



Asia Floor Wage Working Paper Series No.-1 October 7, 2009



Raising Wages on a Regional Level: The Asia Floor Wage

---

Asia Floor Wage Alliance – International Secretariat  
c/o Society for Labour & Development, C-23, 1<sup>st</sup> Floor, Hauz Khas, New Delhi 110016, India.  
Ph: 011-26525806, email: [asiafloorwage@gmail.com](mailto:asiafloorwage@gmail.com)  
[www.asiafloorwage.org](http://www.asiafloorwage.org)

---

[asiafloorwage.org](http://asiafloorwage.org)

**Raising Wages on a Regional Level: The Asia Floor Wage**  
**Stephanie Luce**  
**University of Massachusetts-Amherst**

**Introduction**

The global economic crisis opens space for debate about the nature of globalization and the strengths and weaknesses of economic models. Economists and policymakers have been pushing a neoliberal policy agenda for the last several decades, through domestic regulations, international financial institutions, and trade agreements. Despite the promise that this would benefit all, global inequality within and between countries continues to rise. While a few countries have seen a drop in poverty levels, the absolute number of people living in poverty is still quite large, and expected to rise with the current economic situation. Even where poverty is in decline, there is an increase in the number of working poor: those who scrape together an existence through informal sector work, low-wage jobs, and irregular employment.

In part due to these trends, non-governmental organizations (NGOs), unions, consumer advocates, students and journalists in global north countries have paid increasing attention to the conditions for workers in the global south. Garment is one such industry in which several organizations have attempted to find points of leverage to insist on better wages and working conditions for workers producing for the global north market.

Meanwhile, garment workers in Asia have engaged in organizing of their own. Garment and textile workers unions were an early stronghold of the Indian labor movement, but as the industry changed, so did their power. In Bangladesh, the government promoted the garment industry and grew it to where it provided more than 3 million new jobs, primarily for young women

(Kabeer and Mahmud 2004). The industry accounted for approximately 5 percent of its Gross Domestic Product and 50 percent of the industrial employment. Unions and NGOs emerged to represent the workers and win some gains in wages and conditions. However, with the changes in global trade laws and the economic downturn, Bangladesh's garment producers, and hence, garment workers, have lost position in the global garment market. In addition, changes in the industry have consolidated market power into the hands of a smaller number of large corporations, who have enough leverage to set the terms of production for their suppliers.

While some analysts exaggerate the true depth of the globalized economy, it seems clear that workers have less bargaining power under this new stage of global capitalism that gives more rights to capital than to labor. While financial markets have been deregulated to allow easier mobility of money across borders, immigration policy in many rich countries has tightened. Whereas the WTO has allowed corporations to pursue sanctions against countries that allow intellectual property rights' violations, there is no parallel mechanism to address countries that have become more lax in enforcing their own labor laws.

What mechanisms exist for workers in globalized industries to win and enforce higher wages and to improve working conditions? As certain industries change, and large trans-national corporations (TNCs) control a majority of a market, are there models for how workers employed directly by those corporations, or indirectly through subcontractors, bargain over wages? What is the role of states in these relationships?

What are the other points of leverage, and who are the stakeholders, in global supply chains?

This paper will argue that workers in a global economy must find regional and, ideally, global solutions to improve their wages and working conditions. Without such approaches, they will be forever forced to compete with one another. Employers have greater power, particularly in the context of deregulated financial and labor markets, and even more so in a situation of relatively high unemployment and underemployment.

Global solutions are necessary in part because national economies are linked and interdependent. But it is more than an economic question, as global supply chains cross political boundaries. Production and distribution of products occurs in states and nations with different regulations and laws. The rules governing trade between nations is evolving. The supply chain intersects these political boundaries at various points, creating opportunities for strategic political action.

Finding points of leverage for regional or global solutions to raising wages is challenging, since the chief avenues for organizing have been primarily aimed at companies, or through domestic legislation. However, there are some examples of industry-wide wage setting, and we'll examine these to see what lessons they hold for the prospect of the Asia Floor Wage: a campaign to set garment workers' wages on a regional basis.

### **A Failed Model**

For the past several decades, mainstream economists, policymakers, and bankers asserted that the path of "free trade" was the only or best way to economic development. This path required countries to pursue their comparative advantage: finding a product or service they could produce for export. The theory of comparative advantage asserts that all parties are better off when

they specialize and open themselves to trade. This requires that they open their borders to trade and investment, convert publicly-owned assets and services to privately-owned, deregulate labor markets and industries to create a more "flexible" and desirable home for investors, relax rules and regulations that restricted business's ability to pursue maximum profit, and make economies "safe" for investors by keeping inflation low.

The garment industry is considered to be one of the first and most "globalized" of sectors, and therefore should be a perfect case study of the potential of the export-led model for economic development. However, the reality appears to show that the model has failed. Let's look at Bangladesh. This is a country that was an early adopter of the export-oriented strategy. Bangladesh is a relatively young country. It formed in 1971 after fighting for its independence from Pakistan. Therefore, its history as a nation has primarily occurred in the modern period of globalization. Its Constitution was drafted in 1972, and includes in its Preamble a pledge to democracy and socialism. The Preamble states "that it shall be a fundamental aim of the State to realise through the democratic process to socialist society, free from exploitation – a society in which the rule of law, fundamental human rights and freedom, equality and justice, political, economic and social, will be secured for all citizens." The Constitution goes on to say that the State must work to secure for all citizens "the provision of the basic necessities of life, including food, clothing, shelter, education and medical care" and "the right to work, that is the right to guaranteed employment at a reasonable wage having regard to the quantity and quality of work."

However, from the start, Bangladesh lacked the resources necessary to provide all citizens with living wage jobs. The country embarked on a series of multi-year economic plans that failed to meet projected growth goals, although they did achieve reasonable growth rates for their time. One part of the

plan was to develop the garment industry for global trade. As garment producers looked to relocate from East Asia in search of lower wages and greater quota access, some turned to Bangladesh.

There is debate about the actual policies that assisted the development of the garment industry, and to what extent government regulation hindered or aided its growth. In either case, the country saw rapid growths in export-oriented ready-made garment (RMG) firms from the late 1970s and early 1980s, and then again in the 1990s and into the present day.

