

FAIRTRADE AND WORKERS' WELFARE: A CASE STUDY OF THE SOCCER INDUSTRY IN PAKISTAN

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ABSTRACT

The resurgence of the debate on standardization of labor laws via trade has brought into focus the importance of social labeling programs. Social Labeling programs like fairtrade are seen as a desirable avenue to remedy the weak labor laws in 'South'. Fairtrade is a social labeling program that aims to fight poverty, injustices and hence improve the livelihoods of producers and workers in 'South' through its predefined code of conduct and standards. The fairtrade standard for hired labor, in particular, aims to fight the labor market injustices existing in 'South'. Numerous studies have been undertaken to assess the impact of fairtrade upon the lives of producers and workers. Mixed results have been documented especially for coffee and banana producers. In view of the growing importance of the demands for standardization of labor laws, it is hence imperative to study the impact of the program on rectifying the weak labor laws and improving the livelihoods of the workers for a labor abundant country like Pakistan. This study uses the football industry of Pakistan as a case in point and aims to quantify the impact of the fairtrade labeling program on the workers' socioeconomic status and welfare position. Propensity Score Matching (PSM) is used to calculate the treatment effect of the program. The study finds no treatment effect of labeling upon the socio economic status and welfare condition of the workers. It concludes that overall the program has failed to make an impact upon the lives of workers employed in the football industry.

1.0 INTRODUCTION

The resurgence of the debate on standardization of labor laws via trade has brought into focus the importance of social labeling programs. Social Labeling programs like fairtrade are seen as a desirable avenue to remedy the weak labor laws in 'South'. Social labeling programs especially fairtrade labeling program have gained currency and been central to the debates related to the standardization of labor laws. The social labeling programs are based upon certain predefined guidelines regarding minimum standards; in the form of code of conduct (Scherrer, Greven & Ascoly 2001). Social labels have aimed to promote for instance products free from child labor,

environmental friendly goods, and ensured good working conditions. The exercise of using social labels dates back to the late 19th century when in 1898 a social label “*White label*” was coined based on a catalogue of standards, and consisted of a list of all those companies which were free from child labor and sweatshops (Scherrer, Greven & Ascoly 2001).

Social labeling programs are highly preferred as they are voluntary and market based (Freeman 1996; Baland & Duprez 2007). These programs are collaborative interventions unlike trade sanctions which are classified as coercive measures (Basu and Tzannatos 2003). Fairtrade label is a recent addition to the nomenclature of social labeling. Fairtrade is a social labeling program that concurrently aims to fight poverty, injustices and hence improve the livelihoods of producers and workers in ‘South’ through its predefined code of conduct and standards. The fairtrade standard for hired labor, in particular, aims to fight the labor market injustices existing in ‘South’.

Due to the renewed interest in the debate on standardization of labor laws; the norms and rules pertaining to working conditions and labor relations are becoming increasingly important as far as the public discourse on international trade and trade negotiations is concerned (Freeman 1996; Brown 2001). Consumers, policy makers, lobbies and civil society have also joined the intense debate demanding the standardization of labor laws. Hence, labor rights activists have pushed for setting of labor standards via trade (Elmslie and Milberg 1996; Kell and Ruggie 1999; Yanchus and Vanssay 2003).

Where previously trade bans and embargoes were thought to rectify the weak labor laws in developing countries, social labeling is a relatively new concept in order to correct for pervasive weak labor laws. Trade bans and embargoes were censured for causing more harm than benefit to the cause of raising labor standards (Freeman 1996; Basu and Van 1998; Khalid and Shahnaz 2004). Social labeling initiatives, on the other hand, are considered as collaborative measures to raise labor standards in the South. Hence, social labeling programs especially fairtrade have been central to the debates related to the standardization of labor laws both internationally and nationally.

The developing world has experienced gradual move from punitive bans towards the social labeling programs, and considering that the developing countries are labor abundant and mostly

involved in labor intensive production, the fairtrade program warrants a scrutiny at the empirical level. Also, with a rise in demand for standardization of labor laws, ethical trade and social labeling program it is imperative to study the impact that social labeling program like fairtrade have upon the labor market in the developing countries. Moreover, in addition it is also imperative to measure the effectiveness of the social labeling programs (like fairtrade) with respect to raising labor standards in the South.

The social labeling program 'fairtrade' has been operating in Pakistan for the last 18 years. In this regard Pakistan constitutes an ideal case for the study of the success or failure of the fairtrade labeling programs in their fight against labor abuses. Pakistan is a densely populated region of the world hence changes in international labor laws and regulations directly have an impact on our economy. This is evident from the fact that the soccer and carpet industry of Pakistan have been under international scrutiny for low wages, exploiting workers, inhumane working condition and employing child labor in the manufacture of sports balls and carpets. The soccer industry of Pakistan plays a chief role in the export earnings of the country and is one of the major suppliers of footballs in the world. Hence, this research provides us a unique opportunity to explore the effectiveness and impact of the fairtrade program on raising labor standards and improving workers' welfare.

This study is thus a detailed analysis of the social labeling program like fairtrade. The paper seeks to explore the effectiveness of the fairtrade program in addressing labor issues and raising the labor standards. The case study endeavors to explore in what ways the fairtrade program has affected the living standards of labor and what impact it has had on the lives of the workers' welfare. The current study uses the soccer industry in Sialkot (Pakistan) as a case to examine the phenomenon of social labeling programs in dealing with the issue of low labor standards.

The current case study comprises of five sections starting with the introduction to the research problem in the introduction. Section 2 provides a review of literature related to the research topic. Section 3 describes the qualitative and quantitative research design and focuses in particular on the sampling techniques used to collect data and the econometric technique

deployed to analyze the results obtained from our survey. Section 4 discusses the results while Section 5 concludes our discussion and suggests policy recommendations.

2.0 LITERATURE REVIEW

Advocate of harmonization and level playing field therefore strongly believe that the policy of trade liberalization alone must not be the agenda of the international community. Trade with minimum standards should be pursued internationally to benefit all in the rapidly globalizing world. They assert, globalization must not favor the rich at the cost of poor and should include all to enjoy the benefits of globalization. Trade liberalization has failed to accelerate growth everywhere and instead resulted in increasing inequality and injustices. Trade without a 'social clause' has seriously compromised on workers' rights and made labor violations the order of the day.

