structure of the movement is made up of several components the most important of which are grass roots organizations in the poor countries of the world focused mainly on producer groups that make handicrafts or harvest agricultural products for export. A second component is comprised of buyers, importers, wholesalers, and retailers based in rich countries. These two components attempt to provide a framework for trading partnerships based on trust and mutual respect, not only on profit (Leclair 2002). The buyer organizations are also known as Alternative Trade Organizations and have joined with the producer groups to form a third component of networks and umbrella groups which bring together producers and buyers, in order to establish and enforce standards and to provide certification for some fair trade products. A final component is the growing number of mainstream supermarkets and shops that are expanding their product lines to include fair trade items (Moore 2004).

The concept of fair trade has grown from its humble origins towards integration into the mainstream market. Customers of McDonalds in some parts of New England will soon be drinking “coffee that comes from organic beans and is certified Fair Trade because it meets higher standards in the treatment of coffee workers” (Warner 2005). Employees of Aveda, an environmentally friendly beauty-products company, will wear organic cotton tee shirts and fair trade accessories. People Tree, the company providing the fair trade items, “is the perfect fair trade fashion label for us to partner with because we share the same values – respect for the environment and for people” (Paulusz 2005). The Green Mountain Coffee company, an ethically and environmentally conscious company that sells fair trade coffee, needs to expand and compete with mainstream corporations like Dunkin’ Donuts, Nestle, and Procter & Gamble just to survive (MarketWatch 2004).

Traditionally, the fair trade movement has operated at the fringes of the rest of the mainstream global economy. As fair trade expands beyond the high-end handicrafts and niche beverages markets, it “had to adopt better business practices, ... improving quality, customer service and product offerings to customers” (Randall 2005). In other words, even if fair trade companies have the “right” attitude and are motivated by a desire to ensure justice and fairness to poor people, they have had to adapt to mainstream business tactics to expand. They have had to become professionally managed, which also implies a need for business strategy, branding, profitability, distribution models and operational efficiency (Randall 2005). These terms connote big business and global capital more than ethical and environmental awareness. Nevertheless, there are signs that the original concept of fair trade can exist even in mainstream shops because of its increasingly market-oriented approach. There are studies of a large department store (Prasad, Kimeldorf, Meyer and Robinson 2004) and a coffee chain (de Pelsmacker, Driesen and Rayp 2005) showing that customers in the mainstream markets are willing to pay a higher price for fair trade products and could explain why mainstream companies are expanding to include such products.

Much of the debate in rich countries regarding fair trade has centered on the demand side of the trading relationship. Fair trade organizations focus on selling high quality items to conscientious buyers and although they speak about providing a fair wage to producers, there is some sense that the supply side is not receiving as much attention (Scrase 2003). Even if fair trade may provide an income for poor artisans, fair trade organizations need to respond to modernized, fashion-conscious, and fickle customers who are wealthy. In the end, the artisan working long hours in a poor country to supply an order of a quaint handicraft for export remains poor, despite the noblest of intentions of the fair trade importers. In some cases, even if there is a long-term partnership between the buyer and the artisans, the structural problems of poor countries means that poverty and unemployment will not be resolved through fair

trade. In such a scenario, producers and artisans of the global south are doomed to exist in a “marginalised existence determined by the ever-changing desires of a whimsical global consumer market” (Scrase 2003). This issue will become a larger one, as fair trade organizations move towards mainstream marketing techniques to ensure their own survival. Additionally, the fair trade movement risks being swallowed up since “alternativeness itself runs the risk of commodification” despite attempts to ensure fair labor and ethical business practices (Hughes 2005).

A major claim of fair trade supporters is that the middleman will disappear as the supply chain is shortened. This aspect of fair trade has been studied, especially for fair trade coffee, which does ensure a basic level of income to farmers but does not re-structure the supply chain or truly remove the middleman (Auroi 2003). Significant amounts of money remain in the “pockets of retailers and middlemen, including nonprofit organizations” (Alsever 2006).

The next section will examine these issues in the case of production and marketing of kaisa grass baskets from Bangladesh to the United States.

III. CASE STUDIES OF FAIR TRADE KAISA GRASS BASKETS

This section of the paper will synthesize data collected from an NGO, a non-profit company, and a for profit business in Bangladesh that export handmade kaisa grass baskets. Both the NGO and the non-profit are self-described fair trade organizations. Information gathered through informal interviews with the management of these organizations took place during visits to their projects and offices. The main North American buyer of baskets from two of the organizations provided information on the final cost structure of the baskets. The purpose of this information is to ascertain what the organizations were actually paying in wages,

understand the administrative structure and operating procedures of each organization, and to observe if artisans were actually receiving higher incomes.

