FAQs with respect to the Asian Wage Campaign

1.What is the existing wage level in the garment industry in Asia? Is it comparable across the different Asian countries?

Table1: Garment sector wages – based on trade union feedback

Country	Wages - (US$/day) Min.	Max.
Bangladesh	0.7	1.7
Sri Lanka	1.5	1.6
India	1.5	2.0
Cambodia	1.7	
China	1.9	
Indonesia	1.9	3.5
Pakistan	2.5	
Thailand	3.5	4.5

Table1 gives the data for prevailing wages in the garment industry for the major garment exporting countries in Asia. This data was collected from various unions working in the garment sector in the different countries.

The minimum wage in Bangladesh of $0.7 per day is very low wage. Many large exporting companies in the state pay higher wages of $1.5-1.7.

If we then exclude Thailand, the wage range in the garment sector in Asia considering an 8-hour day is between $1.5-$2.5 per day, or averaging around $2 per day.

We should add here that in most Asian countries garment workers are made to work beyond 8-hours each day without any extra payment.

2.Is the prevailing $2 per day wage in the Asian garment sector an adequate wage?

The wage is definitely not an adequate wage. In India, as per actual calculations for an average family of four in garment manufacturing regions, the actual monthly expenditure is more than Rs.5000 per month, or around $4 per day. This is still not a decent living wage, but the present actual family monthly expenditure.

What this means is that even at the present living standard, the wage that the garment worker earns of around $2 per day is generally around half the wage required to support her family. Therefore, most families would either have more than one wage earner, often pushing children into wage labour, or the garment worker would need to supplement her wage through other means. The situation would be similar for the other garment exporting countries.

3.What would constitute a decent living wage?

A decent living wage in a country has to be based on the norm for family size acceptable in that country, norm for number of wage earners in a family, and an acceptable expenditure level for the family to exist at a defined decent living standard.

Norm for family size: What is the average size for a typical worker family unit? How many adults and how many children?

Norm for wage earners: This would also depend on the family unit. If worker families typically live as joint families, the norm for wage earners could be more than one. For a nuclear family of husband, wife and children as one family unit, we consider the norm should be one wage earner being able to earn for the family.

Acceptable expenditure level: What does an average worker family require as part of the monthly expenditure for a decent living? Typically this should include nutritious food and adequate clothing, housing, travel cost, children's education, health care, some expenditure on entertainment and some social security benefits including retirement and old age subsistence.

4. Can you give an example of a decent living wage calculation?

For India, some norms of consumption were set by the 15th Indian Labour Commission (tripartite body consisting of representatives of industry, trade unions and the government) to define the Need Based Minimum Wage (NBMW). The NBMW would essentially define the lower end of a living wage definition. This assumed a family size of two adults and two children, with one earning member.

The items considered for the NBMW calculation were:

- One component for food requirements for the average family, taking into account basic calorific requirements for adults and children, and social food patterns;
- One component for house rent;
- One component for clothing requirement for the average family;
- One component for children's education, entertainment, etc;
- One component for social security.

As per these norms, the NBMW would be around Rs.6000 per month for cities that are centers for garment exports in India.

5. What does the decent living wage calculation translate into in the other Asian countries?

As a thumb rule, the NBMW of Rs.6000 per month in India has the same exchange value as around:

- 8180 Taka in Bangladesh;
- 1200 Yuan in China;
- 10300 Rupees in Pakistan;
- 16000 Rupees in Sri Lanka;
- 8400 Baht in Thailand;
- 1650000 Rupiah in Indonesia;
- 403200 Riel in Cambodia.

6. How does the living wage calculation compare with wage levels and living standards for workers in the developed countries?

Table2: PPP at US Minimum Wage

Country	**PPP at US minimum wage ($41.2 per day)**
Bangladesh	8.5
Sri Lanka	9.9
India	8.2
Cambodia	6.3
China	9.1
Indonesia	11.5
Pakistan	11.0
Thailand	12.9