The criticism and demands made by the idea of harmonization, level playing field and fairtrade encapsulates many facets. Advocates of harmonization and level playing field argue against the functioning of free trade. They assert that trade with a 'social clause' must be sought after. Trade without a social clause encourages 'race to the bottom' (Elmslie & Milberg 1996; Prasad et.al 2004; Scherrer 2015). In the race to acquire a large share in the export market and attract investment countries save up on labor costs by not complying with the minimum labor standards which gives them an undue comparative advantage (ICFTU 1999; Prasad et.al 2004). Hence, the market decides and dictates the minimum social standards and according to the market driven standards producing goods for instance using child labor is not offensive. There is thus a proliferation of labor violations like long working hours, sweatshops and unhygienic working condition under exchange of goods without a social clause or minimum labor standards. Succinctly put trade without a social clause encourages the idea of 'race to the bottom'.

What further encourages the violation of labor standards is the free movement of capital. As a result of mobile capital, big corporations and multinationals move their plants to countries where the labor standards are low to save upon their production costs and hence further encourage 'the race towards the bottom'(Elmslie & Milberg 1996). There is therefore a need to discourage such repressive labor practices and encourage harmonization via trade (Freeman 1996; Kell & Ruggie 1999; Prasad et.al 2004; Scherrer 2015).

The support for harmonization via trade is based on moral and economic grounds (Brown et.al 1993; Brown 2001). On moral grounds the advocates of harmonization assert that there are few universal human rights that the entire world must follow irrespective of their economic standing (Brown et.al 1993; ICFTU 1999). Whereas according to the economic justification the supporters of harmonization believe that countries that do not comply with the basic labor standard have an undue comparative advantage in the production of goods and services (Brown et.al 1993; Prasad et.al 2004). Based on these arguments the supporters therefore, believe that efforts must be channeled to achieve harmonization of labor standards via trade in the international arena.

The major concern that is of paramount importance for the supporters of harmonization and level playing field pertains to the absence of environment and labor clause in trade. They assert for a universal set of labor rights pertaining to working conditions that must apply worldwide. Therefore, they push for the inclusion of labor and environment clause in trade agreements¹.

Interconnected, to the demands of harmonization and level playing field is the philosophy of Fair Trade which according to Riedl (2012) is difficult to define as “ its foundations are rooted in a distinct or cohesive body of theory” (p. 23). Fair Trade (two words capitalized) is a concept and a philosophy that aims to bring fairness to the global trade (Riedl 2012). According to this philosophy, the idea of trade is not out rightly rejected however, what the proponents of Fair Trade propose is the restructuring of the trading system (Raynolds 2000; Levi & Linton 2003; Bacon 2005; Shreck 2005; Riedl 2012). Such demands by advocates of Fair Trade are similar in nature to the demands of level playing field and harmonization of labor laws.

The contemporary Fair Trade movement grew out of a range of post-World War II enterprises which critiqued the inequalities of international trade and demanded a more equitable share for the South based upon the strategy of “trade not aid” (Raynolds 2009). The Fair Trade movement connects North and South² through alternate trade channels that are more equitable and just (Shreck 2005). Fair Trade movement aims to re-embed the international commodity production and distribution channel under just and favorable conditions for both agriculture and non-

¹ Both the environment and labor clause in trade stands to be of great importance however, the following literature review will only discuss the labor clause and its link with the trade.

² Global North/South is “A set of terms distinguishing between a highly industrialized wealthy region and a less industrialized poorer region of the world, which roughly aligns along a North–South axis” (Raynolds 2009).

agriculture goods (Raynolds 2000). The initial agenda for fairtrade as a label was to bring together independent producers' for facilitating the sale of goods. However later, it included in its agenda to certify goods that help fight problems like poverty wages, child labor, and inhumane working conditions (FLO). In the beginning it acted as a market niche; integrating established producers and sales structure and hence reaching more consumers (Scherrer Greven & Ascoly 2001). However, with the passage of time the Fair Trade movement started introducing more standards, and it was only in the latter years (1988) that workers rights were incorporated together with the fairtrade label (Scherrer, Greven & Ascoly 2001). The payment and promise of higher prices (famously known as fair prices; prices higher than the world prices) is a striking feature of the movement.

The ardent advocates of the Fair Trade philosophy assert that contrary to what is believed, the current trade system is plagued by injustices and inequalities. The argument put forward is that liberalization of trade has fueled injustice and inequality in the system (Raynolds 2000). The advocates of Fair Trade believe that the current trading system has exploited and been biased towards the developing countries which promotes underdevelopment and unjust distribution of resources (Levi & Linton 2003; Raynolds 2000, 2009). In addition, the international trading system does not ensure the survival needs of those involved in the production process and the competition is solely based on prices (Mathews 2009). The pricing system therefore seriously dismantles the human, social and environment factors by encouraging a repressive labor regimes and encouraging environment degradation (Raynolds 2000). Hence, like harmonization and level playing field claims, Fair Trade aims to re-embed the trading system and make it more 'fair' by working on an alternate network (Raynolds 2000).

The demand for using social labeling program, like fairtrade, in order to correct weak labor laws has been at the cynosure of this debate. Hence, fair trade ideas therefore must be empirically tested as this study endeavors to do.

2.1 Football Industry, Fairtrade and Fairtrade Standards

The football industry in Pakistan is situated in the city of Sialkot. The city is one of the major industrial hubs of the country that is known to produce export quality goods like surgical instruments, leather products and musical instruments. Sialkot is also famous for producing

hand stitched and machine made footballs which are supplied throughout the world. Pakistan alone supplies 40 million footballs per annum and earns US \$210 million from their exports. This number increases to 60 million during the time of World Cup (Arifeen 2010; Mansoor 2011; Pakistan Today 2014; Fairtrade Foundation 2016). As the production of hand stitched footballs is a labor intensive work, thus skilled and unskilled labor both have an important standing in the production of the footballs. In addition to workers, the need of stitchers and sub contractors cannot be undermined in the football supply chain. Approximately 60000 stitchers work in various stitching centers. The stitching centers are scattered throughout the region and may go as far as Gujarat, Wazirabad and Jhang. However, most stitching centers are located in the surrounding villages (Daska, Pasrur to name a few) of Sialkot.