A. HAJIGANJ HANDICRAFTS – NGO

Situated in Nilphamari, northern Bangladesh, Hajiganj Handicrafts was established to empower and create permanent employment opportunities for women. It is a project of a local NGO that receives orders from Ten Thousand Villages, a large fair trade company in North America. The women live within walking distance of the project office, and most are involved in subsistence farming while their husbands are agricultural day laborers or rickshaw pullers.

Hajiganj Handicrafts was established as a project of the Job Creation Program of the Mennonite Central Committee - Bangladesh in 1995 when 25 women were trained to make baskets for a Ten Thousand Villages order. The project did supply some orders, but never developed past the pilot project stage. In 2003, a new manager was hired and the project was re-structured. Around the same time, the projects of the Job Creation Program were spun-off as an independent non-profit entity, named Prokritee. In November 2003, Hajiganj Handicrafts became a project of Prokritee. All expenses relating to rent, salaries, administration, and others average Taka 12,000 (roughly US\$ 190) each month. Prokritee pays for these costs but then makes deductions when payments are received from Ten Thousand Villages. The project exported around 13,000 baskets from 1995 to 2003. Since deficits had accumulated during these years, profits after 2003 were used to pay these off. Presently, the project is making money. It exported 7,500 baskets during the March 2004-February 2005 year, amounting to Taka 472,000 (roughly US\$7,600) in sales to Ten Thousand Villages. Due to this growth, Prokritee gave the project a clean slate and all previous financial obligations were written off in February 2005.

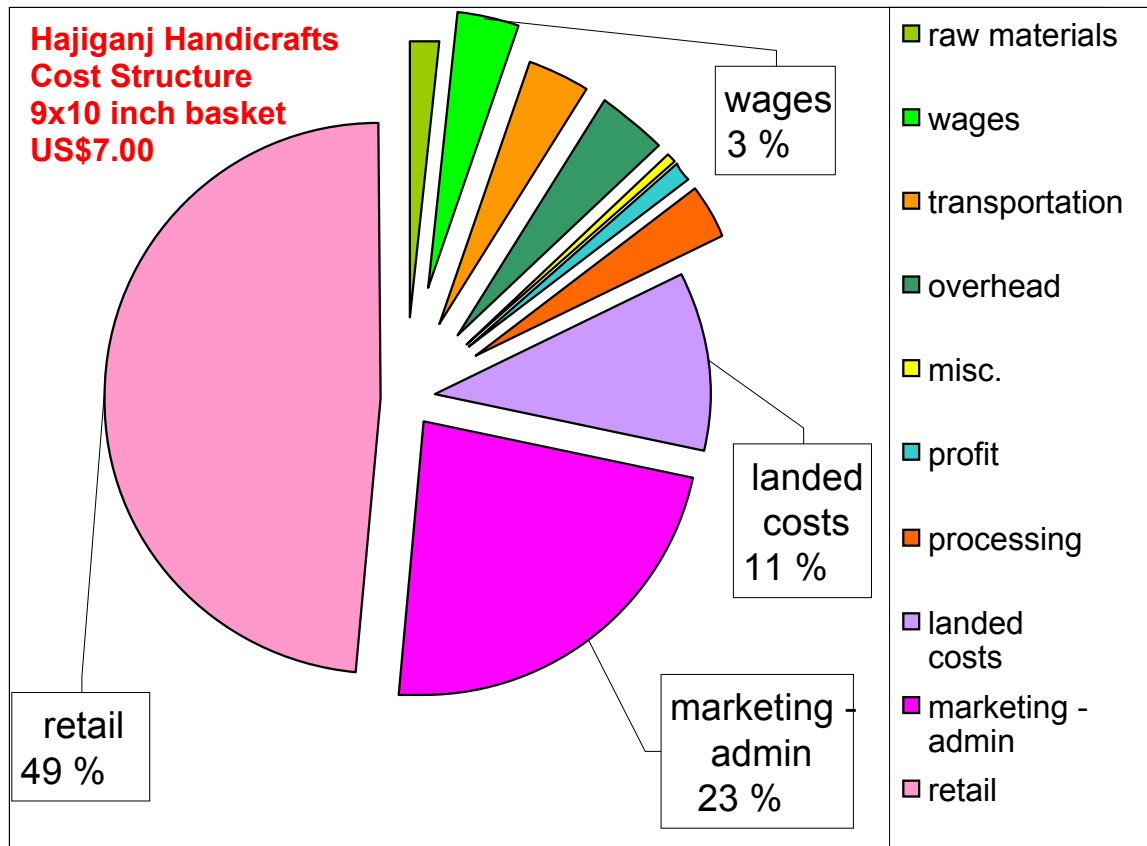
A Manager is responsible for all activities and administers the project. This person reports directly to the Executive Director of Prokritee. There are two people employed as helpers and three supervisors who work with the artisans. The supervisors are in charge of ensuring communication with the 135 women who have received training in basket making. The most important fair trade practice being followed is the payment of fair wages, established at Taka 30 (roughly US\$0.50) for a daily wage. In addition, training is provided on topics such as raw material management and skills development.