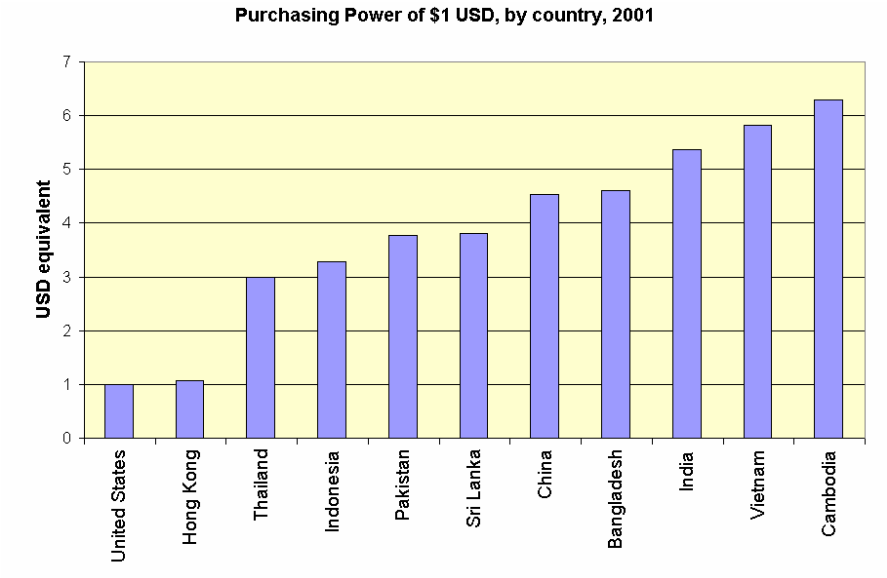
In the USA the legal minimum wage is $5.15 per hour i.e. $41.2 per day for an 8 hour working day. Table 2 shows what the equivalent in dollars would be if a worker has to have the same purchase power parity (PPP) as a US worker getting the legal minimum wage. Thus, in India, a garment worker should have to earn $8.2 per day or Rs.11,000/- per month to have the same standard of living as a worker earning a legal minimum wage of $41.2 in the USA. However, the prevailing wage is only one fourth of this wage. The situation is similar across the Asian Garment Export countries.

7.What is Purchasing Power Parity (PPP)?

Purchasing Power Parity (PPP) is a hypothetical currency, published by the World Bank, in which $1 PPP has the same spending capacity in each country as $1 USD does in the USA. Of course this means that $1 PPP has a different value in each country, as each country has different costs of living.

From Table3, $1 USD in Thailand has the equivalent spending power of $3 USD in the USA; $1 USD in China, Bangladesh or India has the equivalent spending power of $4.5 - 5 USD in the USA; and $1 USD in Cambodia has the equivalent spending power of over $6 USD in the USA. We can infer from this that Cambodia has the cheapest cost of living of the countries shown.

Table3: PPP data from World Bank



8. How relevant is PPP data for comparing living standards across countries?

There are criticisms of the Purchasing Power Parity (PPP) index. However, as a rough estimate of cost of living and parity of living standards the PPP data is very helpful. Also, when we use PPP to compare living standards for workers from the same region and the same sector of industry, as in the case of garment workers from Asian countries, the relevance of the comparison is reasonable.

9. Will a demand for wage increase not lead to business moving away from existing garment export sectors?

There are three parts to the answer to this question.

First, the possibility of export business shift out of Asia. This is virtually impossible. The garment trade globally is dominated by Asia. In the calendar year 2004, Asian countries contributed nearly two thirds (about $138 billion) of the global trade of around $228 billion. Data on garment trade indicates that the global garment trade has been more or less fully structured. The projections from WTO research sources is that Asian exports will grow to 51% for exports to EU, and 80% for exports to the USA. This is a huge concentration of market share. The wage differentials between Asia and the other regions make it impossible for the other regions to compete.

Second, the possibility of business shift within Asia, from one country to another. This might be possible to a limited extent, if wages were to go up in one country alone. This is the reason for building the whole campaign around a common Asian wage. The idea is to present a form of **wage agreement**, to prevent migration of business from one country to another. We should add here that China and India have by far the largest concentration of garment manufacturing capacity. The expectation is that between them China and India would in the coming years control up to 38% of the global exports to EU and 63% to USA. The two countries also have the advantage of an integrated textiles and garment industry. If China and India are part of the wage agreement there is little chance of wage increase leading to significant business shift.

Third, the possibility of business shift within each country. This might have been the case a decade ago. Since the turn of the century, there has been a structuring of business within the countries. The **'Tier-1'** companies, with integrated capacity for design, sourcing and manufacturing, and with direct linkages with big brands and large supermarket chains have a huge advantage in terms of higher productivity, ability to execute large orders, and maintain high quality standards and low cycle time. The possibility of export trade moving down the subcontracting chain to smaller Tier2,3 and 4 companies as a response to wage increase is therefore very remote.

10. What is a 'Tier1' company? How is it different from other companies in the garment sector?

The readymade garment industry in the Asian countries supply to different distinct market segments. The studies suggest that the companies supplying to different market segments are very different in terms of size, investment and productivity of workers.

Tier1 companies at the top are the very large companies with large investment in manufacturing facilities. These companies have direct supply relations with the big brands like GAP, Walmart, Carrafure, etc. They also supply to the high-end domestic branded garment segment. In Bangalore, the largest Tier1 company, Gokuldas Exports has an annual turnover of around 7000 million Rupees, and employs 30000 workers.

The Tier2 companies are sub-contractors to Tier1 companies, and sometimes have direct supply relations with small brands. They are smaller in investment size and employment.