What are the factors behind the success of the Bangladesh RMG industry? Some scholars point to several factors, including low-wages, entrepreneurial skills, increasing global demand for garments, generous quotas under global trade agreements (in particular, the Multi-Fiber Arrangement (MFA)), and duty-free access to Europe under the Generalized System of Preferences.<sup>1</sup> Others suggest that the early partnership between Dosh Garments in Bangladesh and Daewoo Corporation of South Korea was key (Rahman 2004). Daewoo was engaging in the practice of “quota hopping”: producing garments in Bangladesh as well as South Korea in order to gain access to increased quotas under the MFA (Kabeer and Mahmud 2004).

In addition to allowing low wages and catering to global demand, the Bangladeshi government adopted policies and programs to assist firms in the RMG industry, including the following. First, there are the laws that govern domestic work and labor markets. Although the Constitution calls for wages that meet the basic necessities of life, in reality minimum wages are set through a Minimum Wage Board that does not rely on a realistic cost of living formula. Some argue that the

low wages in Bangladesh simply reflect the country’s labor market, but minimum wages are set by industry, and data shows that the average wage in the garment industry is lower than the wages in other domestic industries. Table 3 shows how RMG minimum wages compare to those set in other major industries.

Second are import policies and regulations. The RMG industry was primarily developed to cut and assemble garments. RMG firms needed to be able to import machinery for these purposes. They also needed to import most of the fabric used in producing the clothing. Although Bangladesh had some of its own textile firms, foreign buyers demanded that Bangladesh import the fabric for production in order to meet particular quality standards. Initially, Bangladesh had strong import controls to encourage domestic production. However, by the early 1980s they relaxed these controls and allowed firms in the RMG sector to import machinery and fabric. In addition, Bangladesh has lower tariffs on raw materials than it does for finished goods, making it easier for RMG firms to import textiles. The country also simplified its import tariffs in the 1990s as part of its liberalization policy.

Third, under pressure from the IMF and World Bank, Bangladesh formally converted from an Import Substitution Industrialization (ISI) policy to private sector export-led growth in 1982. This came with a range of reforms to assist exporters including: “special bonded warehouse facilities, back-to-back letters of credit (LCs), duty drawback, cash compensation of 25 per cent of FOB [freight on board] value of export and simplified export procedures” (Kabeer and Mahmud 2004). In addition to these incentives, the government created Export Processing Zones (EPZs), with additional benefits, outside Chittagong and Dhaka (with more EPZs in development). Firms located in the EPZs can be exempted from up to 16 domestic laws – in particular, labor laws

<sup>1</sup> Note that the country’s second largest export-industry, shrimp, began its rapid growth in the mid-1970s. Islam (2008) states that low wages and increasing global demand were in part responsible for that growth.



regarding the freedom of association and the right to collective bargaining.

A fourth arena in which the Bangladesh government made explicit policy choices relates to investment. Neoliberal policies place heavy emphasis on the rights of capital to protect investments, particularly in the context of instability. Investors were looking to win higher rates of return on their capital, and those higher rates were often found in global south countries because of the uncertainty of development. While investors wanted the high rates of return, they did not want to risk the complete loss of their whole investment. Therefore, many countries put protections in place to give investors more security. In 1980, Bangladesh passed the Foreign Private Investment (Promotion and Protection) Act, which secures all foreign investment. The country joined the Multilateral Investment Guarantee Agency and is part of the International Centre for the Settlement of Investment Disputes. In many ways, these kinds of reforms take some of the private risk out of investment options and put them onto the public. This means that higher profits would go to the private investor, but losses would be borne in large part by the home country and its taxpayers.

A fifth area in which the government assisted the development of the RMG sector is in infrastructure. Bangladesh joined the World Bank and IMF shortly after independence. Soon, the country received loans for a variety of projects, including infrastructure development. For example, in the mid-1980s, World Bank loans helped develop oil and gas for energy, allowing for more steady and subsidized energy for production. The government also helped build the roads and ports infrastructure necessary for the RMG industry to produce and export.

Finally, similar to most other countries, Bangladesh has privatized some of its publicly-owned enterprises, and restricted future public ownership to sectors

primarily related to national security. This is considered a key plank in the neoliberal reform agenda, as it opens up more opportunities for investment for private investors, and reduces potential competition in key industries. Privatization is considered positive for a country's business climate.

With all of these measures, Bangladesh has seen remarkable growth in its garment industry. The sector grew from 9 firms in 1978 to 632 in 1984-1985 (Rashid 2006). The gross dollar volume of exports went from \$1.3 million (US) in 1980-81 to \$116.2 million in 1984-85, at which point US and Europe imposed MFA quotas on Bangladesh clothing exports. This slowed growth for a few years, but it picked up by the late 1980s and then grew rapidly through the 1990s.<sup>2</sup> Although growth stopped during the 2001-2002 recession, it has picked up since then, with a 40 percent increase in employment from 2002 to 2008, and the value of exports more than doubling (Table 1). Yet despite theoretical predictions that pursuit of comparative advantage benefits all, the garment industry workers have not experienced similar gains. While the growth of the industry has led to job creation, wages have not kept pace with inflation. The real value of the minimum wage for garment workers actually fell from 1994 to 2006, while the industry was growing rapidly.

The country first established a minimum wage for garment workers in 1994. It was set at 930 taka per month for an entry level garment worker. The rate was not adjusted until 2006, and as a result, rapidly lost value as a result of inflation. After wide-scale protests, the rate was raised in 2006, to a level slightly below its 1994 value. Since then the real value of the minimum wage has continued to fall. Today, the minimum wage is 20 percent lower than its initial value in 1994. During that same period between 1994

<sup>2</sup> A notable exception is 2001-02, when the industry saw negative growth of over 5 percent, due to the recession in the US and Europe (Rashid 2006).

and 2006, exports, measured in US dollars, have grown five-fold.