The entire production process is taken care of by the Manager, who buys all the raw materials, divides up the workload amongst the artisans, collects and checks the quality of the baskets, sends shipments to Dhaka and takes care of the administrative tasks of the project. A year's supply of kaisa grass is purchased when the weather is dry in Tudirhat, a border town 90 km away. The kaisa grass is stored at the project office and at various places near the village of Hajiganj. Prokritee does all marketing and communication work with buyers. When an order is received, Prokritee provides an advance to the project, equivalent to 70% of the amount needed to pay for raw materials and wages. After the order is sent to Dhaka and received by the buyers, the rest of the payment is made to the project.

The following pie chart details the cost structure of a 9 x 10 inch basket.¹ The suggested final sale price by Ten Thousand Villages is US\$7.00, with wages to the producer amounting to US\$ 0.26, or 3.6 % of the final price. The landed costs represent all costs incurred from the time the baskets are on the ship at the port in Chittagong until they arrive at Ten Thousand Villages in Pennsylvania. The marketing-admin costs are what Ten Thousand Villages adds to pay for their overhead. Retail costs are the markup added by the local Ten Thousand Villages store at the final point of sale.

¹ Detailed information for all basket sizes made for export by Hajiganj Handicrafts is available upon request.

Figure 1 – NGO Cost Structure for 9x10 Basket



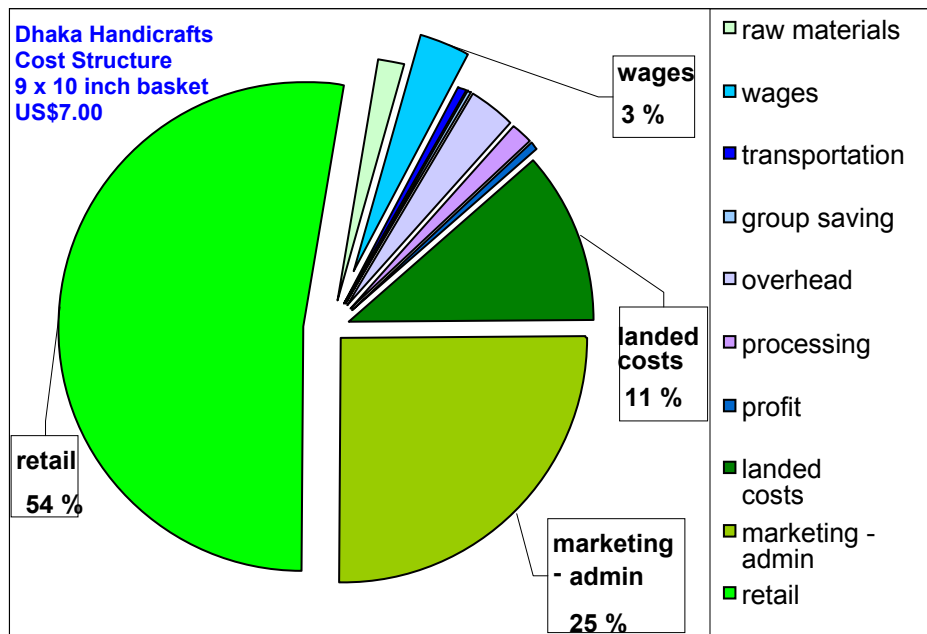
B. DHAKA HANDICRAFTS – NON-PROFIT COMPANY

Dhaka Handicrafts is a non-profit company that was originally established as an NGO by *Enfants du Monde* (EDM), a large international NGO based in Switzerland. It was formed in 1999 when EDM transformed their handicraft project in Bangladesh into a private non-profit company limited by guarantee. There are no shareholders or owners in the company, but an honorary Board of Trustees provides oversight and direction. The Board hires a Director to manage the day-to-day operations as per the policies and procedures of the company. Currently, there are 26 full-time employees working for the organization. Artisans, organized in independent producer groups, supply the orders. As the majority of the producer groups are located in Bogra, in northern Bangladesh, a field office is located there to coordinate

orders and communication with the producer groups. Currently the organization works with approximately 1,200 women in 23 producer groups. Of these, 15 groups, representing around 900 artisans, are in the Bogra area. The main objectives of the organization are to provide a steady income to the producers throughout the year, maintain high standards of quality and customer service, and ensure timely shipments.

Total export sales have averaged around US\$350,000 to US\$400,000 for the past few years. The average monthly wage received by artisans ranges between Taka 1,500 to Taka 4,000 (around US\$ 24 to US\$ 65) depending on the size of the group and the amount of orders. If there is any excess income at the end of the year, it is re-invested to support the objectives of the company. Excess income has varied between US\$7,000 to US\$18,000 for the last few years. In practice, artisan’s wages range from Taka 40 to Taka 75 a day due to the fluctuation of orders. The pie chart below shows, in percentage terms, the amounts of the total cost of a 9 x 10 inch basket. In this case, the basket has a suggested retail price of US\$ 7.00 at Ten Thousand Villages, with wages to the artisan being US\$ 0.23, or roughly 3.4 % of the final price.