Since Pakistan is still the largest supplier of hand stitched footballs throughout the world, the labor intensive process makes labor an important input into the production process. Social labeling programs like fairtrade hence assert to help these workers (otherwise thought to face labor violations); improve their livelihoods and help them out of poverty. Given the importance of the football industry for the economy of Pakistan (as indicated above), an overview of the football industry therefore helps us bring into focus the significance of the research.

The fairtrade mainly follows four main standards which are channeled through guiding principles and certifies around 21 products with coffee being the oldest fairtrade certified product (FLO). The four main standards of fairtrade include ‘Standards for Small Producer Organization’, ‘Standard for Hired Labor’, ‘Standard for Contract production’ and ‘Trader Standard’. The ‘fairtrade certified coffee’ is the first (hence making it the oldest) product to bear the fairtrade logo. The second most popular fairtrade product is bananas. Coffee qualifies for the ‘standard for small producer organization’ and bananas for ‘standard for hired labor’.

The first product to bear the fairtrade logo in Pakistan was football. Talon was the first firm in the football industry to qualify for the fairtrade certification in the year 1997. The football industry experienced a complete ban on the exports of footballs in the year 1996 due to the use of child labor in the production of footballs. Social labeling programs like fairtrade provided an alternate opportunity for the football producers to export footballs without the fear of labor violations. The football bearing the fairtrade logo acted as a set of information signaling to the consumers that the goods have been produced under humane working conditions and without

any labor violations. Since the football production makes use of labor in bulk therefore, it qualifies for the fairtrade 'standard for hired labor'. Hence, standard for hired labor stands to be of great importance for the current study.

As far as the FLO standard for hired labor is concerned, the movement has closely worked with other labor organizations like ILO to formulate a just and complete code of conduct to be followed by the producers in the South. The standard for hired labor has different dimensions which the producers must follow to qualify for the certification. According to the standard labor conditions clause, the movement has emphasized upon issues such as freedom of association, no discrimination, health and safety, no forced labor, child labor and conditions of employment. Some codes of conduct have been drafted based upon ILO conventions as Reynolds (2000) reiterates how labor laws vary from product to product but maintain and follow the basic ILO conventions including rights to association, freedom from discrimination, prohibition of child and forced labor, minimum social conditions, and rights to safe and healthy work conditions.

Another aspect of the standard for hired labor is the social development of the workers. This includes the formation of a Fairtrade Premium Committee (FPC) which should have the responsibility of handling and deciding on how to spend the premium collected from the sale of the fairtrade footballs. The premium collected is then used to fund development projects (FLO) and it must be the FPC members, who are elected by the workers through elections, to decide on how they want to spend the premium amount. Linked with the management of FPC is the idea of capacity building which will be achieved simultaneously when workers manage the working of the committee.

Payment of fair wages to workers and fair price for the product are also included in the standard for hired labor. Fair wages are usually the minimum wages proposed by the local or the national law of the country under consideration. The payment of fair wages to workers has an important standing in the standard for hired labor. According to the hired labor standard, fair wages cover needs and requirements of the workers (FLO). Another important clause of the standard is the payment of fair price for the product. Fair price is the price above the world equilibrium decided by the FLO International. The additional payment made by the consumers for the product is used as a premium which is collected by the workers who then collectively decide how to spend it on various development projects.

3.0 METHODOLOGY

This section spells out the methodology used in collecting data and the econometric technique employed for estimation. Hence this chapter discusses in-depth the various research tools for data collection, the sampling technique, the geographical area of research and the econometric technique used to interpret our results obtained from the data collected.

It is important to note that throughout this section we refer to two types of firm: labeled and non-labeled firms. A labeled firm refers to the firm that has joined the fairtrade labeling program. Consequently, the workers working in the labeled firm are referred to as labeled workers. While on the other hand, a non-labeled firm is the one that does not follow the fairtrade code of conduct and hence the workers working in these firms are referred to as non-labeled workers.

To shed light on the research problem the following research hypothesis will be tested:

- 1) Hypothesis 1: A labeled worker's socio-economic status is higher than a non labeled worker**
- 2) Hypothesis 2: The welfare of a labeled worker and his/her family is greater than a non- labeled worker**

Following research design and data collection methods are used for the study.

3.1.1 Structured Interviews

The current study uses personal one on one interview to collect the required data. The predefined survey has been used to question workers regarding their individual, household and workforce variables. The survey data has a mixture of close and open ended questions. The questionnaire focuses upon variables like age, gender, dependent rate, household asset, total family income, salary, fringe benefits etc. Also, the questionnaire dedicates a section related to fairtrade awareness and its knowledge (this section has been designed for labeled workers only). These set of variables provide information regarding workers' welfare position and enhance understanding related to less tangible activities and behavior.

3.1.2 Semi-Structured Expert Interviews

As the current study investigates the fairtrade labeling program and its impact upon the worker's welfare hence the study has targeted human resource and compliance expert from each firm. We

used semi-structured interviews with the key knowledgeable (an expert) persons³. This stands to be an important qualitative research tool for the study where an informed insight regarding the fairtrade and certification programs is vital to enhance our understanding of the fairtrade program. Also, these interviews are important so as to learn about the management's point of view; their perceptions and understanding related to fairtrade and other certification programs and their take on labor related issues.

Besides management representative, we also conducted semi- structured interview with workers' representative. The workers' representative in case of a non-labeled firm is a union president and in case of a labeled firm is a Fairtrade Premium Committee (FPC) president. This expert interview is important in the sense as these workers' representatives not only represent the entire population of workers but are knowledgeable, than other workers, in certain areas. Hence we have questioned and probed them regarding their views and knowledge about various work and compliance related issues. We also talked about labor issues in general and those, if present, with regard to fairtrade. The labeled firm worker representative has been questioned regarding their knowledge of fairtrade, and whether they have grasped and understood the philosophy of fairtrade? One important piece of information to be probed and extracted from labeled worker's representative was the knowledge related to premium, its management and spending.

3.2 Geographical Area Of Research

As the current research aims to study the fairtrade program and its effectiveness in raising labor standards and improving the welfare of the workers therefore, it concentrates on the industry which has been affiliated with the program. In Pakistan the football industry has been associated with the program for the last 18 years. The concentration of the football industry is mainly in Sialkot and its adjacent villages (Daska and Pasrur for instance)⁴. Therefore, the geographical area for this study is the city of Sialkot located in the North-East side of the province of Punjab.