**Table 1: Bangladesh Ready-Made Garment Sector, 2000 to 2008**

Year	Exports in US\$ Millions	Employment in million workers	Number of factories registered with the BGMEA*	Minimum wage, per month, entry level current (Taka**)	Minimum wage, per month, entry level, adjusted for inflation (in 2008 Taka)
1985-1986	131	0.2	594		
1990-1991	867	0.4	834		
1994-1995	2,228	1.2	1,182	930	2,084.68
1995-1996	2,547	1.3	2,353	930	1,893.17
1999-2000	4,349	1.6	3,200	930	1,526.07
2000-2001	4,860	1.8	3,496	930	1,526.07
2001-2002	4,584	1.8	3,618	930	1,461.21
2002-2003	4,912	2.0	3,760	930	1,408.81
2003-2004	5,686	2.0	3,957	930	1,337.14
2004-2005	6,418	2.1	4,107	930	1,260.22
2005-2006	7,901	2.2	4,250	1,662.50	1,177.33
2006-2007	9,211	2.4	4,490	1,662.50	1,965.55
2007-2008	10,700	2.5	4,740	1,662.50	1,801.42

\* BGMEA = Bangladesh Garments Manufacturers and Exporters Association

\*\* In 2009, 1 taka is equal to about 1.5 US cents. 1,662.50 taka per month is about 24 U.S. dollars.

Sources: Bangladesh Garments Manufacturers and Exporters Association export statistics, <http://bgmea.com.bd>; International Monetary Fund, World Economic Outlook Database, April 2009.

## Misleading Theory

The neoliberal model has failed to deliver on its promises for economic development in Bangladesh. This may be in part because the model rests on misleading theory about the nature of free markets. This is the prediction that by deregulating markets and lessening government intervention, firms would engage in direct competition and markets would work more efficiently and more fairly. The theory would suggest that small factories in Bangladesh might have more room to succeed in their comparative advantage without interference.

In reality, neoliberal policy helped some firms and hurt others. Governments did not deregulate markets so much as reregulate. The rules of the game were changed, but not in a neutral way. In practice, neoliberal reform meant lax enforcement of anti-trust legislation, labor law, wage and hour provisions, environmental regulations, and health and safety laws. On the other hand, there was stricter enforcement of intellectual property laws, patent law, enforcement of particular types of contracts, and the right to pursue maximum profit. These choices favored large multinationals based in the global north, allowing them to grow more quickly and easily. This growth in turn meant that they had greater market share, and greater bargaining power: with their employees, with other firms in their supply chain, and with governments.

A clear example of this is Wal-Mart. Many observers suggest that Wal-Mart has grown to its size and scope due to ingenious marketing savvy on the part of Wal-Mart founders and managers. Yet, Wal-Mart's efforts to expand its stores internationally suggest that other factors may be just as important. In particular, as Peter Hugill notes, "Wal-Mart's corporate culture developing in the relatively un-zoned, unregulated, "right-to-work" states of the American South, and the company has had problems expanding into zoned, regulated, and unionized places

elsewhere in American and internationally" (Hugill 2006, p. 13). This suggests that Wal-Mart's success may rely as much on a particular confluence of government regulation that favors capital vis-à-vis labor. In the context of the United States, and the U.S. South in particular, anti-trust legislation is weakly enforced, as are labor laws, creating an environment conducive to Wal-Mart's growth. Hugill writes that "where there is effective retail competition and tough labor laws, such as in Japan and Germany, Wal-Mart has been a weak player"(p.12)

In addition, Wal-Mart was able to grow in a way that previous U.S. retailers were not, due to changes in anti-trust regulation. The United States passed the Sherman Antitrust Act in 1890. According to Barry Lynn (2006), that Act is "famously vague," but subsequent legislation in 1914 and 1936 tightened the rules of competition. Lynn argues that "During the twentieth century, antitrust law shaped the American economy more than did any other government power," as thousands of antitrust cases were filed by the federal government, states, and firms, against other firms that had grown too large. But when Ronald Reagan came into the presidency in 1981, he set in place key changes to how monopoly regulations could be interpreted. In particular, new guidelines "redefined the American marketplace as global in nature, and ...severely restricted who could be regarded as a victim of monopoly." Whereas prior regulations interpreted monopolies as having excess power to harm other firms or suppliers, and even possibly workers, new regulations narrowed this so that monopolies were only understood as harmful if price-gouging consumers.

This new interpretation laid the groundwork for Wal-Mart to begin its massive growth. By keeping its consumer prices low, Wal-Mart could not be found guilty of violating antitrust legislation, no matter how much they were able to control the terms of contracts with other companies wishing to have their products sold in Wal-Mart stores.

The fact that Wal-Mart utilized monopoly or monopsony power to become price-setters with suppliers, against other firms, and in labor markets, was no longer relevant. Huggill (2006) shows how this was one major difference affected Woolworth's and Wal-Mart. Both companies became global retailers, but in very different regulatory environments. Woolworth's was not able to grow to the power of Wal-Mart in part because of antitrust regulations.

This trend hasn't only been a problem in the United States. In the United Kingdom, the Competition Commission (an independent regulatory body) recently ruled that U.K. supermarkets were abusing their power in their supply chains. The Commission did not find evidence of negative results for consumers, but did find evidence that large grocery chains dominated the market, creating excessive barriers for new entrants into the field. In addition, the Commission found "that the transfer of excessive risk and unexpected costs by grocery retailers to their suppliers through various supply chain practices if unchecked will have an adverse effect on investment and innovation in the supply chain, and ultimately on consumers" (Competition Commission 2008). The Commission called for remedies including a tighter Supermarkets Code of Practice, and the creation of an Ombudsman to oversee implementation of the revised code. This ruling applies only to food items and not other products sold in U.K. grocery stores, such as apparel. However, it is a major

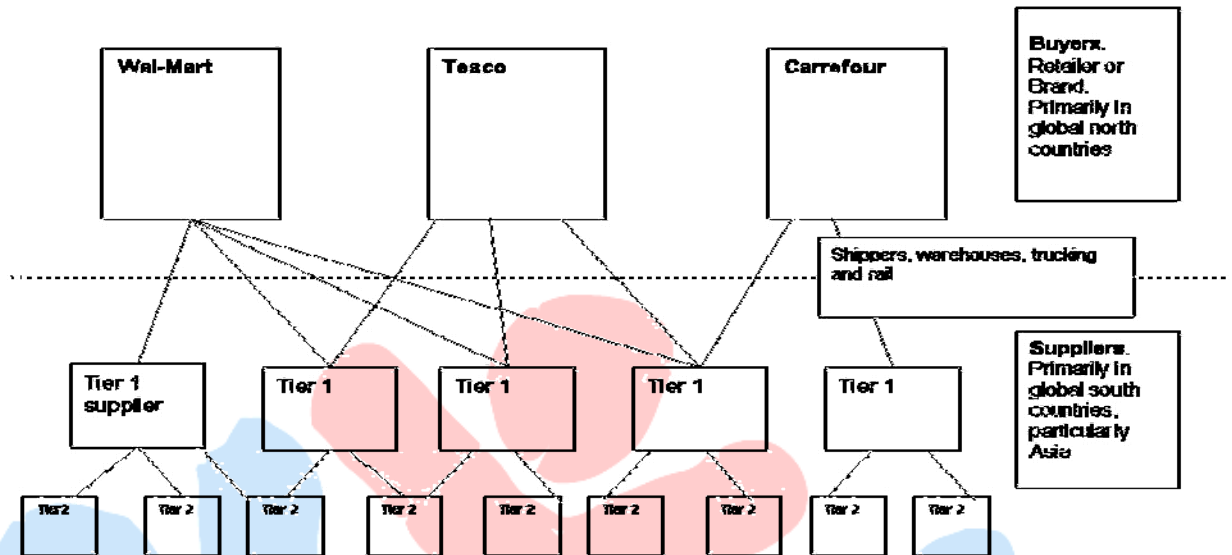
decision by a government body regarding the power of major retailers in "buyer-driven" commodity chains.