Figure 2 – Non-Profit Cost Structure for 9x10 Basket



C. 'FOR PROFIT' HANDICRAFTS

This organization is a private business that exports handicrafts to mainstream and commercial buyers in Europe and North America. Their office is located in Dhaka, but they also operate a large warehouse in Bogra, the area in Northern Bangladesh where most of their producers work and where kaisa grass is readily available. Information was provided for the FOB Chittagong price of one set of baskets.²

'For Profit' Handicrafts was formed by three partners in 1997 as a company limited by guarantee under the Company Act. The main purpose is to generate a profit for the partners. Around 1,500 producers supply orders and are members of independent groups that are not legally part of the business. 'For Profit' Handicrafts exports nearly 1,500 types of kaisa grass, cane, bamboo, and hoogla grass handicrafts. The company exported around US\$600,000 to \$800,000 during the past three years.

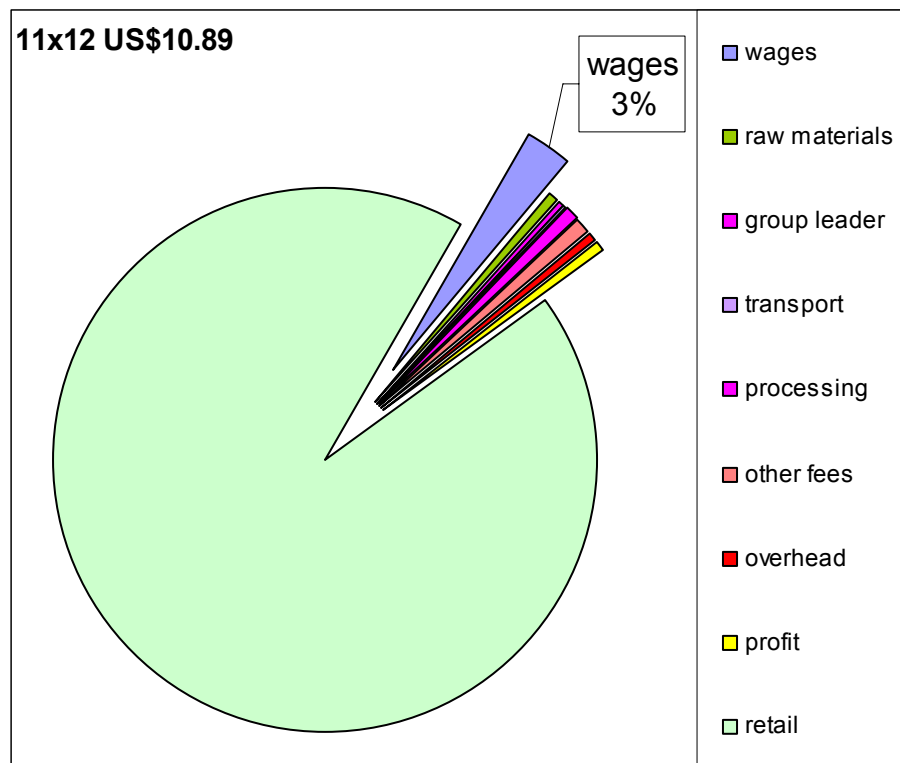
This business provides a wage to producers which has been established at Taka 70 (approximately US\$1.10) per day. The initial step in the process of supplying an order is to provide training to potential producers in the procurement, handling, and storage of raw materials. Workshops are conducted to train key members of a new group in cooperation and organization, raw material selection, and management and skills training to make high quality baskets. These newly trained producers then train the rest of the members of their group.

When an order for baskets is received, management in Dhaka decides which group will supply the order. The group leader is notified and picks up the specifications in Dhaka and subsequently divides the order among sub-groups for production. An advance is provided to procure raw materials, which are stored at a common warehouse in Bogra. The warehouse, managed by the group leaders, is also

² The organization requested anonymity so will be referred to as 'For Profit' Handicrafts.

used to store finished goods before shipment to Dhaka. The group leader receives 10% of the production price as wages and is responsible to collect raw materials from the warehouse, ensure production deadlines are met, and ensure timely delivery to the Dhaka office. Upon completion of the order, the final products are sent to Dhaka for a final quality control check and payment by check is provided to the group leader. The office in Dhaka then processes the entire order as per the customer’s specifications, generally through large shipping containers sent from the port of Chittagong. Some buyers require special packaging in cardboard (used, new or recycled), others need tags placed on the product in a specific manner, while others specify the type of shipping container to be used. In this example, the buyer has specified that it should be packaged in a set of three, the sets should be placed in four sets of three in a cardboard carton, and it be shipped in a forty-foot container from Chittagong. The pie charts in Figure 3 reflects a final price of US\$10.89, though it can sell for as much as US\$15.25 a range which varies from 5 to 7 times the FOB Chittagong price. With wages at US\$ 0.31 per basket, this ranges from 2% to 3% of the final price.