3.3 SAMPLING

3.3.1 Cluster Sampling

³ The key resource person here either belonged from the Human Resource department or the Compliance department (the two important departments dealing with workers and certification programs).

⁴ The satellite clustering spreads through Gujarat, Wazirabad and all the way till Jhang.

In the current study, we divide the population into two clusters. In our case, the population refers to the total number of firms producing football in Sialkot or the football industry. The population is sub grouped into two clusters based on the labeling status of the firms: labeled or non-labeled. The first cluster consists of all those firms that have joined the fairtrade labeling program and the second cluster consists of firms which have not joined the fairtrade labeling program.

From the first cluster a total of six firms have joined the fairtrade labeling program. However, only five firms are included in the first cluster as the sixth firm, later on, refused to be a part of the study. A total of hundred workers, five management representatives and five FPC presidents have been interviewed. The second cluster consists of all the non labeled firms or firms that are not a part of the fairtrade labeling program. In the second cluster a total of six firms and 100 workers have been interviewed. In addition, six management representatives and six workers' union representative were part of the study. A total of 11 firms, 200 workers, 11 management representatives and 11 workers' representatives have been interviewed for the study.

3.4 Econometric Technique

The fair trade movement claims to improve the conditions of the workers in the football industry in Pakistan via the use of the fairtrade label. As mentioned above, some firms/producers are part of this program intervention while other firms are not certified as fairtrade producers. Therefore, the basic objective of the study is to calculate the difference between two groups: those receiving the treatment (labeled) and those without the treatment (non-labeled). Propensity Score Matching (PSM) has been used to calculate the treatment effect of the fairtrade program. Ruben, Fort & Arias (2009) have also used propensity score to measure the impact of development of fairtrade on coffee and banana producers.

Often the data used in analysis is often observational (non-randomized) in nature. Calculating treatment effects with observational data can be tricky as the chances of biased outcomes manifold (Becker & Ichino 2002; Dehejia & Wahba 2002; List et.al 2002). Rosenbaum & Rubin (1983) proposed Propensity Score Matching as a methodology to help solve and capture the bias in observational data (Becker & Ichino 2002, Dehejia & Wahba 2002; Wooldridge 2010). PSM is being extensively used in evaluating the effects of economic policy intervention (see Heckman, Ichimura & Todd 1997; List et.al 2002; O'Keefe 2004; Ruben, Fort & Arias 2009).

One of the issues in calculating treatment effect of program intervention is asymmetric information (Dehejia & Wahba 2002). We are interested in the outcome when the subject is exposed to the treatment however; the counterfactual outcome is missing. Since the outcome is conditional to the assignment of the treatment and due to non random data only one of the two outcomes is observed. The treated cannot belong to the same group as the non-treated. PSM helps us in this regard.

In order to calculate the Average Treatment Effect on the Treated (ATET) so as to measure the effect of D (fairtrade label) upon our variable of interest Socio-economic status and welfare complete information is necessary (Dehejia & Wahba 2002; Wooldridge 2010). Hence before we compare and match the control and treated group in order to calculate the treatment effect, propensity scores are calculated using Logit/Probit model.

Propensity scores calculate the conditional probability of treatment given the observed covariates (Rosenbaum and Rubin 1983; Becker & Ichino 2002; Dehejia & Wahba 2002; Wooldridge 2010). The idea of propensity scores is to control for biasedness and make the comparison more meaningful by assigning a score to all individuals who are as similar as possible and differ upon the treatment level alone (Rosenbaum and Rubin 1983)⁵. Propensity Score [given as $p(z)$] summarizes “the pre treatment characteristics into a single index variable” (Becker & Ichino 2002 p. 359) which as a result assists us in matching the treated and the control group.

Once the propensity score [$p(X_i)$] for each individual i is known, the treatment effects can be calculated using different matching algorithms. There is a range of defined matching techniques to help calculate the treatment effects. The following three methods are used to calculate the ATET

- 1) Nearest Neighbor Matching
- 2) Radius Matching with a Radius set to (0.1)
- 3) Kernel Matching

The Average Treatment Effect on the Treated (ATET) calculates the difference between treated and non-treated captured in X and is given by the following formula

⁵ For a detailed discussion on propensity scores; their mathematical derivations and explanation read Rosenbaum and Rubin (1983), and Rubin (1974, 1977, 1978 and 1980).

$$\text{Average Treatment Effect on the Treated (ATET)} = E (y_{1i} - y_{0i}/D=1)$$

$$= E \{ E\{ Y_{1i}-Y_{0i}\}/D_i=1, p(X_i) \}$$

$$= E\{E\{ Y_{1i}/D_i=1, p(X_i)\} - E\{ Y_{0i}/D_i=0, p(X_i)\}/D_i=1\} \quad (6)$$

where $E [.]$ is the expected value.

It measures the average treatment effects upon the outcome variable when $D=1$; where the treatment has been received or as Wooldridge (2010) writes Average Treatment Effect on the Treated “is the mean effect for those who actually participated in the program” (p. 605).

3.5 Data And Variable

The key dependent variables in our study are Socio-economic status (SES) and welfare. Both these dependent variables cannot be measured directly and hence we are to rely on statistical techniques like PCA or use of proxy to construct these variables. In order to construct socio-economic index status Principal Component Analysis (PCA) is applied whereas, a proxy variable for welfare is used. Since SES is a multi faceted concept and cannot be measure using a single variable hence an index is calculated using PCA; a data reduction technique. On the other hand, a proxy instead of an index, due to the nature of the variable, is used for welfare.

Table 1

Description of Variables

Dependent Variables	
Socio Economic Status (SES)	It is a long term variable and cannot be measured directly and a data reduction technique needs to be used to create an index for SES
Welfare	Total Expenditure of the Household (Consumption Approach) will be used to measure the welfare of the worker.

There has been debate related to the measurement of living standard and welfare however; no one proxy has been termed as the ‘best proxy’ and the selection of proxy is ad hoc and based on

study specific basis (Montgomery et.al 1999). Information on household income (income approach) and consumption (consumption approach) is considered a preferred proxy for measuring the living standard and welfare of the community or the household (Montgomery et.al 1999; Pradhan 2009).