The result of this reregulation is that some players have gained excessive power within global supply chains. They have gained significant share of markets, enough to set the terms and conditions of production. Small firms that produce for large brands or retailers have little leverage to bargain for a greater share of profits from production. The outcome is a distorted distribution of power, where multi-nationals' "rights" trump the rights of workers, and the relationship between buyer and supplier is often asymmetric. For example, in the case of bankruptcy, the courts privilege debt repayment to secured creditors (banks and other commercial lenders) over unpaid wages to workers. Corporations can easily cross borders but workers can't. Large retailers can unilaterally set the terms of contracts. Buyers can demand "open book costing" from suppliers – meaning the right to see all costs, but the supplier does not have the same information from the buyer.

Figure 1 provides a simplified picture of the global supply chain in garment. Large retailers and brands dominate the chains, and subcontract many parts of the production to large factories ("Tier 1" suppliers). These Tier 1 suppliers are primarily located in global south countries. The Tier 1 firms then subcontract to smaller firms. The relations in this chain are primarily hierarchical and unilateral.



Figure 1: Global Commodity Chain, Garment Industry



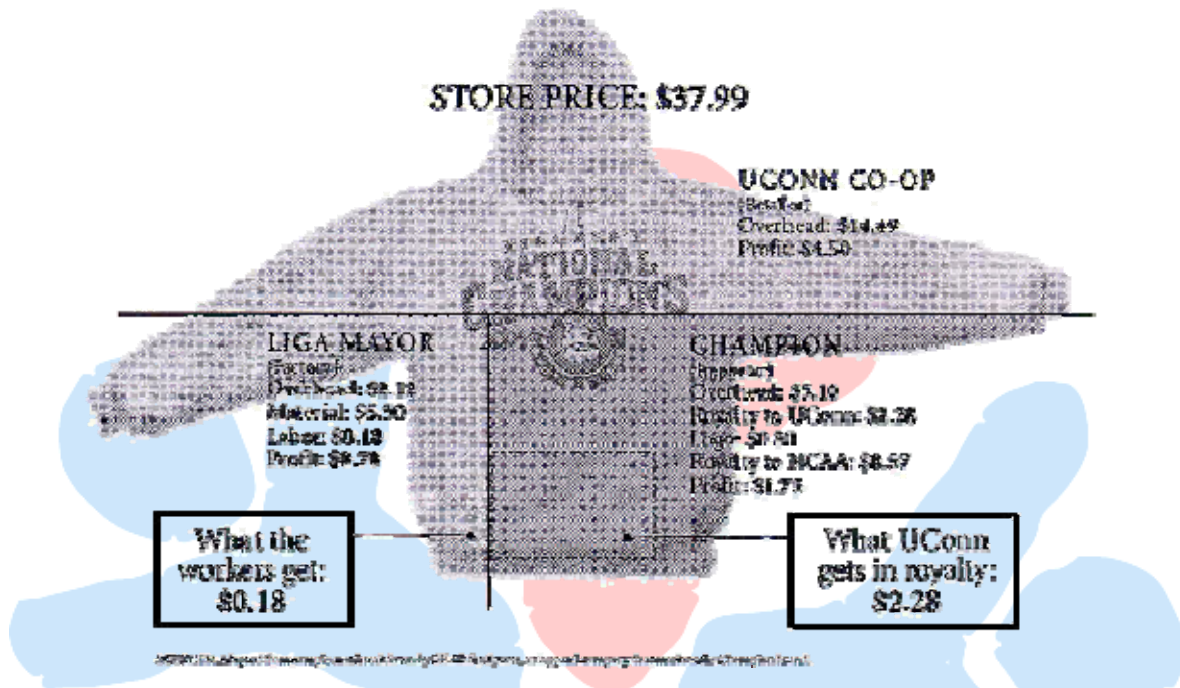
Along with the distorted distribution of power comes an unequal distribution of returns, with the greatest share going to those who design, advertise, and sell directly to northern consumers, and the smallest shares to the production workers. While it is difficult to get precise data, a few people have tried to break down the component prices of garments. For example, as Figure 2 shows, an average university-logo sweatshirt might sell for \$37.99. Of that, the profit of \$7.13 is distributed as follows: retailer, \$4.50; the importing brand, \$1.75; the factory, \$0.70; the wages to factory workers, \$0.18 (Kauffman and Chedekel 2004).<sup>3</sup> This distribution does not reflect productivity or efficiency, but position in the supply chain and the power to reap the largest amount of surplus value.

<sup>3</sup> This distribution is not too different when the work is done in the United States. According to Nutter (1997), "the division of spoils on a \$100 garment [are]: \$50 to the retailer, \$35 to the manufacturer, \$10 to the contractor, and \$5 to the seamstress" (p. 201).

Figure 2

### Breaking Down The Cost of A Sweat Shirt

This UConn men's championship sweat shirt, for sale at the UConn Co-op, was sewn by workers at the liga Hayn factory in Mexico who earn 18 cents per garments-less than a tenth of what UConn makes in royalties. Profit, overhead and other expenses along the supply chain push the retail sales price up to \$37.99.



