



Frequently Asked Questions About Asia Floor Wage Campaign May 2010

Since the public launch of the Asia Floor Wage campaign in October, 2009, the AFW Alliance partners all over the world have been asked some similar questions. The AFW International Steering Committee welcomes this dynamic debate and engagement and provides answers to these often-asked questions. If your question is not answered below, please send it to the AFW International Secretariat (asiafloorwage@gmail.org).

Why have we focused on wage when there are other factors affecting cost of Freight-on-Board (FOB) in garment production?

Labour cost is one of the most suppressed costs of production. In fact, in a largely non-unionised industry such as the garment industry with a predominance of women workers and migrant workers, excessive suppression of wages is the norm.

Other factors of production include quality of infrastructure, access to raw materials, technology, energy, transportation, quality of management, legal systems, etc. However, Asian suppliers and countries most often compete on the basis of labour costs when in fact they could compete on some of these other factors, which improved, lead to national development and progress.

Yet another factor in production costs is the purchasing practices of buyers which include lead time, quantity of order, advanced planning, etc.

The Asia Floor Wage's which fixes the labour cost, as a percentage of the selling price of garments produced in Asia, would reduce the tendency of industry and government to compete solely on this human

factor and turn their attention to other factors which will bring about efficiency, higher productivity, better production and sourcing systems and so on. Fixing the labour cost as AFW, does not exclude the governments and industries from focusing on other competitive factors.

What is Purchasing Power Parity (PPP)?

Purchasing Power Parity is an imaginary currency, defined by the World Bank. It is built upon the consumption of goods and services by people. PPP allows one to compare the standard of living between countries by comparing the price of a basket of identical goods and services in terms of the currencies of the two countries.

Why are we using PPP instead of using the exchange rate?

Exchange rates are determined by supply and demand for each currency, in other words by the currency market. PPP, being built upon the consumption of goods and services by people, is a better reflection of the standard of living and hence a more appropriate tool for comparing wages.

How do problems in the definition of PPP affect AFW?

Three weaknesses in PPP definition are of particular importance for AFW.

In the PPP definition of a basket of good and services, consumption habits of developed countries (buying countries) tend to dominate. Also, the PPP reflects overall consumption habits in a country and is not adjusted for working class population. In short, the PPP defined basket of goods has a bias towards developed country and middle class habits.

Since the difference in purchasing power of the middle classes in developed and developing countries is less than that of the working class in the two types of countries, the use of PPP in defining AFW can only give it a conservative bias. In other words, the AFW is a conservative estimate for a minimum living wage for a worker – it is most definitely no more than a floor.

The second weakness is that the basket used in the PPP calculation is not the same as that of the AFW. The AFW basket is a variable basket divided only into food and non-food (as a factor of food cost) based on actual averages of working class food and non-food expenses.

The third weakness in the PPP definition is that its calculation is done at longer intervals and is not a current reflection. It would certainly be preferable to have a more recent figure. However, unlike the exchange rate which fluctuates rapidly in the market, the PPP is a more stable figure as it is based on consumption habits which do not alter dramatically.

In spite of the weaknesses, PPP is the only relevant and stable measure reflecting consumption. If the weaknesses and biases explained above are corrected, it will only raise the value of AFW upward. The current formulation of AFW continues to be a conservative estimate for a minimum living wage.

Is the figure of 3000 calories for food an appropriate figure?

The AFW calorie figure is based on studying calorie intake in the Asia region by governmental and intergovernmental bodies while defining poverty line, living wage and minimum wage. The two salient issues that AFW considers are: 1) the physical nature of work (sedentary or moderate or heavy) and 2) the caloric measures prevailing in current discourses.

Garment factory work can be described as requiring moderate to heavy physical work.

In a report in June 1999, the Economic and Social Commission for Asia and the Pacific (ESCAP) published that “the per capita food intake for survival assumed for deriving the food poverty line varied across countries as well as within countries from 2100 calories to 2750 calories per capita per day.” Official Chinese statistics plus a study produced by the Food & Agriculture Organisation in 2000 shows that the calorie requirement of the national poverty line for China was 2,400 kcal/day (now revised to 2100 kcal), while that used by the FAO is 1,920 kcal/day.

The Indian Labour Conference in 1957 made 2700 calories the norm for minimum wage for an adult worker (performing moderate to heavy physical work). The Indonesian government most recently defines 3000 calories as the intake figure for a living wage for a manufacturing worker (performing moderate to heavy physical work).

The AFW Alliance has decided that the Floor Wage should not result in lowering standards in any country. In Indonesia, the standard is set at 3000 calories, and so the Alliance agreed to adopt this as its standard.

Is the 1:1 ratio of food costs to other costs appropriate for each country?

Garment workers from Indonesia, India, Bangladesh and elsewhere spend a great deal – often around half – of their income just on food items. The 1:1 ratio of food costs to other costs was calculated based on the ratio that currently exists for the working class of different Asian garment producing countries.

For example, an often quoted figure internationally is food costs amounting to 60% of costs at poverty level (e.g. Poverty Statistics in China, Rural Survey Organisation of National Bureau of Statistics, China, Sept 2004). The Ministry of Labour and Employment in India released working class data in June 2008 where the share of food items was 47.48% of the income. In Thailand, food consumption is assumed to account for 60% of total consumption at poverty lines.