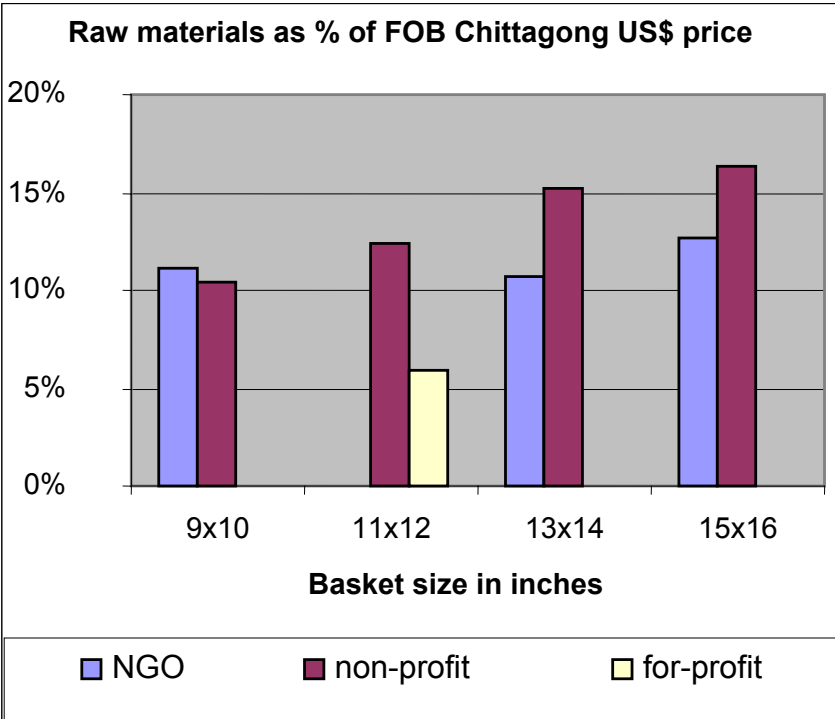
Figure 3 ‘For Profit’ Handicrafts, Cost Structure of an 11x12 inch basket



D. COMPARISONS

The following two figures show information regarding wages and raw materials. For these figures, wages and the price of raw materials per basket are compared to the listed FOB Chittagong price in US Dollars. The buyer, Ten Thousand Villages in this case, pays this amount to the exporter and arranges with a shipping company to deliver the baskets to a port where Ten Thousand Villages will pick up the shipment.

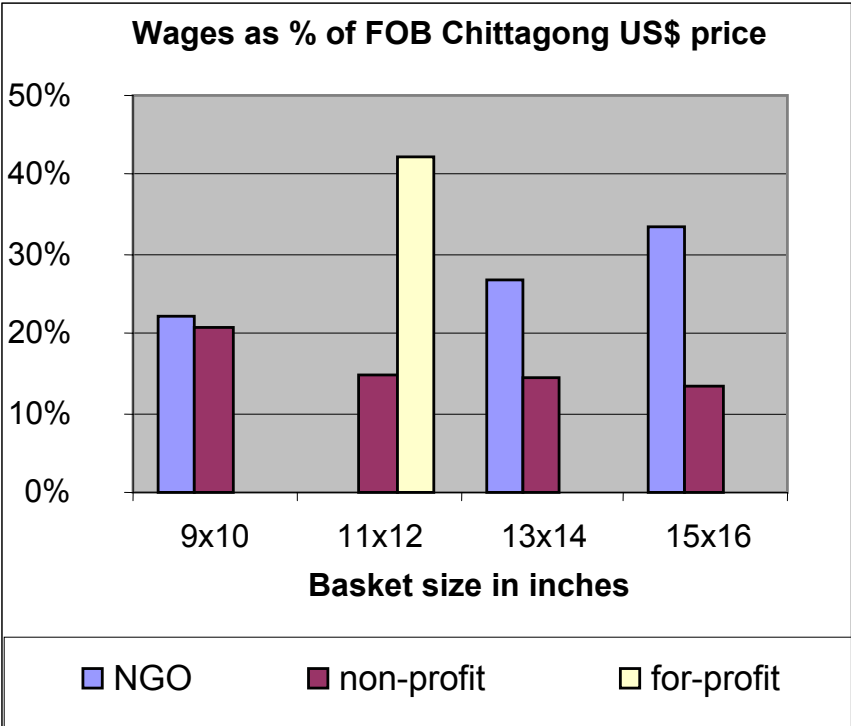
Figure 4 – Raw Materials as Percent of FOB Price



In the above figure, the Non-Profit pays more for raw materials than the NGO as the size of the basket increases. Interestingly, the NGO provides all raw materials and stores them in a central location, while the Non-Profit has delegated the procurement and storage of raw materials to the group secretaries. Apparently, more money is being spent on raw materials by the Non-Profit due to storage or handling

issues. Regarding the For-Profit company, raw material expenses are much less, due to the centralized warehouse operated by group leaders and the proximity of the groups to the warehouse. From this data, the for-profit business is the most efficient of the three in terms of raw materials management.