As far as developing countries are concerned, it is believed that consumption approach seems to be a relatively preferred proxy due to the fact that most of the economic activities in developing countries are in the informal sector and reporting of income is largely undervalued (Pradhan 2009). Also consumption approach directly relates to the current living standard and helps identify and map the data as to where do the households spend their income (Montgomery 2001). The study hence uses consumption approach to calculate the welfare of the workers and measures the impact that fairtrade has had on the welfare of the workers⁶.

4.0 RESULTS AND DISCUSSION

Propensity scores are calculated to summarize the pre treatment multidimensional variables into a single index to make the comparison feasible. Before we calculate the propensity scores, Probit regression is used to obtain the regression coefficients. The regression coefficients control for the factors that might have affected the decision to join the fairtrade labeling program⁷. Table 4 gives a summary of the variables with their respective Probit regression coefficient and standard errors. The study has been controlled for variables such as experience (Experience)⁸, gender (Gender_D), age (Age), dependency ratio (dr), access to loans (Loans) and per person expenditure (P_T_Exp). These variables were possible factors that might have affected the decision for treatment. Hence, the justification behind a Probit regression is to control for all such variables. However, the results summarized (in Table 2) explain that none of the pre-treatment factors played a significant role in the decision to join the labeling program. Considering that the data was collected from one geographical area and the pool of workers working in the football industry was concentrated in one region of Sialkot, hence the characteristics the labor would differ on are minimal. The Probit regression for propensity scores

⁶ It is also true that consumption is overstated; however, the literature has preferred consumption approach to measure welfare especially for the developing countries.

⁷ The decision to join the program is taken by the firms however; the impact of the decision is greatly upon the workers. Hence, the propensity scores controls the differences in characteristics between the workers.

⁸ Experience and age are not to be taken interchangeably. The experience in this case measures the workers' association with the certified firm.

further confirms this statement. After the Probit regression, propensity scores are calculated. Every individual is assigned a propensity score which controls for pre-treatment characteristics; the propensity scores calculate the conditional probability of receiving the treatment. The balancing property whereby the X covariates are independent of the assignment of the treatment assumption and the assumption of common support are both satisfied. According to the common support assumption a block of propensity score is defined in the form of the range. The values falling in the defined range (by the common support) are considered while the remaining scores are discarded as they do not make good candidates for matching.

Once the propensity scores are assigned, the treatment effect is calculated using the three matching algorithms. Table 3 summarizes the treatment effect on the variable of interest using the three matching algorithms.

4.1 Fairtrade Impact

Table 3 summarizes the values of ATET obtained from the three matching methods. The first column of Table 3 summarizes the results of the treatment effect on the socio economic status (SES) of the workers. Whereas, column two in Table 3 measures the impact of the fairtrade label upon the workers welfare. The total household expenditure (consumption approach) was used as a proxy for welfare. The total household expenditure is obtained by summing each household's expenditure on food, health and education. Thus, the ATET is also calculated for the disaggregated expenditure. Column three, four and five of Table 3 record the average treatment effect of labeling on expenditure on food, health and education respectively.

Column one of Table 3 records a positive value of the treatment effect (ATET) on SES however, it turns to be insignificant. The treatment results are consistent across the three matching methods indicating the robustness of the results.

Similarly, the treatment effect recorded upon the second variable of interest (welfare) is also positive but turns out to be insignificant. The disaggregation of the total expenditure into the expenditure on food, health and education (column 3, 4 and 5 respectively) reveals some interesting insight into the data. There is a positive treatment effect of fairtrade labeling program as far as the expenditure on food and health is concerned but it turns out to be insignificant.

Whereas, the average treatment effect (ATET) is positively significant for the expenditure on education.

Before we discuss the impact of fairtrade, it is imperative to distinguish between direct and indirect impact of fairtrade. The impact of fairtrade, as the received literature states, can be either direct or indirect (Raynolds 2000; Bacon 2005; Becchetti and Constantino 2008; Ruben and Schendel 2008; Raynolds 2009; Ruben, Fort & Arias 2009). The direct impact is tangible whereas, the indirect impact is intangible. The increase in income or expenditure accrues as a direct impact. Whereas, the increased sense of security, satisfaction or capacity building of workers can be classified as indirect impact of fairtrade.

The payment of fair price for the fairtrade football and the resultant premium received is classified as a direct impact. The payment of fair prices; prices that are above the world prices is a concept well understood by the labeled workers. The fairtrade labeled workers positively receive the idea of fair prices and are fully aware of the concept of premium. As a result, the fairtrade workers were easily able to identify the fairtrade logo and have sufficient knowledge regarding what it means to be fairtrade certified. This result seems to be a positive development when compared with other impact studies. The existing literature observes limited knowhow and understanding of the fairtrade label by the coffee farmers (Ronchi 2002; Raynolds 2009).

4.2 Socio-Economic Status

The study's first variable of interest is socioeconomic status. Its construction has used long term variables like household assets index, number of rooms, household income, household education level and availability of livestock. Though the treatment effect on the long term variables like household durables, household improvement or income is positive, it turns out to be insignificant (Column 1 of Table 3). The guarantee of fair wages and fair prices, which can be measured in monetary terms, is hence not fully reflected upon the variable of interest used in the calculation of SES except on the increased expenditure on education by the fairtrade workers (Column 5, Table 3). The guarantee of fair wages and premium although does instill in workers a sense of security, wage satisfaction and a know-how of the fairtrade program. However, the results indicate no impact of labeling on workers SES. Similar results were obtained by Ruben, Fort and Arias (2009) for coffee farmers and workers working in the banana farms.

The guarantee of fair wages and fair prices (which includes the premium amount) can be viewed as an additional income. However, this additional income has failed to register an impact on the SES of the treated group. There are two aspects of the additional income received by the workers. One, the amount of premium is directly proportional to the sale of the fairtrade footballs. Therefore, the low and fluctuating sales volume makes the premium amount modest and limits its use and impact to few development projects. Secondly, this additional income especially in terms of the premium received and its effect is dispersed in numerous projects and hence its impact is difficult to capture as is evident from an insignificant positive treatment effect.