Tier3 and Tier4 companies are the low end of manufacturing. They are sub-contractors to Tier2 companies, and also supply to the unbranded domestic market.

Tier1 companies are distinct on three counts.

First, they supply to the high-end export and domestic markets. The garment price is high, and therefore labour cost as a proportion of the garment price is low. Therefore increase in labour cost does not affect retail price significantly.

Second, Tier1 companies have high investment in manufacturing facilities and in a large workforce. Therefore, they cannot close and shift production easily and at will.

Third, Tier1 companies have to supply large orders with very strict time schedules and high penalties for late or non-supplies. Therefore they cannot afford to have production disrupted even for a small period to shift production locations.

The Wage Campaign is specifically targeted towards the Tier1 companies. However, any wage increase for workers in Tier1 will have a positive effect on wages for workers in the other companies in Tier2, Tier3 and Tier4.

11. If the campaign demand is for a floor level Asian wage of 40 percent PPP of Minimum Wage in the USA (around $4 per day) for garment workers in the export sector, that would roughly imply a doubling of present wage level. Is this feasible? Can the supply chain bear such an increase in labour cost?

This query is best answered referring to Table4.

Garment Industry in Asia claims that margins available do not allow increase in wages.

However, if we look at the figures across the supply chain a totally different picture emerges. Labour cost in India and Bangladesh is only 2.8% of the retail price for a basic men's shirt exported to USA. The retail margin available to the retailer in the USA is 75%. This is certainly adequate to accommodate a doubling of labour cost.

There is another way of looking at the situation. The labour cost works out to a mere $0.64 on a shirt priced at $22.50. The cost to the brand would go up be just $0.64 if wages are doubled. Therefore, if the retail price is increased by say 1 dollar, it should more than cover a doubling of wages at the manufacturing end and any related increases in duties and other costs. This is less than a 5 percent increase in retail price. Various studies in the USA and Europe have shown that the customer is willing to pay a premium of 5 percent for buying an ethical product. The Asian Wage Campaign can therefore address this specific issue of linking payment of a floor level Asian wage with a premium for products from such 'ethical' brands.

Table4: Break-up of costs for readymade garments along supply chain
(based on exports from India and Bangladesh to the USA)

Basic Men's shirt			
Component	***Cost (India)***	***% of retail price (India)***	***% of retail price (Bangladesh)***
Fabric	$2.80	12.4%	14.2%
Label/Packaging	$0.45	2.0%	3.2%
Labor cost	$0.64	**2.8%**	**2.8%**
Overhead	$0.59	2.6%	0.9%
Profit	$0.28	**1.2%**	**0.9%**
Wash	$0.15	0.7%	
FOB cost to Brand	$4.90	**21.8%**	**22.0%**
Shipping, duty, etc.	$0.75	3.3%	3.3%
Total cost to brand	$5.65	**25.1%**	**25.3%**
Retail price	$22.50	100%	-

The cost structure is similar for export of garments from Asia to Europe.

12. Can you explain some of the technical terms used in the FAQs?

Wage agreement:
A wage agreement is to prevent competition based on wage among garment exporters from Asia. If workers from different Asian countries working in Tier1 companies were to come together on a common wage issue, that would ensure that local manufacturers and foreign buyers would not be able to force wages down in the countries by threatening to shift production.

Global supply chain:
The normal situation of markets is that production and consumption take place within the same national boundaries. For example, bread manufactured in India is sold within India. This means that the whole cycle of production, packaging, transportion, sales and consumption take place within:

- the same currency region;
- the same legal regime;
- the same range of living standards.

With globalisation of production, this cycle has been broken. So in the case of garments we can have a situation of a standard shirt manufactured in Bangladesh, with fabric from India, buttons from Hong Kong and labels from Thailand, and sold in the USA. This represents a global supply chain. Here different currency regimes are involved. Different legal regimes govern rights of workers, industrial regulation, etc. The prevailing standard of living varies significantly. This cycle of production and consumption that goes beyond national boundaries represents a global supply chain.

FOB/ landed cost:

These terms refer to cost of goods that are supplied across national boundaries.

FOB is the abbreviation for 'Free on Board'. This is the cost of a good that has been reached to the port (airport or sea port), including all manufacturing costs, local duties and transport costs, loading and unloading etc. up to the port.

Landed cost is the cost of the good at the point where it lands at the port of destination. This is also called the CIF (Cost including Insurance and Freight) cost. This is essentially the FOB cost plus all duties, insurance of goods and freight costs.

The two costs are important because these are used to define the contract between the local manufacturer and the international buyer. Either the buyer takes the goods at the port, and pays the manufacturer a contracted FOB cost; or the contract specifies that the goods have to be reached to the buyer at a particular port of destination at a contracted CIF or landed cost.

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