Figure 5 – Wages as Percent of FOB Price

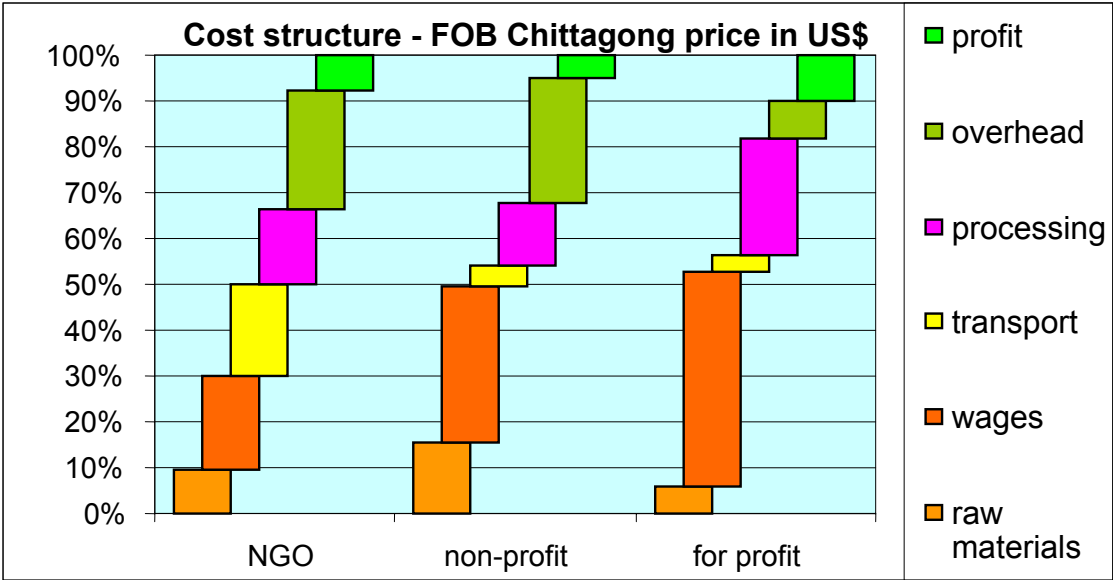


The above figure shows that the NGO pays more in wages and the Non-Profit pays less as the size of the basket increases. For the Non-Profit, the decrease in wages paid as the size of basket increases is due to the fact that the larger basket needs less skill and is less tedious to make, an assertion confirmed by the artisans. The numbers show precisely the opposite trend for the NGO. This trend could be due to the experience of the Non-Profit artisans in comparison to the relative inexperience of those working for the NGO. There is another correlation to the cost structure made by the Non-Profit, which has not been modified for several years. Since raw materials are purchased and stored by the group secretaries, they have become more efficient in

raw material management and are able to lower the actual cost but continue to collect the amounts established in the original cost structure. Concerning the For-Profit, it is clearly paying more in wages per basket than the other two organizations. More information regarding wages and raw materials as a percentage of the final selling price of each basket is available in the Appendix. The same trends between basket size and percentages, observed in the previous two figures, are observed.

The following figure shows the cost structure of the FOB Chittagong Price in US\$. The For-Profit pays more for processing the shipments and less for administrative overhead when compared to the NGO and Non-Profit. The NGO, in contrast, pays considerably more for transport than the other two.