The sale of fairtrade footballs at fair prices guarantee workers premium. The premium received from the sale of football is invested in diverse community related development projects. The premium is allocated to different development projects with the consent of the workers. Projects financed through premium amount is either confined to projects within the factory, or invested in the community development projects or distributed amongst dependents of workers in various forms. For instance, the premium received is used in programs like a monthly checkup of workers and their dependents. Free eye sight camps, diabetes and hepatitis check up are few in factory health programs arranged with the help of the fairtrade premium. Other development projects include the provision of clean water, sanitation and transport facility for workers. As already mentioned the premium received is channeled into various development projects. Therefore, the premium amount is also spent on the dependents of the workers especially their children. Hence what we have recorded is that the premium amount helps distribute books, stationery and school bags amongst the school going children of the workers. Although this does not seem to go well with workers with no school going children in the family, however this complaint came from a small pool of workers.

Similarly, the community related projects executed with the help of the premium amount include the installation of water filtration plants near the factory or in a village which benefits not only the members of the program but the community at large. The benefits to the community because of fairtrade are classified as ‘spill over effects’ of the fairtrade label. Impact studies by Ronchi (2002) and Becchetti and Constantino (2008) have also observed ‘spill over effects’, in terms of for example ‘conversion projects’, of the fairtrade certification.

Another important aspect cancelling out the fairtrade impact can be linked to the fact that many non-program firms are also involved in giving back to the community either under Corporate Social Responsibility (CSR) or religious obligations. Hence, many use their charities and zakat funds to finance different projects (water filtration projects, scholarships for outstanding students, or arranging dowry).

Thus, what we observe is that the guarantee of increased income due to fair wages and fair prices is spread across and diverse amongst various development projects and none of the project targets long term investments in for instance household assets or provision of toilet facility at the household levels. Also, the non-program firms' similar community plans operating simultaneously also explain the failure of the fairtrade program. Hence, the treated group SES is not significantly different from the control group as the findings of the study shows.

4.3 Welfare

The total household expenditure was used as a proxy to measure the welfare of the workers. Column two of Table 3 records the treatment effect of labeling upon the total expenditure of the workers. The results record an insignificant positive treatment effect on welfare.

According to the Probit regression (Table 2) the difference between the household expenditure was not significantly different between the treated and controlled units (P-T_Exp). Therefore, a positive treatment that turns out to be insignificant, provides us with the need to disaggregate the expenditure and document for the treatment effect of fairtrade on the disaggregated expenditure. Hence, disaggregating the household expenditure as the expenditure on food, health and education reveals some insight in to the workings of the fairtrade label. The fairtrade effect on the expenditure on food and health is positive however, it turns to be insignificant. However, the treatment effect is significantly positive as far as the expenditure on education is concerned. This indicates towards the fact that fairtrade affiliated workers are spending in long term investment (in terms of expenditure on education) of their dependents even when the total expenditure is same for both the groups. A study by Ruben, Fort and Arias (2009) also found positive treatment effect of labeling upon education for coffee farmers and workers working on the banana farms.

A positive treatment effect on the household expenditure on education can be analyzed on two fronts. First, the investment in education is basically investment in the human capital of the

household which will yield an improvement in the well being of the household, wealth and asset position in the long run. Secondly, an immediate impact that can be inferred from the increased investment in education is the decrease in the number of children joining the labor force as child laborers. As mentioned earlier, one of the many project financed by the fairtrade premium involves giving away of free books, stationery and school bags which might have encouraged and incentivized the workers to send their children to school rather make them join the labor market. However, a detailed quantitative analysis is still required to measure the impact of fairtrade upon the incidence of child labor. Although the received literature states that social labeling has significantly decreased the incidence of child labor in the carpet industry of Nepal and India (see Chakrabarty and Grote 2009; Chakrabarty et.al 2011). We can only predict that the increased spending on education would mean a decrease in the incidence of child labor.

The treatment effect is insignificant as far as the expenditure on food and health is concerned. The food programs like ‘Ramazan Food Package’ carried out by the premium amount are sporadic in nature. Also, these food programs are tied to a specific month hence there impact has failed to reflect upon the food expenditure of labeled and non-labeled workers. The discount shops operated by premium amount (non-profit shops) throughout the year have also failed to contribute a significant difference in the food expenditure of the two groups.

As far as the expenditure on health is concerned, the expert interviews reveal that the premium amount is also being spent on health of workers and their dependents. Hence, labeled workers enjoy free health camps made possible due to the premium amount. However, the cost per worker on health camp is small and hence it has failed to create a significant difference amongst the treated and the controlled group despite the fact that the health checkups (like education projects) is a yearly program of FPC⁹. Also, according to expert interviews the health system as defined by the Pakistani law is such that all workers have access to same health facilities (Worker’s Welfare Hospital). The producers acting in accordance with the labor laws are to pay a health contribution per worker (it was PKR 750 for the year 2016) which is then channeled to the Worker’s Welfare Hospital (WWH). WWH is a government provided facility where half the amount is paid by producers and the remaining amount is covered by the government. Almost all

⁹ According to expert interviews health programs like eye sight or hepatitis checkup are those premium programs that are relatively economical in nature.

the workers working in the football industry avail the health facilities provided by the WWH¹⁰. Hence, no significant difference is recorded as far as the expenditure on health is concerned. Although the premium amount (as per the expert interviews) has helped few workers and their dependents undergo major surgeries and operations, an opportunity unavailable to non-labeled workers. However, these are rare cases and as the results indicate they have failed to make a significant impact on the health expenditure of the treated and the control group.

The disaggregated analysis also helps explain as to why the welfare of the treated and control groups do not differ significantly. Since two out of three components (food, health and education) of household expenditure do not record significant difference indicating a significant part of expenditure as similar. As a result, the fairtrade label's impact fails to materialize on the household expenditure (or welfare) of treated and control group.

4.4 Indirect Impact Of Fairtrade

The received literature on fairtrade greatly emphasizes the importance of calculating the indirect effects of the fairtrade. The indirect effects on fairtrade are less tangible. Although the study finds no significant difference between the SES and welfare of treated and the control group, there are however, few indirect benefits of fairtrade enjoyed by the treated group.

The standard for hired labor states religiously following of labor laws especially pertaining to wages and the payment of fair price is greatly stressed upon. The fair or living wages are equivalent of the minimum wages declared by the state. It was noticed during the field study that majority of the non-certified firms were less stringent as far as the payment of minimum wages was concerned. However, the fairtrade certified producers were particular about the payment of fair wages to the workers as the failure to do so could either result in a penalty or the cancellation of the certification.