Source: Kauffman and Chedekel 2004

### A False Premise

Neoliberal theory is misleading in part due to a false premise: the idea that prices are set strictly by market forces, and that there is no way to change prices without negative consequences. This phenomena affects the price that a buyer such as Wal-Mart sets with its supplier; the price the supplier can pay workers as wages; and the price that the retailer can charge the consumer. Neoclassical economics would suggest that prices are set through the laws of supply and demand, and if a price is raised through other mechanisms (e.g., collective bargaining) that markets will adjust in predictable ways (e.g. lower employment). While neoliberal policymakers hold tight to these arguments, a growing number of economists have been studying the actual relationships between prices and wages.

There has been an extensive amount of academic work examining the impact of minimum wage laws on employment levels. However, there is no consensus among economists regarding the findings. Some work, particularly theoretical work based on modeling, shows how minimum wage laws raise operating costs for employers, pushing them to layoff the most marginal workers, such as youth.

However, other economists have attempted "natural experiments" comparing the actual results of changes in minimum wage laws. Perhaps best known is the work of David Card and Alan Krueger (1997). They measured the impact of the higher statewide minimum wage in New Jersey, compared with that of neighboring state Pennsylvania. They noted that fast food restaurants would be among the most heavily impacted by a

minimum wage increase. When New Jersey raised their state minimum wage in 1992, economists would have predicted that employers would cover their costs by firing workers, or pass on their costs to consumers, leading to lower demand, as consumers could go to fast food restaurants in nearby Pennsylvania.

Card and Krueger found no evidence of job loss, and no evidence of declining consumer demand. They speculated that employers were able to cover costs through productivity gains, and by passing on the cost to consumers. In this case, they found that the average price of a hamburger went from \$1 to \$1.01. This suggests that while the benefits of a minimum wage increase are concentrated among low-wage workers, the costs can be greatly diffused among many consumers.

But what about minimum wage increases in countries outside of the United States? There is also debate about the relationship between minimum wages and economic development. Much of the scholarly work is based on economic models, which rely on particular assumptions about the economy. However, empirical work shows that the standard assumptions of the models often do not apply. Empirical studies have found results at odds with predictions based on models, as in the case of the Card and Krueger study of U.S. minimum wages.

Brown, Deardorff and Stern argued in 1996 that high-income countries imposing labor standards requirements on low-income countries will harm low-income country workers in the long-run. However, Weller and Zucconi (2008) argue that enforcement of universal labor standards can create a virtuous circle. If high-income countries insist that low-income countries adopt universal labor standards, this could result in greater unionization and, ostensibly, higher wages for workers in the low-income country. Those workers would then have more income to purchase goods from the higher-income country. Along these lines, numerous studies

suggest that lower labor standards are not necessarily likely to attract foreign direct investment (FDI). In 2004, Brown, Deardorff, and Stern surveyed the existing literature on the relationship between investment and wages, and conclude that “there is no solid evidence that countries with poorly protected labor rights attract FDI.” Furthermore, Rodrick (1996), Aggarwal (1995), and an OECD study (1996) all find that lower labor standards are more likely a factor to dissuade, rather than persuade, incoming FDI.

Increasingly, empirical studies show that there is not a strong link between minimum wage laws, average wage levels, and economic development. For example, in a meta-analysis of studies examining the links between labor standards and trade volume, Brown (2000) finds little evidence of a link. Dehejia and Samy (2004) find no evidence of linkage between labor standards and comparative advantage. Some scholars argue that this is because larger macroeconomic conditions tend to dwarf the impact of minimum wages. This does not mean that minimum wage laws are not necessary, but rather that minimum wage laws on their own cannot change the direction of a national economy. According to James Heintz (2002), it may be necessary for countries to employ expansionary macroeconomic policies in order to improve the growth of the economy. However, this alone is not sufficient, as general growth often does not result in rising living standards for workers. Heintz argues that improving labor standards (and enforcement mechanisms) would be a necessary addition to expansionary macroeconomic policy.

What this all means is that the theoretical premise that raising minimum wages will necessarily lead to unemployment is false. Clearly, there are other factors that are relevant to the wage/employment relationship, and other possible outcomes.

The same can be said for the nature of prices set between buyers and producers.

Buyers frequently argue that they must set low prices with producers because of the market: i.e. that consumers are only willing to pay a certain low price for garments, and therefore buyers have no choice but to offer low prices to producers. Again, the research suggests that this is not necessarily true.

As mentioned above, prices are set within markets but within the context of regulations and power relations between actors in a supply chain. Georgetown University business professor Pietra Rivoli (2005) found out when she studied the production of a T-shirt, “the key events in the T-shirt’s life are less about competitive markets than they are about politics, history, and creative maneuvers to avoid markets. Even those who laud the effects of highly competitive markets are loathe to experience them personally, so the winners at various stages of my T-shirt’s life are adept not so much at competing in markets but at avoiding them” (p. x). This means that with growing concentration within the industry, certain players are able to influence legislation and rules that give them greater leverage within the supply chain, allowing them to set prices more in their favor vis-à-vis suppliers. Some analysts suggest that suppliers from developing countries need only figure out the right approach to moving up the value-added chain, such as by forming regional clusters that maximize local assets. But as Cammett (2006) writes, this “overlooks the constraints that position in global value chains often places on the ability to construct or foster clusters in developing countries.” While there are a few producers in developing countries that have managed to move up the value-added chain, the probabilities for doing so are small, and producers in countries like Bangladesh continue to compete primarily on the basis of low wages and low prices. The burden for achieving higher prices to suppliers may not rest solely on the “ingenuity” of those firms.

Buyers could pay producers higher prices under a variety of scenarios. First, a number of studies have found that consumers would be willing to pay higher prices for end products if they knew the higher price went to cover a living wage for production workers. Pollin, Burns and Heintz (2004) show that the actual cost to double the wages of supervisory and non-supervisory workers could mean as little as a 1 to 2 percent increase in final price, even if all costs were passed on to consumers.<sup>4</sup> Miller and Williams (2009) note that some of these studies underestimate the full cost of a pass-through, as they usually fail to include the extra duties, sales tax, and related expenses that would increase with a higher Freight-on-Board cost of a garment. However, they agree with the overall finding that the final increase in price would still be minor for the consumer.