Figure 6 – Cost Structure for Baskets FOB Chittagong

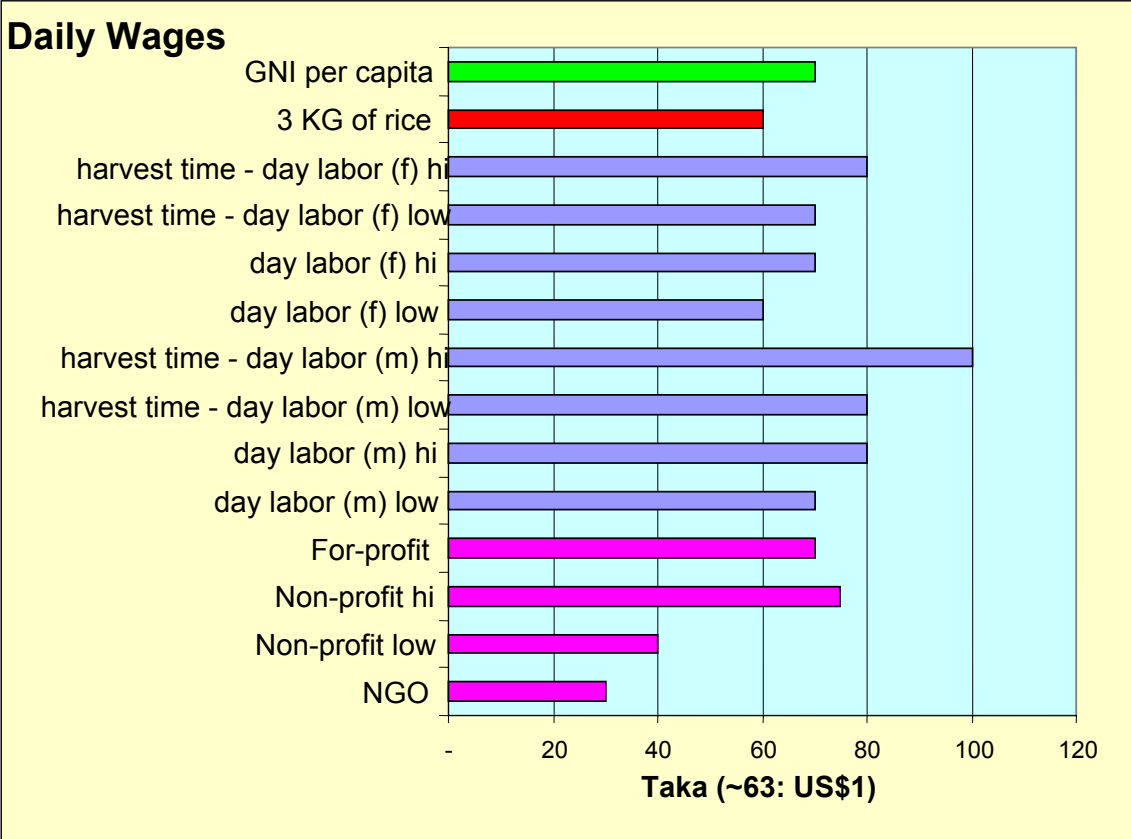


DAILY WAGES

Wages paid to artisans is a direct measure of the impact of fair trade organizations on the welfare of workers. The target of Taka 30 a day paid to artisans by the NGO,

compared to the range of Taka 40 to 75 a day paid by the Non-Profit and the target of Taka 70 a day by the For Profit shows a wide variety in the amounts of daily wages.

Figure 7 – Wage Comparisons



One way to measure the impact of these organizations is to compare wages paid to people in the surrounding areas not working with the fair trade organizations. Day laborers in rural areas where the Mennonite Central Committee is active make around Taka 70 to 80 a day and Taka 80 to 100 a day during harvest. This differs for women, who make Taka 60 to 70 a day and Taka 70 to 80 during harvest time (Naha 2005). Another comparison is the US\$1.10 daily average national income, derived by simply dividing the US\$400 per capita gross national income (World Bank 2005) into the 365 days in a year, which is about Taka 70 a day. These numbers indicate that the three fair trade organizations provide wages that hover around subsistence levels.

They do not differ significantly from daily wages paid in the surrounding areas or from the national average.

IV. CONCLUSIONS

One of the prominent claims of fair trade supporters is that fair wages are paid to poor artisans. In the three case studies, artisans receive a subsistence income equivalent to 2% to 6% of the final selling price of baskets. This range fits within the amounts paid by other fair trade products. In other parts of the world, cocoa farmers receive US\$0.03 of the US\$3.49 price of an organic fair trade chocolate bar weighing 3.5 ounces (nearly 1% of the final selling price) while farmers receive US\$0.24 for each one-pound bag of fair trade sugar that sells for US\$3.79 (nearly 6% of the final selling price) (Alsever 2006).

The three organizations appear to alleviate poverty at one level. Money is indeed going to poor women in the form of wages, but it is still not significantly different from the wages paid to an agricultural day laborer in the same area or from the averages reported nationally. One needs to keep in mind though, that these artisans do not have access to formal employment nor are they able to easily find informal jobs in their communities. The fair trade organizations provide them with a wage that they would not have received otherwise. Additionally, work as agricultural day laborers is not readily available nor is it available throughout the year (Naha 2005). In conclusion, fair trade organizations are providing subsistence income to poor women in rural areas, as well as the additional benefit of empowerment that women experience by being paid directly for their work.