¹⁰ According to expert interviews the health condition in the district of Sialkot is bleak. There are a total of ten beds, five dispensaries and three medical aids in WWH for the entire workers population in the district of Sialkot. The tertiary level¹⁰ of health is missing from the WWH which means traveling to nearby cities like Lahore in case of emergencies.

There are three levels to provision of health facility. The primary level includes providing of pills and/or injection to patients. The secondary level includes a checkup by a specialist doctor. The tertiary level involves performing major surgeries on patients.

The payment of fair wages has therefore, an important standing in the standard for hired labor. Therefore, it is pertinent to discuss the wage structure of the football industry. There are three types of workers in the football industry. The in-house workers, the stitchers and the contract based workers. The in house workers are placed in the factory and enjoy other fringe benefits besides the guaranteed minimum wages. The stitchers and the contract based workers, on the other hand, do not have a fixed amount of salary and their earnings depend upon the number of football they stitch per day and hence they are classified as the most vulnerable block of workers in the football industry. The fairtrade stitchers and contract based workers however enjoy the guarantee that the amount they will earn at the end of the month is at least equal to the minimum wages paid to the in-house workers. There is usually a high possibility of earning more than the minimum wages as their wages are conditioned to the number of balls stitched by the workers. In addition, the fairtrade standard for hired labor also guarantees them a share in the fairtrade movement via the use of premium through various community and development projects. The guarantee that minimum wages will be paid instills in the fairtrade labeled workers a sense of security and satisfaction. This sense of security and satisfaction found amongst workers is similar to the sense of security and satisfaction enjoyed by the certified coffee producers because of timely payments for their produce (see Pariente 2000; Ronchi 2002; Utting-Chamorro 2005).

According to the guidelines provided in the standard for hired labor, the producer must form a FairTrade Premium Committee (FPC) which is a registered body of workers that operates according to a constitution. FPC consists of a working body with a president together with other six to seven members. These members are elected by the workers through elections where the workers vote for the members of the FPC. The members of the FPC hold regular meeting to discuss the working of the fairtrade program and it is the FPC who decides how the premium amount has to be spent. A separate bank account is maintained by the FPC where the FLO directly transfers the premium amount and it can only be withdrawn when it bears the signature of the president of the FPC. According to the premium received the committee circulates various tentative options on how and where to spend the premium money and it is the workers who decide how they want to spend the premium amount. Therefore, the decision reached by the workers via FPC is democratically decided. The number of fairtrade footballs sold and the premium received is widely communicated amongst workers which help to keep them updated about the workings of the FPC. A managerial personnel (from within the firm) is also designated

to help overlook the technical working of the FPC and assist the workers in areas where help is required. The establishment of the FPC and handling of its operation gives workers a sense of responsibility, recognition and control over resources. In addition to these benefits, it helps in the capacity building¹¹ of the workers which has been confirmed by previous studies by Ronchi (2002), Utting-Chamorro (2005), Becchetti and Constantino (2008) and Ruben, Fort and Arias (2009).

In addition, having a compulsory female worker as a member in the FPC is a positive step to encourage female participation in the affairs of the fairtrade. However, commenting on whether fairtrade has had an effect upon women empowerment and gender equality is way too early as there is still a long way to go in achieving this goal and other impact studies on fairtrade confirms this result. Overall a positive change in the attitude of workers is noticed who now feel more connected to the firm because of the label and the establishment of the FPC gives them a stake in the working of the movement and indirectly in the firm.

4.5 The Way Forward

The fair trade movement in general has aimed to help fight poverty and transform the trading practices. The results of the study do not confirm the movement's success in terms of achieving their macro goals of poverty reduction and transforming trading practices.

In order to achieve the goals set by the movement, one of the most important and immediate concern of fairtrade label should be to address the modest sales of the fairtrade sports balls. The fairtrade footballs sold have a meager percentage share when compared with the annually non fairtrade footballs exported to various countries. Every year approximately 40 million balls are exported to Europe, Japan, Australia and USA. On the other hand, only 1,064,079¹² fairtrade balls were sold in the year 2016 which makes the share of the fairtrade footballs in the market meager and negligible (0.2% of the total footballs exported from Pakistan). The modest sale volume of the fair trade sports balls thus deserves attention.

¹¹ Capacity Building of workers (via FPC) is one of the aim of the label.

¹² This total has been arrived by summing the order received from FLO to the certified producers in the year 2016. There are at least six producers that have joined the fairtrade certification. Out of the six firms only 5 firms responded and agreed to be interviewed. Therefore, one must be cautious in quoting this figure.

The fairtrade label must work in collaboration with retail networks and large corporations. In addition, this movement message should be expanded, shared and collaborated with different football leagues, football players and most importantly FIFA. Big brands like Nike, Adidas and Puma should also be involved in the movement. Doing so however involves a conflict of interest on two fronts. Firstly, big brands like Nike and retail corporations like Wal-Mart operate and conduct business in the current capitalist system which the movement vehemently criticizes and aims to rectify. Secondly, brands like Nike and Wal-Mart have their own code of conduct and a partnership with fairtrade label would then mean they are accepting the inferiority of their code of conduct which might send a wrong signal to their customers and hence significantly jeopardize their brand name. In addition a partnership with these corporations and retail organization would also mean that fairtrade is going against the real agenda of the movement.

There seems to be a deadlock, however; considering the modest sales of the fairtrade goods (apart from coffee) deserve attention and in order for the movement to thrive and grow and consequently fight poverty and restructure the trading practices the share of the fairtrade football needs to increase considerably.

Considering a negligible share of the fairtrade football in the market also means the movement's is far from achieving its goal to rectify the trading system. It is currently operating as a market niche however, if the movement wants to seriously consider their fight against the capitalist system the market for fairtrade footballs should be expanded.

To sum up the results, the data collected from the field reveals that the fairtrade label does not have a significant impact on the socio-economic status of the labeled workers. Similarly, there is no significant difference between the welfare positions of labeled workers versus the non labeled workers. We therefore, reject both the hypothesis.

As we reject both the hypothesis of the study, it is imperative to analyze the failure of the fairtrade labeling program in a broader sense.