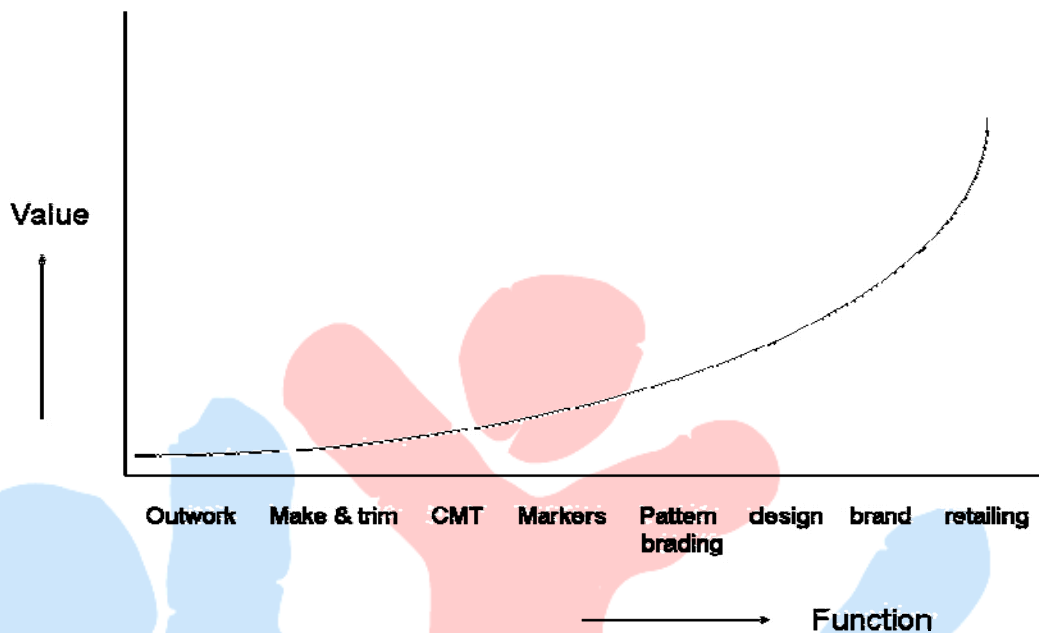
Even without a pass-through to consumers, it would be possible to redistribute the value-added throughout the garment supply chain so that a greater share went to the suppliers and production workers. As mentioned above, alongside the drop in consumer prices and production wages, the apparel industry has seen an increase in advertising, branding, design, and managerial budgets. Miller and Williams (2009) provide a useful graphic which shows that value added is lowest on the production end and highest with branding and retailing.

---

<sup>4</sup> Dube et. al (2007) found that Wal-Mart could also afford to pay workers at U.S. retail stores a living wage. Even if they passed all of the increase onto consumers, the impact on consumers would be slight: a total increase of \$9.70 a year for the average Wal-Mart shopper.



**Figure 3: Value Added in a Clothing Company**



Source: Adapted from Miller and Williams 2009.

With an industry-wide approach, it would be possible to redistribute the profit from these expenses into other steps along the chain. In fact, the garment industry functioned profitably and efficiently with other structures at different points in time. For example, in the early 1900s the U.S. apparel industry was structured in a similar pattern as today's industry: many workers employed by small contractors for low wages and long hours. The workers had little luck winning wage increases as long as their immediate employers, the contractors, were forced to accept low prices for garments from large manufacturers and retailers. Finally, they managed to organize the industry by negotiating triangular agreements with manufacturers associations, the contractors and unions. These agreements included "joint liability": both manufacturers and their contractors were responsible for ensuring that workers received higher wages (Dirnbach 2008).

This model worked for awhile, but when the U.S. Congress passed the Taft-Hartley Act in 1948, they opened the door for southern states to pass "right to work laws," severely restricting the rights of unions. Northern garment manufacturers began moving to these southern states and breaking the garment contracts (Rosen 2002). Eric Dirnbach of UNITE HERE argues that a new industry-wide agreement is needed, between brands, contractors, and unions, which he calls a Global Sweat-Free Apparel Production (GSAP) Agreement. Such an agreement would provide a structure where workers could bargain over wages with their immediate employer, but contractors could also bargain prices with brands. This would allow for a negotiation over the enormous surplus created within the apparel industry, so that more of the surplus might go to contractors and workers. Theoretically, other contractors and workers along the supply chain might also be in on negotiations, such as those in logistics and retail.

## Moving Forward: the Asia Floor Wage

A new model of garment production requires a collective solution. Garment workers around the world have tried to organize and win higher wages but have had limited success. Working on their own, they are subject to employer hostility and threats of capital flight. Small countries that attempt to raise wages through raising minimum wages or greater enforcement of labor laws face similar threats. No one set of workers will be able to negotiate and sustain higher wages on their own; no one country will be able to “solve” the challenges of the garment industry.

Similarly, consumer-driven movements from the global north have been limited in their ability to impact the global garment industry. There is an overwhelming amount of research that shows that Corporate Social Responsibility has failed (e.g. Chan 2007, Seidman 2007). Solidarity campaigns run by groups like the United Students Against Sweatshops have had some success, but on a very small scale.

Activists must now pursue “third generation” type campaign to improve wages: a campaign that learns from the failures of previous efforts that were based in one factory or country, or were driven by actors in the global north far from the point of production. Garment industry wages can only be raised through collaboration of workers across borders, with the assistance of anti-sweatshop allies. A third generation campaign must aim to reshape the rules of the game, so that workers are not forced to enter a losing battle from the start. This requires intervention to address changes in policy and laws that have allowed the supply chains to develop into their current structure, such as those in Bangladesh that assist garment exporters and those in the U.S. that aid retailers. Such a campaign would require pressure on state governments that have reregulated the garment industry, on the large retailers and brands who drive the supply chain, and on international bodies that have provided mechanisms for firms to shape outcomes in their favor vis-à-vis workers and states.

One such collective solution is the Asia Floor Wage campaign. The idea has developed among Asian-based unions and worker NGOs over the past several years, and now includes representatives from eleven Asian countries, the United States, United Kingdom, and Europe. The campaign proposes to establish a common wage floor standard to apply to garment work throughout Asia. The standard would not be the same wage in dollar terms, due to the wide variety of currencies and standards of living. Rather, the standard would utilize a common formula based on consumption needs. After several years of research and discussion, the Alliance agreed on a common methodology for determining a living wage. The Alliance released a Position Statement in 2007, formally calling for the establishment of an Asia Floor Wage, and then released a Decision Statement in October 2008, after the AFW Steering Committee met in Hong Kong and finalized the floor wage formula. The formula is described in detail in an Asia Floor Wage campaign report issued this year (Merk 2009; also see Bhattacharjee, Gupta and Luce 2009).

