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Short Article

Can Fair Trade Fare Well for the Rural Poor?

“Potential Ways Out for the Poor Farmers” was discussed in a short article in the January issue of CGPRT Flash with a specific focus on Fair Trade, geographical indicators and organic farming. This article further elaborates on Fair Trade and briefly examines how far it can contribute to reduce rural poverty in Asia and the Pacific.

From a theoretical viewpoint, free trade, that is, the unrestricted exchange of goods and services is advocated as the most efficient mechanism to produce and distribute welfare among economic agents. While economists tend to agree that this may be true over the long term, short-term evidence of significant improvements in the situation of the Poor due to trade liberalization is rare. Free trade of agricultural and agro industrial products, for instance, remains more a rhetorical stance than a reality, a standpoint that has little impact on the current situation of the rural poor (Madeley, 2004; Ravallion, 2004).

Fair Trade, alternatively, is a concept that embeds the idea of justice in the exchange process. Because the terms of trade between developed and less developed countries are biased in favour of the more developed ones, Fair Trade proponents argue that actions should be taken to counteract uneven exchange. For instance, coffee growers receive 80 cents of the dollar per pound of coffee sold at 4 to 11 dollars in the USA, but could get up to 1.25 dollars per pound through Fair Trade (The Fair Trade Federation, 2000). As such counteraction involves not only the less developed countries that produce goods but also the developed countries that consume these goods; Fair Trade builds upon different trade relations. It is not aid but a way to provide people with earnings, to live decently, from the goods or services they produce, they sell or from the labour they put into the production of these goods.

Fair Trade by definition intends to benefit rural poor populations. It is reported to reach US\$ 400 million sales per year, with yearly growth of 30 per cent (Fair Trade Federation, 2000), and benefit 800,000 farmers (Global Exchange, 2004). However, it inherently has features that limit its wider application as a pervasive poverty alleviation mechanism for almost one billion rural poor in Asia and the Pacific, namely the products concerned, the size of the market and access barriers.

A limited range of products: Coffee, and to a smaller extent bananas, cocoa and tea are the only agricultural products exchanged under the Fair Trade principles (Reynolds, 2002). There is no Fair Trade for soybean, cassava, sweet potato or mungbean. Therefore, the room for rural poor populations living off agriculture is very limited since the commodities they produce are not in demand by the Fair Trade and other similar alternative networks' consumers.

The size of the market: The number of people in developed countries who are willing to contribute to the Fair Trade system limits the market. Fair Trade accounts for 0.01 per cent of the total value of goods globally exchanged. Handicrafts, jewellery, papermaking, pottery etc. are the most traded items, but they all compete for the same markets and clientele looking for exotic items. With the noticeable exception of coffee, traded items do not belong to the group of mass consumption items and therefore prospects are limited to some niche markets, at least on the short term.

Access Barriers: There is evidence, based on the large and long experience with Fair Trade coffee that educational levels (including speaking the requisite language, literacy), capital and labour resources influence the success of producers in establishing and maintaining connections to Fair Trade coffee networks (Reynolds, 2002). This indicates that the institution of Fair Trade agreements may create barriers that marginal populations who have limited education, no land or capital and a small labour force cannot overcome. Though Fair Trade wants to involve “the world's most economically disadvantaged artisans and farmers”, these disadvantages may foreclose the poorest rural segments from its benefits.

Given these constraints, there is little hope that Fair Trade would significantly improve the livelihood of most rural poor people. However, some basic “fair” principles that make up the backbone of Fair Trade remain valid such as fair wages, fair cost of land access, and fair share of margins. Fair policies implemented by fair policy-makers and enforced by a fair justice system could also fare well. The issue is to determine what is “fair”, and this has to be negotiated with the poor, so above all else, “fair sharing of decisions” should not be overlooked ■

Written by Dr. Robin Bourgeois, IS/DB Programme Leader, UNESCAP-CAPSA, Bogor, Indonesia.

(References available upon request)

Flash **BREAKING**

Costs of Food Insecurity

According to an FAO report on The State of Food Insecurity in the World, some 852 million people worldwide are chronically undernourished. In moral terms, just stating the fact that a person dies every 3.6 seconds as a result of hunger and malnutrition should be enough to prove that we cannot afford to allow the scourge of hunger to continue. Globally, each year that hunger persists at current levels death and disability will cost developing countries future productivity at a present discounted value of US\$ 500 billion or more.

FAO, 2004. Understanding Food Insecurity, <http://www.fao.org/newsroom>, (8 December 2004).

Net Aid vs. Military Expenditure

Development assistance accounted for an average of 0.59 per cent of government disbursements among the 22 OECD aid donors in 2002. Military expenditure in high-income countries represented 11 per cent of government spending, and 2.4 per cent of their GDP in 1998. In the low- and middle-income countries, military spending accounted for 12.3 per cent of government expenditure and 2.6 per cent of GDP in 1999. Total world military expenditure was \$ 794 billion in 2002, more than ten times net aid.