The advocates of fairtrade may have thought to discover as Easterly (2001) calls 'elixir of life' in order to correct the weak labor laws in developing countries and hence help the most suppressed and marginalized class of the society. The pioneers of fairtrade may have calculated the correct cost of weak labor laws in economic, humanitarian or moral terms but the program (as the

findings of this study conclude) has failed to give desirable and positive economic results. The failure of the fairtrade program is as Easterly (2001) succinctly describes as a ‘practical policy’ failure. The 1996 ban on the soccer industry is a classic example of the ‘practical policy failure’. Assuming that the ban was motivated by moral concerns, the ban on the football industry worsened the problem of child labor for Pakistan as many switched their jobs into either more hazardous jobs or seeped into the informal sector away from the international scrutiny (Khalid and Shahnaz 2004).

What could possibly go wrong? Before, we further comment on the failure of the fairtrade program it is important to revisit the fact that the birth of fairtrade had happened in a foreign land completely ignorant of the local context. As Bhagwati (1995), Bhagwati and Hudec (1996a, 1996b), Srinivasan (1998) pithily describe programs like fairtrade as aiming to impose cultural specific values of one country over the other, something they have little or no control over. In addition to this, the value that the country places on various labor laws reflects different position on nation’s social welfare function (Brown et.al 1993). For instance, in some societies the child labor is frowned upon whereas in other societies it is not seen as an anomaly.

Since the program aims to rectify the weak labor structure of the developing countries it is important for fairtrade program to reevaluate their strategies and redesign them while being mindful of the local contexts.

Apart from the arguments given above, it is also imperative to mention that the program is not multilaterally accepted. So far there is no labor related agreement at the WTO who considers labor issues a concern of ILO only. So there is no specific commitment given by any government to WTO. In addition, as far as the firms that have joined this program are concerned have done so out of purely economic reasons rather than their concerns for the social issues present in the industry. The four out of five certified firms joining the program stated the reason for joining the program because of the demand of their consumers. Their clientele is majorly Europe based and their mindfulness of the social issues via fairtrade label results in the firms joining the program is more of customer satisfaction rather than the interest in the social issues.

What is then important to notice is that, the failure of the program is both endogenous (shortcomings of the program in terms of for example limited premium amount) or exogenous (lack of enthusiasm at the international level).

5.0 CONCLUSION AND POLICY RECOMMENDATIONS

The demand of harmonization of labor laws through trade is gaining momentum day by day. Fairtrade labeling program forms an important part of this debate. The philosophy behind the fairtrade label is to correct the labor violations in the developing world.

The study fails to find a link between fairtrade labeling program and the improved socio economic status and welfare of the workers employed in the football industry in Pakistan. Few benefits, for the treated group, in terms of an increased household expenditure on education, together with the increased sense of security, recognition, higher satisfaction amongst workers and ‘spill-over effects’ for the community are recorded though. However, overall the program failed in terms of improving the living standard of workers. This is due to both in built program issues like a limited market share of the fairtrade goods and external factors which include, but are not limited to, the fact that no formal international agreement has been reached within WTO with respect to labor issues.

Based upon the findings of the study the following are few recommendations for the fairtrade labeling organization:

- 1) The Fairtrade Labeling Organization (FLO) needs to devise and develop a mechanism to increase the market share of the fairtrade football which is modest when compared to the market share of the non-fairtrade football. Hence, an effective marketing strategy to increase the sales of fairtrade football needs an immediate attention. Also, the current focus of fairtrade label is on the promotional football variety only. Venturing into the market of superior quality of football should be aimed for.
- 2) In order to make labeling more effective the participation of the firms must be increased. The barriers to obtaining certification must be reduced so that producers can easily join the fairtrade certification program.

- 3) As the movement aims to fight poverty and improve the living standards of the workers therefore, it must devise development programs that are mindful of and in harmony with the local context.
- 4) Lastly, the full implementation of the FT program in labeled firms in letters and spirit must be ensured to reap the benefits of the program for workers and firms. Then only others would be motivated to join on the basis of gainful outcome of the program.

Table 2

Probit Estimation for Calculating Propensity Score

Variables	Coefficient (Standard Errors)
Experience	-0.0017942 (0.125278)
Gender_D	-0.8656775 (0.498944)
Age	0.0038276 (0.0147678)
SideBusiness_D	0.2625145 (0.202223)
dr	-0.0196854 (0.0685477)
Loans	0.1737886 (0.1861802)
P_T_Exp	-0.00018 (0.0000948)
_Constant	1.076896 (0.8441427)
Log likelihood	-133.60063
Pseudo R2	0.0363
No of Observations	200

Table 3
Matching Results for Average Treatment Effect on the Treated (ATET)

		SOCIO ECONOMIC STATUS		TOTAL EXPENDITURE		FOOD EXPENDITURE		HEALTH EXPENDITURE		EDUCATION EXPENDITUR E	
		ATET	t-stats	ATET	t-stats	ATET	t-stats	ATET	t-stats	ATET	t-stats
Nearest Neighbor Matching	Analytical Standard Errors	0.016 (0.122)*	0.134	0.048 (0.056)	0.855	-0.014 (0.068)	-0.21	0.1 (0.162)	0.622	0.258 (0.087)	2.949
	Bootstrapped Standard Errors	0.016 (0.108)	0.574	0.048 (0.054)	0.894	-0.014 (0.072)	-0.917	0.1 (0.143)	0.701	0.258 (0.087)	2.974
Radius Matching	Analytical Standard Errors	0.047 (0.081)	0.574	0.011 (0.042)	0.248	-0.066 (0.051)	-1.292	0.061 (0.126)	0.482	0.064 (0.08)	0.805
	Bootstrapped Standard Errors	0.047 (0.081)	0.575	0.011 (0.039)	0.266	-0.066 (0.05)	-1.33	0.061 (128)	0.475	.	.
Kernel Matching	Analytical Standard Errors	0.069 .	.	0.007 .	.	-0.07 .	.	0.058 .	.	0.245 .	.
	Bootstrapped Standard Errors	0.069 (0.077)	0.90	0.007 (0.048)	0.149	-0.07 (0.052)	-1.334	0.058 (0.136)	0.425	0.245 (0.08)	3.056

*The value in brackets is the Standard Deviation

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