After agreeing on a common formula, the Alliance is now planning to launch a campaign which would work to win the floor wage through various means, including domestic minimum wage laws, collective bargaining, consumer pressure campaigns, and possibly tax and subsidy regulations. To organize along a value chain (or supply chain), activists must first locate points of leverage, particularly noting where value is created: the point of production, Freight on Board, Landed Cost, and at the retail site. Table 2 gives examples of potential points of leverage in the chain.

Table 2: Potential Points of Leverage in Global Value Chain

Point of Value creation	Category	Examples
Point of production <i>(global south)</i>	Production conditions	Strikes and walkouts; ILO investigations; Buyer Code of Conduct
	Production requirements	Production requirements by industry; zoning and licenses for new establishments
	Domestic labor law	Minimum wage; Payment of Wages Act (India); overtime regulations; health and safety laws
	FDI regulations	Production incentives; financial deregulation; capital gains and other tax cuts or exemptions
Freight on Board <i>(global south)</i>	Export regulations	Export Processing Zones; Apparel Export Promotion Council licensing requirements
	Incentives to exporters	Duty drawbacks; income tax exemptions; cash incentives; municipal tax exemptions
	Investor Protections	Bilateral Investment and Protection Agreements (e.g. India has signed 63 BIPAs giving protection to investors)
Landed cost <i>(global south to global north)</i>	Trade law	U.S. Trade Act; Generalized System of Preferences and related preference programs
	Trade agreements	Labor standards in FTAs, such as U.S.-Morocco; labor standards with incentives such as U.S.-Cambodia
	Buyer-supplier relations	Monopoly/monopsony regulation and enforcement campaigns
Retail cost <i>(global north)</i>	Domestic laws	Minimum wage laws, living wage, wage theft and procurement ordinances, Community Benefits Agreements; Works Council Directives
	Purchasing	Designated Supplier's Program, Government Sweatfree Consortium
	Binding agreements	Collective bargaining agreement; Global Sweat-Free Apparel Production Agreement (proposal from UNITE HERE)

In addition to these points of leverage, activists must identify specific targets (See Table 3). The Asia Floor Wage

Alliance (AFWA) intends to start by targeting large supplier factories in selected Asian countries, sometimes referred to as "Tier 1"

factories. The Alliance will choose factories that produce for major U.S. and European retailers. From there, anti-sweatshop allies in

the United States and Europe, and unions that organize and represent workers in other parts of the garment supply chain, will work

to pressure retailers to pay a higher price to those Tier 1 producers.

**Table 3: Possible Targets for an Asia Floor Wage Campaign**

Point of Value creation	Target	Possible Tactics
Point of production ( <i>global south</i> )	Tier 1 factories in each Alliance country	<ul style="list-style-type: none"> <li>* Unionization, where legal; strikes, slowdowns</li> <li>* NGO organizing in community (e.g., women's groups within EPZs)</li> </ul>
	Global south states	<ul style="list-style-type: none"> <li>* Campaigns to establish, raise, enforce minimum wage</li> </ul>
Freight on Board ( <i>global south</i> )	Global south states	<ul style="list-style-type: none"> <li>* GSP petitions against countries not enforcing labor laws</li> </ul>
	Global south states; Global north states	<ul style="list-style-type: none"> <li>* Fight for labor standards in new Free Trade Agreements or other bilateral agreements</li> </ul>
Landed cost ( <i>global south to global north</i> )	Retailers and brands	<ul style="list-style-type: none"> <li>* Monopoly/monopsony regulation and enforcement efforts</li> <li>* Solidarity campaigns by unionized dockers and logistics workers, demanding "fair pricing"</li> <li>* Unionization campaigns of logistics workers</li> </ul>
Retail cost ( <i>global north</i> )	Retailers and brands who purchase from targeted Tier 1 suppliers	<ul style="list-style-type: none"> <li>* Consumer campaigns to get "fair pricing"</li> </ul>
	Universities who purchase targeted brands	<ul style="list-style-type: none"> <li>* Designated Supplier's Program</li> </ul>
	Governments who purchase targeted brands	<ul style="list-style-type: none"> <li>* Government Purchasing Ordinances</li> </ul>
<b>Conclusion</b>		building campaigns across borders, especially in a time of economic crisis. However, it is important to remind ourselves that garment workers and activists have already won important victories over the past decade. Some of the victories were short-lived, and some have been more successful



at raising wages than others, but they include unionization at places like the Kuk-dong factory in Mexico, Chentex in Nicaragua, and the BJ&B hat factory in the Dominican Republic; an innovative trade agreement between the United States and Cambodia; the JO-In multi-stakeholder initiative in Turkey; sweatfree procurement ordinances in the United States; and the inclusion of some labor rights in many bilateral trade agreements recently negotiated. Bangladesh did not have a minimum wage for garment workers until 1994, and Indonesia doubled the value of its national minimum wage, in real terms, in the early 1990s.

Workers in other industries have had some success organizing along a supply chain, such as the campaign by the Coalition of Imokalee Workers in the United States, who fought to win a higher wage for tomato pickers by pressuring large food corporations to raise the price they paid their suppliers. And there are recent efforts to pass regional wage standards, such as the effort to increase the wages paid to migrant workers in the Gulf states. In 2008, the Indian Minister for Overseas Indian Affairs announced that they would begin looking to set a minimum wage standard for workers employed as domestic servants. The wage would vary according to the cost of living, but should reach a level that protects the welfare of Indian workers. Since then, India reached agreements with the United Arab Emirates and Oman (Glass 2008; Ministry for

Overseas Indian Affairs 2008). The Indian government states that it plans to negotiate minimum wages with other Gulf countries, and to extend the minimum wage to other low-wage guest workers, such as construction workers.

These small victories are promising, but we should also note that it is often in the midst of economic and political crisis that bold new initiatives are possible. It was during the Great Depression that the U.S. Congress first granted a president authority to negotiate bilateral trade agreements, in the hopes of quickly stimulating economic activity. The MFA came into place in 1974, in the midst of global economic recession and following a wave of independence movements in many parts of the world that currently export textiles and garments. That Agreement helped some countries develop garment industries but hurt others. It is during the current economic crisis that garment workers should advocate for a new model of global garment production – though instead of one based on privileging certain countries over others, or one giving inordinate power to retailers, it should be a model founded on the principle of living wages. The Asia Floor Wage is an effort to formulate a different way to think about developing a global industry and rebuilding the global economy, by raising wages at the bottom and reducing inequality. The Asia Floor Wage would change the rules of the game, and set a foundation for a healthier and more just economy.