World Bank, 2004. Global Poverty Reduction Results Uneven, World Bank Report, <http://usinfo.stage.gov>, (23 April 2004), (Contributed by Naoko Nagai, Internship Student, UNESCAP-CAPSA).

Fighting Poverty in Asia: Mixed Success

The number of people living in extreme poverty dropped by 233 million between 1990 and 2002 in Asia. However, this figure masks substantial differences among countries. The People's Republic of China accounted for 75 per cent of this decline and Southeast Asia 48 million people. Unfortunately, the performance of South Asia was weaker, the number in extreme poverty was reduced by only 14 million, a low result compared to the fact that 1.5 billion people live in the region.

ADB, 2004. Poverty Remains a Major Challenge Despite Asia's High Growth, <http://www.adb.org/>, (Contributed by Naoko Nagai, Internship Student, UNESCAP-CAPSA).

Some Facts of GMO Research

In 25 countries studied by IFPRI, the public sectors have undertaken GM research for 45 different crops and the crops with the most modifications are rice, potato, maize and papaya. Eighty-five per cent of the genetic materials used in this research are derived from domestic public materials. Asian countries have GM products in all stages of the research pipeline. Despite this development, only the Philippines has approved a commercial feed crop (maize) for production. Korea has approved insect resistant maize and herbicide tolerant soybean.

IFPRI, 2004. Genetically Modified (GM) Crops: What is Being Grown, Where, and by Whom?, <http://www.ifpri.org/>.

Economic Openness Weakly Linked to Poverty Reduction

A study entitled "Looking beyond Averages in the Trade and Poverty Debate", tried to assess the relationship between poverty reduction and economic openness (trade liberalization). The empirical approaches used cast doubt on any presumption that greater openness to external trade is the key to rapid poverty reduction. Equally, doubt was cast on any presumption that trade openness hurts more poor people than it helps. Pooled data on spells of poverty reduction across countries and over time, matched with measures of the extent of trade openness, does not reveal any correlation between rates of poverty reduction and expanding trade volume. Focusing on the longest time periods available for each country, one can unearth a positive correlation between greater trade openness over time and rates of poverty reduction. However, the correlation is rather fragile, and the data is more suggestive of diverse impacts of trade openness on poverty. Based on the data available from cross-country comparisons, it is hard to defend the view that trade openness is, in general, a powerful force for poverty reduction in developing countries ■

Based on Ravallion, Martin, 2004. Looking beyond Averages in the Trade and Poverty Debate, Development Research Group, World Bank, <http://econ.worldbank.org/>.

Conserving Biodiversity

Scientists have identified about 1.4 million unique species of plants and animals on the planet and nearly every day, a new species is added to the list. This agricultural biological diversity consists of countless farmed plants that feed and heal people, crop varieties and aquatic species with specific nutritional characteristics, livestock species adapted to harsh environments, insects that pollinate fields and microorganisms that regenerate agricultural soils. Biodiversity is just as important on farms and in fields as it is in deep river valleys or mountain cloud forests. However currently, four plant species, namely, wheat, maize, rice and potato, provide over half of plant-based calories in the human diet, while around a dozen species of animals provide 90 per cent of the animal protein consumed globally. As the planet's human population continues to expand, this biodiversity is becoming increasingly threatened. The most visible harm is caused by damage to natural habitats. Pollution, urbanization, deforestation and conversion of wetlands are some of the threats to biodiversity. Mismanagement of agriculture, forestry and fisheries can further accelerate this destructive process. Global efforts to conserve plants and animals in gene banks, botanical gardens and zoos are vital but an equally important task is to maintain biodiversity on farms and in nature, where it can evolve and adapt to changing conditions or competition with other species. As custodians of the world's biodiversity, farmers can develop and maintain local plants and trees and reproduce indigenous animals, ensuring their survival ■

Based on FAO, 2004. The Future of Agriculture Depends on Biodiversity, FAO Newsroom, <http://www.fao.org/newsroom/>, (15 October 2004).

Infrastructure, Poverty Alleviation and Growth

Providing infrastructure to developing countries is increasingly recognized as being vital to achieving poverty reduction and the Millennium Development Goals. Estimates of the impact of infrastructure on poverty reduction in the late 1990s showed that infrastructure investments cut poverty by as much as 2.1 per cent in low-income countries and 1.4 per cent in middle-income countries. Infrastructure services also have an important impact on other Millennium Development Goals, such as health, education, and gender issues. For example, access to clean water reduced the probability of child mortality by 55 per cent, and paved roads have significantly increased (in one case doubled) girls' school attendance. Infrastructure provision has important linkages to economic growth. Studies show that infrastructure investment is particularly important to growth during the early stages of a country's development, when infrastructure is scarce and basic networks have not been completed. One study found that if increases in the physical stocks of telecommunication and power generation in Africa had been comparable to those in East Asia, the continent's annual growth rate would have been about 1.3 per cent higher during the 1980-1990s ■

Based on Uku, R., 2004. Infrastructure, One of the Key Pillars of Economic Growth, The World Bank Group, <http://web.worldbank.org/>.