There are other issues with fair trade regarding partnerships and the disappearing-middleman myth. Despite some interaction between artisans and buyers, long-term partnership between artisans and the buyers are not moving beyond the stage in which artisans are merely production units. These three organizations do

maintain some level of interaction with their foreign buyers, but overall they are not creating the long-term sustainable trading partnerships that are (in theory) a vital component of fair trade. The variety of middlemen involved in getting the baskets from the port in Chittagong to the customer in America or Europe absorb from 80% to 90% of the final price.

One could conclude that the For-Profit is doing a better job at paying higher wages than either the NGO or the Non-Profit. With wages being the main indicator used in this paper to measure the effectiveness of fair trade to reduce poverty, the For-Profit is the most effective.

The NGO and Non-Profit do, however, provide a better distribution of profits through the additional services of training in health, literacy, and gender awareness that enable the artisans to grow in areas outside of basket weaving. These two organizations also support women empowerment and some partnership with their buyers, something that the For-Profit is not doing. The two fair trade organizations may not be paying the highest amounts in wages, but they do have a thorough approach that focuses on the long-term benefit of the artisans.

APPENDIX

NGO - Hajiganj Handicrafts

Cost Structure of Kaisa Grass Baskets

	<u>9x10</u>	<u>13x14</u>	<u>15x16</u>
kaisa grass	5.00	8.00	12.00
palm leaf	2.50	4.00	5.00
Total Raw Materials	7.50	12.00	17.00
wages	15.00	30.00	45.00
transportation to Jute Works	16.00	16.00	16.00
admin overhead	19.00	22.00	25.00
Sub Total	57.50	80.00	103.00
tags	1.00	1.00	1.00
2% local community development	1.15	1.60	2.06
7% rejection (raw materials)	0.53	0.84	1.19
Total Costs	60.18	83.44	107.25
10% profit	6.02	8.34	10.73
Sale to Prokritee	66.19	91.78	117.98
5% Processing fee - Prokritee	3.31	4.59	5.90
15% Processing fee - Jute Works	9.93	13.77	17.70
FOB Chittagong	79.43	110.14	141.57
Listed FOB Chittagong price in US\$	1.09	1.80	2.17

Basket sizes are in inches.

Numbers are in Bangladeshi Taka, unless otherwise specified

Non-Profit Company - Dhaka Handicrafts

Cost Structure of Kaisa Grass Baskets

	<u>9x10</u>	<u>11x12</u>	<u>13x14</u>	<u>15x16</u>
raw materials	7.00	12.50	17.00	22.00
wages	<u>14.00</u>	<u>15.00</u>	<u>16.00</u>	<u>18.00</u>
production charges	21.51	27.71	32.94	39.57
transportation	2.00	3.40	4.39	5.22
group savings (5% of production cost)	1.24	2.89	1.96	2.36
production cost	<u>24.75</u>	<u>34.00</u>	<u>39.29</u>	<u>47.15</u>
overhead (50% of production cost)	12.38	17.00	19.65	23.58
	<u>37.13</u>	<u>51.00</u>	<u>58.94</u>	<u>70.73</u>
packing cost (16%)	5.94	8.16	9.43	11.32
	<u>43.07</u>	<u>59.16</u>	<u>68.36</u>	<u>82.04</u>
profit margin (5%)	2.15	2.96	3.42	4.10
	<u>45.22</u>	<u>62.12</u>	<u>71.78</u>	<u>86.14</u>
FOB Chittagong	45.22	62.12	71.78	86.14
Listed FOB Chittagong price in US\$	1.09	1.63	1.80	2.17

Basket sizes are in inches.

Numbers are in Bangladeshi Taka, unless otherwise specified.

For Profit Business – ‘For-Profit’ Handicrafts
Cost Structure of Kaisa Grass Baskets

	11x12 inch basket	
	<u>Set of three</u>	<u>Single</u>
Raw materials	8.00	2.67
Wages	57.00	19.00
10% for group leader	6.50	2.17
7% for transportation to Dhaka	4.55	1.52
Sub total	76.05	25.35
Packaging materials	20.00	6.67
Other fees, transportation	14.67	4.89
	34.67	11.56
Sub total	110.72	36.91
Overhead (10%)	11.07	3.69
Profit (12%)	13.29	4.43
	24.36	8.12
FOB Chittagong Price	135.08	45.03
FOB Chittagong Price in US\$	2.18	0.73

Numbers are in Bangladeshi Taka, unless otherwise specified.

Raw Materials and Wages as Percent of the Final Sale Price

Raw Materials and Wages per Basket Size in US\$

	9x10	11x12	13x14	15x16
<u>Raw Materials</u>				
Hajiganj Handicrafts	0.12		0.19	0.27
Dhaka Handicrafts	0.11	0.20	0.27	0.35
"For-profit" Handicrafts		0.04		
	9x10	11x12	13x14	15x16
<u>Wages</u>				
Hajiganj Handicrafts	0.24		0.48	0.73
Dhaka Handicrafts	0.23	0.24	0.26	0.29
"For-profit" Handicrafts		0.31		

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