## References

Aggarwal, Mita. 1995. "International Trade, Labor Standards, and Labor Market Conditions: An Evaluation of the Linkages." USITC. Office of Economics. Working Paper No. 95-06-C (June).

Asia Floor Wage Alliance. 2007. "Position Statement of Asia Floor Wage Alliance." <http://www.asiafloorwage.org/documents/ActivitiesCampaigns/AFW%20Position%20Statement,%202007.pdf>.

Asia Floor Wage Alliance. 2008. "Asia Floor Wage Alliance Public Launch Decision Statement: Hong Kong 2008." <http://www.asiafloorwage.org/documents/ActivitiesCampaigns/AFW%20Hong%20Kong%20Decision%20Statement,%202008.pdf>

Bhattacharjee, Anannya, Sarita Gupta and Stephanie Luce. 2009. "Raising the Floor: The Movement for a Living Wage in Asia." *New Labor Forum*. Vol. 18(3).

Brown, Drusilla K., Alan Deardorff, Robert Stern. 2004. "The Effects of Multinational Production on Wages and Working Conditions in Developing Countries." In Robert E. Baldwin and L. Alan Winters, editors. *Challenges to Globalization: Analyzing the Economics*. University of Chicago Press. pp. 279 – 330.

Card, David and Alan B. Krueger. 1997. *Myth and Measurement: The New Economics of the Minimum Wage*. Princeton: Princeton University Press.

Chan, Anita. 2007. "A New Step Forward: Corporate-facilitated Trade Union Elections involving Trade Unions." Verité China Symposium, "Worker Engagement and Social Responsibility in China: Ways Forward." October 15th, 2007, Sheraton Dameisha Resort, Shenzhen, China.

Competition Commission. 2008. "Groceries Market Investigation, Final Report." April 30. London, UK. [http://www.competition-commission.org.uk/rep\\_pub/reports/2008/538grocery.htm](http://www.competition-commission.org.uk/rep_pub/reports/2008/538grocery.htm)

Datamonitor. 2008. "Global Apparel Retail: Industry Profile." Reference Code: 0199-2005. London.

Dehejia, Vivek H. and Yiagadeesen Samy. 2004. "Trade and Labour Standards: Theory and New Empirical Evidence." *Journal of International Trade and Economic Development*. Vol. 13(2): 179-198.

Dirnbach, Eric. 2008. "Weaving a Stronger Fabric: Organizing a Global Sweat-Free Apparel Production Agreement." *Working USA*. Volume 11. June 2008. pp. 237-254.

Dube Arindrajit, Dave Graham-Squire, Ken Jacobs, and Stephanie Luce. 2007. "Living Wage Policies and Wal-Mart: How a Higher Wage Standard Would Impact Wal-Mart Workers and Shoppers."

Heintz, James. 2002. "Global Labor Standards: Their Impact and Implementation." Working Paper 46. Amherst, MA: Political Economy Research Institute.

Hugill, Peter J. 2006. "The Geo-strategy of Global Business: Wal-Mart and Its Historical Forbears." in Stanley D. Brunn, etc. *Wal-Mart World: The World's Biggest Corporation in the Global Economy*. New York: Routledge.

Kabeer, Naila, and Simeen Mahmud. 2004. "Globalisation, Gender, and Poverty: Bangladeshi Women Workers in Export and Local Markets." *Journal of International Development*. 16.

Kauffman, Matthew and Lisa Chedekel. 2004. "As Colleges Profit, Sweatshops Worsen." *Hartford Courant*. December 12.

Lynn, Barry C. 2006. "Breaking the Chain." *Harper's*. Vol. 313. pp. 29-36.

Mark, Jeroen. 2009. "Stitching a Decent Wage Across Borders: The proposal for an Asia Floor Wage." Asia Floor Wage Alliance Report.

Miller, Doug and Peter Williams. 2009. "What Price a Living Wage? Implementation Issues in the Quest for Decent Wages in the Global Apparel Sector." *Global Social Policy*. Vol. 9, No. 1, 99-125.

Nutter, Steve. 1997. In Ross, Andrew, editor. *No Sweat: Fashion, Free Trade and the Rights of Garment Workers*. London: Verso.

Pollin, Robert, Justine Burns and James Heintz. 2004. "Global apparel production and sweatshop labor: Can raising retail prices finance living wages?" *Cambridge Journal of Economics*. 28: 153-71.

Rahman, Shahidur. 2004. "Global Shift: Bangladesh Garment Industry in Perspective." *Asian Affairs*. Vol. 26, No. 1: 75-91.

Rashid, Mohammed Ali. 2006. "Rise of Readymade Garments Industry in Bangladesh: Entrepreneurial Ingenuity or Public Policy?" Paper presented at the Workshop on Governance and Development organized by the World Bank and BIDS at Dhaka on 11-12 November 2006. [http://www.sdnpsbd.org/sdi/issues/governance/governance/readymade\\_garment.pdf](http://www.sdnpsbd.org/sdi/issues/governance/governance/readymade_garment.pdf)

Rivoli, Pietra. 2005. *The Travels of a T-Shirt in the Global Economy: An Economist Examines the Markets, Power, and Politics of World Trade*. Hoboken, NJ: Wiley.

Rodrik, Dani. 1996. "Labor Standards in International Trade: Do They Matter and What Do We Do about Them?" In Robert Lawrence, Dani Rodrik, and John Whalley, editors. *Emerging Agenda for Global Trade: High Stakes for Developing Countries*, ed., Washington, D.C.: Overseas Development Council. Pp. 35-79.

Rosen, Ellen Israel. 2002. *Making Sweatshops: The Globalization of the U.S. Apparel Industry*. Berkeley: University of California Press.

Seidman, Gay. 2007. *Beyond the Boycott: Labor Rights, Human Rights, and Transnational Activism*. New York: Russell Sage Foundation Publications.

Weller, Christian E. and Stephen Zucconi. 2008. "Labor Rights Can Be Good Trade Policy: An Analysis of U.S. Trade with Less Industrialized Economies with Weak or Strong Labor Rights." Washington, DC: Center for American Progress.