Call for Rural Investment to Reduce Hunger

Discussing action against hunger and poverty on 20 September 2004, the Director-General of the UN Food and Agriculture Organization called for increased investment in agriculture and rural areas of developing countries to improve economic opportunities and reduce hunger where most of the world's poor live. Despite a growing body of evidence that shows most poor and hungry people depend on agriculture for their livelihoods, many developing countries continue to spend far too little on agriculture and rural development. In countries where undernourishment is most widespread, the share of government spending devoted to agriculture falls far short of matching the sector's importance in the economy. According to one FAO study, countries which performed best in terms of reducing undernourishment had realized significantly higher investment and productivity in agriculture than others. Investment in rural areas is also necessary to slow migration from rural to urban areas. When investment in agriculture and rural development is neglected, the rural-urban gap widens and the resulting increase in rural to urban migration becomes a self-fulfilling prophecy ■

Based on Riddle, John, 2004. Lack of Investment in Agriculture Hinders Overall Economic Growth in Developing Countries, FAO, Newsroom, <http://www.fao.org/newsroom/>.

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Book Review

Food Markets and Agricultural Development in Viet Nam

Moustier, P., Dao The Anh, Figuié, M., MALICA (CIRAD - IOS - RIFAV - VASI), Hanoi, 2003

This document is a product from a research consortium formed in Viet Nam by Vietnamese and French scientists from various institutions. Its main objective is "... to present the evolution of trends of the domestic market for agricultural products in Viet Nam and to determine the opportunities and constraints that these changes represent for local agriculture".

Organized into six chapters it addresses a wide range of issues such as domestic and foreign markets (Chap 1), demographic and socio-economic changes (Chap 2), and the evolution of food consumption (Chap 3). It explores current changes in food production (Chap 4), the responses of the market (Chap 5) and the future of peri-urban agriculture (Chap 6), before concluding on the drivers of change and identifying lines of action. This is a very attractive document well supported by numerous and clear tables, graphs and figures.

The document first highlights that, while Viet Nam is increasingly present in international markets, its domestic food market still represents most of the country's trade and provides excellent opportunities for the producers. This market has grown considerably over the last decade due to the combination of three factors: demographic growth, urbanization and increased purchasing power, a common trend in Asia but particularly acute in Viet Nam. The authors observe an evolution of the food consumption pattern. First, they highlight increased consumption of meat and fruits, strongly related to higher income and more urban consumers. They also indicate the development of street restaurants and a growing demand for more specific and quality products, such as flavoured rice, lean pork and vegetables.

From a production side Vietnamese farmers are globally able to fulfil quantitatively the growing demand from the food sector, thanks to the reallocation of land to farmers and the pulling out of state intervention in production, although some seasonality problems may lead to imports. However, weak articulation between supply and demand remains a limiting factor affecting both the regularity in delivering products and their quality. While the agricultural sector benefits from a large and rather well-educated population, inequalities in access to land, inefficient extension and limited services are the current limiting factors. The growth of the agricultural sector significantly contributes to employment, however, it cannot absorb all the rural labour force and growing income disparities are noticeable. Weak links between the agricultural and industrial sectors are underlined by the still limited

The discussion of the market's response and the development of large-scale distribution shows that despite a rather efficient marketing system, too much segmentation, lack of coordination and contractual agreement add to the existing constraints on the production side and further limit the capacity to seize market opportunities. The planned development of a network of wholesale markets, the apparition of supermarkets and the expansion of building areas will threaten peri-urban agriculture, which plays not only productive functions but also contributes to employment, the maintenance of green areas and flood protection.

The document concludes with an appraisal of the key variables which will determine the future of the food market in Viet Nam: demographic growth; demographic imbalances between regions; the standard of living of households; health crises; competition from the international market; access to land; the capacity of organization of the trade and the consumers; and the involvement of the state in supporting the private sector.

This very comprehensive research work provides a wealth of information on a wide range of topics. Chapter 2 and some parts of Chapter 4 are particularly relevant for CAPSA as they deal with rural poverty and provide relevant data and analysis.

The last topic discussed in the Conclusion -solutions for fighting poverty- is particularly appealing but may somewhat make the reader a little bit frustrated. The authors propose a strategy based on the development of spatial market opportunities under the principle of basins of production that locally supply urban regional poles, taking advantage of the fact that one third of Vietnamese population lives in two big cities, and one third in medium-size cities. This seems nevertheless insufficient to counterbalance the inequalities and their causes as identified before, since the document concludes: "Reduction of agricultural inequalities requires the rebalancing of indispensable resources in order to benefit from the market opportunities, including the transport infrastructures, market information, credit and technical training." The question is who will do it and how? ■

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