Is the number of dependents to be covered by a single wage appropriate across the board, in different countries?

Living wage definitions normally include the notion that wages should support more people than just the individual worker. Minimum wage regulations, by contrast, often do not.

The AFW Alliance studied the family sizes in key Asian countries and came up with a more or less average figure. The ratio of earner to dependents was calculated based on the family sizes in different countries. For example, the Ministry of Labour in India calculated the average size of a working class family to be 4.46 in 2008 and the Ministry of Commerce in China calculated the average family size in China to be 3.38 in 2003.

In order to account for childcare costs, the AFW makes it a single income family.

The AFW defines the formula to be based on three adult consumption units. As a child consumes less than an adult, a child is calculated as half of one consumption unit. The three consumption units can be configured in various ways:

- as a family of two adults and two children or
- one adult and four children or
- three adults

The following table shows how the family size is converted to consumption units taking the example of two children in a family.

Country	AVG SIZE OF FAMILY	CONSUMPTION UNITS
China	3.38	2.38
India	4.46	3.46
Bangladesh	5.25	4.25
Indonesia	3.5	2.5
Sri Lanka	4.5	3.5

Does the AFW take into account other worker benefits (e.g. food, lodging) if provided by the company?

Delivery of benefits by employers to workers is the not norm in the industry; therefore, they cannot be the basis for AFW.

The AFW provides a minimum living wage with which a worker can support him/herself and dependents. If the employer provides food, the worker may still prefer to bring his/her own food. The AFW figure is a minimal figure that should provide basic costs so that the worker is not at the mercy of the employer for basic in-kind needs.

What role does price play in AFW?

In the global garment industry, global buyers (or brands and retailers) exercise a lot of influence over the way that production is organised. They set prices and determine how production takes place. These practices immediately impact the capacity for suppliers to pay a living wage. Central to the demands of the AFW is, therefore, the need for a concerted effort by brands and retailers to address the issue of pricing, as an important first step towards the implementation of a living wage in the garment industry.

In other words, the price paid by brands has to be adjusted to allow for the implementation of AFW. The FOB (freight on board) cost of production and the profits generated by buyers is reflected in the AFW formulation. As we move into implementation in more detail, a generalized pricing mechanism will be developed taking into account the unit AFW labour cost of a garment in terms of both FOB and retail costs. AFW fixes the floor for the labour cost so that the FOB costs can be adjusted through other factors and the price agreed accordingly.

What is a Tier 1 company?

The Tier 1 is the first company, with manufacturing capacity, that the buyer sources from and with which it has a direct commercial relationship.

What is the relationship of AFW to national struggles of garment workers?

The AFW complements local and national struggles of garment workers. For example, it adds initiative, credibility and power to minimum wage or living wage demands. It is a pull factor in raising suppressed minimum wages and a supportive factor in living wage struggles.

The AFW is formulated based on the paying capacity of the global industry whereas, national wage definitions arise from an analysis of prevailing wages within the country.

Its premise requires freedom of association to be respected and can become a focal point for unionization since enforcement can only be done effectively with union and workers representatives as part of the process. Therefore, the right to organise is central to the ultimate success of the Asia Floor Wage campaign.

How does the AFW relate to the work week and social benefits?

AFW defines the regular work week as a maximum of 48 hours and is calculated without overtime, healthcare, pension, etc. AFW's definition of a work week and its independence from benefits send a clear message that workers need to earn a minimum living wage without sacrificing other humane working conditions.

Is AFW substituting national struggles?

AFW is possible only in the presence of dynamic workers' struggles. It is a demand that is achievable through collective bargaining and advocacy. In fact, AFW converges national struggles into an Asian framework and so, complements and adds to the power of bargaining at national levels.

Is the AFW calculation based on grassroots data from workers?

The AFW Alliance used data from need-based surveys in India, China, Bangladesh, Sri Lanka, and Indonesia to arrive at the AFW formula. The surveys questioned garment workers and in some countries, the surveyors themselves were workers. The food basket and the caloric content in AFW are converted from actual food baskets that have been priced out.

Is the campaign brand focused?

The AFW campaign consists of Asian organizations demanding a minimum living wage for Asian garment workers and holding the brands and retailers accountable to paying for the living wage as most of the profits of the global supply chain accumulate with the brands. The AFW campaign is multi-focused with brands as primary targets; it also independently and simultaneously targets manufacturing suppliers and governments.

Who is behind the AFW campaign?

The Asia Floor Wage campaign was initiated by Asian unions who have been organizing in the garment industries in Asia, along with research organizations, campaign organizations and women's organizations. Though it is focused on Asia, it is an international campaign that includes Global North continents. It is a union-led, South-centred international campaign.

The International Steering Committee is constituted through a national process. Consultations in the national process nominate representatives from union and non-union organizations to be on the ISC. In the International Steering Committee, Asian organizations have a 75 percent vote and Northern organizations 25 percent. This distribution of votes ensures that Asian interests prevail in the campaign. Please see www.asiafloorwage.org for more information on organizations and governance.