



FAIR LABOR
ASSOCIATION

FLA STAKEHOLDER FORUM REPORT

WAGES ALONG THE SUPPLY CHAIN: DEVELOPMENTS AND RESPONSES

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PREFACE

In October 2009, the Fair Labor Association (FLA) convened a stakeholder forum in Washington, D.C., titled “Wages Along the Supply Chain: Assessment and Prospects.” The aim of the forum was to enhance the mobilization of actors around the issue of wages and improve their ability to address this issue along the supply chain. The event brought together academics and practitioners who have focused on wages, working conditions, and corporate social responsibility (CSR) in their work to provide different theoretical and empirical perspectives on the wages issue, as well as to report on current wage practices and the work of various CSR initiatives in this field.

A number of recommendations emerged from the October 2009 forum,¹ among them regular meetings of stakeholders to continue the dialogue over wages; the creation of an international network on wage issues that would promote sharing of information on wage developments (see www.fair-wage.com), wage data, wage setting mechanisms, and best practices, and; commitments from brands to support anonymous self-assessments of their suppliers on wages in order to develop a database that would permit analysis of wage information and development of strategies going forward.

On October 25, 2010, the FLA convened a second stakeholder forum on wages. Titled “Wages Along the Supply Chain: Developments and Responses,” it was held in Hong Kong at the offices of affiliated company Phillips-Van Heusen Corporation, and brought together academics, practitioners, and representatives of international organizations, companies, trade unions, and monitoring organizations to discuss recent wage developments (with emphasis on Asia) and responses to address wage issues.

The one-day conference began with a general presentation on recent global wage trends and was followed by two sets of panels, the first set dealing with case studies of recent wage developments in China, Southeast Asia, and South Asia, and the second set with responses to address the wages issue involving different stakeholders. The forum concluded with a number of recommendations to move the topic on wages forward within the FLA.

¹ A report of the forum summarizing the proceedings and containing all of the recommendations is available at https://www.fairlabor.org/images/WhatWeDo/CurrentIssues/fairwagereport_oct2009.pdf

FORUM INTRODUCTION

FLA President and CEO Aurret van Heerden recalled the stakeholder forum on wages convened by the FLA a year earlier in Washington, D.C. and the recommendation that the FLA continue to pay attention to the issue of wages, to hold regular fora of stakeholders, and to maintain an ongoing dialogue on this vital topic. He further recalled that the 2009 forum recommended that the next meeting be held in a supplier country and be attended by suppliers, the 2010 meeting in Hong Kong meets both of these conditions.

Over the last four years, the FLA has been working with Daniel Vaughan-Whitehead of the ILO and Sciences Po University on the conceptualization and application of fair wages. Heretofore, CSR work on wages focused on meeting a monetary number or level and monitors tested whether a factory paid a certain wage level – typically the minimum wage. If the response is in the negative (and this is so in a very large percentage of audits), a remedial plan is put in place, but the situation on the ground does not change very much. As van Heerden put it, after nearly a decade of implementation of codes of conduct, “the needle has not moved very much” with respect to wages.

We now realize that by focusing almost exclusively on whether a certain level of wages and other legal requirements have been met, other important aspects of wages have been missed, to the detriment of workers. Van Heerden gave the example of a factory that may pay above the minimum wage and meet other legal requirements (e.g., pays the legally required wage on time and in full, pays for the proper number of hours worked) but where nevertheless wages may be unfair because there is wage inequality, wage disparity, and wages do not reflect the productivity of workers. Fair wages is a more dynamic and comprehensive concept than the meeting of a given wage level; not only do they comprise compliance with all legal requirements but they also gauge the extent to which wages within an enterprise are equitable, a result from social dialogue and reward workers for their contribution.

In addition to defining fair wages, Vaughan-Whitehead has also developed a methodology to audit the implementation of its different dimensions and tested it at a number of factories in China and Vietnam; some of these factories are represented at this forum. The pilot results show that the concept is measurable and auditable and can be used to grade suppliers, and identifies areas for improvement to raise the level of wage fairness. The concept of fair wages is also more amenable to remediation, with fair wage assessments setting out a road map that factories can follow to move from situations of less fairness to more fairness.

The fair wage approach also provides an opportunity for factories to use wages as a tool of human resource management rather than just legal compliance. We hear consistently from management and workers that they are dissatisfied with the current situation (e.g. high turnover, lack of investment in workers to improve their skills, lack of commitment on the part of workers to remain in workplaces where they feel unappreciated). As will be discussed in the regional case studies, there is a great deal of instability in labor markets in key Asian countries, with workers resorting to work actions to express their frustration. Assessing the extent to which wages are fair at the enterprise level and implementing remediation plans to increase wage

fairness would go a long way toward addressing some of the ongoing labor market disruptions in the region.

RECENT WAGE DEVELOPMENTS

Daniel Vaughan-Whitehead opened the session with a presentation on recent wage developments around the world.² In the introduction to his presentation, he explained that the motivation for developing the concept of fair wages was two-fold: the worrying assessment of the development of wages worldwide in the last few years (which he had discussed at the October 2009 stakeholder forum and planned to discuss in more depth in this presentation); and the CSR deficit on wages mentioned by van Heerden. The intention was to develop an operational method to capture a picture of the wage situation at the enterprise level and provide a road map for improvement.

Turning to recent wage trends, Vaughan-Whitehead recalled wage trends before the crisis: (1) unequal wage growth rate across countries, with some positive growth in China and some Asian countries, and wage growth moderation or stagnation in others; (2) long-term decline in the wage share; and (3) within this falling wage share, growing wage inequality, with wages of the top earners (executives and managers) expanding, while those of low-wage workers at the bottom stagnated with notably an increase in the number of low-paid workers.

While the crisis that enveloped the world economies in 2008-2009 had its main roots in the financial sector, two labor market issues also contributed to the crisis: the mentioned unequal distribution of income between labor and capital depressed household income and consumption levels; and the very high levels of executive pay encouraged risk taking and uneconomic behavior by firms.

Several International Labor Organization (ILO) studies have documented the impact of the crisis on global wage growth and on labor markets more generally: (1) real wage growth slowed down in 2008 and 2009 to about half of the growth rate in previous years; (2) while all regions were affected, real wages in the advanced countries actually exhibited negative growth rates in 2008 and in Latin America and Eastern Europe in 2009; comparatively speaking, Asia performed better with respect to real wage growth, particularly if China is included; (3) particularly in the advanced countries, working hours were reduced, as employers attempted to mitigate layoffs by spreading work among workers; and (4) the combination of layoffs and reduced hours of work sharply reduced worker income and consumption levels, exacerbating the decrease in aggregate demand associated with the crisis.

Finally, Vaughan-Whitehead reviewed policy tools that the ILO has identified to improve worker well being. They include: (1) adjustments to the minimum wage, which is often used as a wage floor and therefore enhancements help low-wage workers; (2) enhancements in social protection programs that supplement wages; (3) adoption by countries of wage-led (or income-led) economic growth policies; and (4) promotion of collective bargaining as the preferred method for adjusting wages. With respect to the latter point, Vaughan-Whitehead noted that ILO research had found that in instances where collective bargaining is the wage-setting mechanism, wage growth tends to be more closely correlated to productivity growth and performance of the

² Daniel Vaughan-Whitehead PowerPoint presentation on recent wage developments around the world is available at http://www.fairlabor.org/images/WhatWeDo/SpecialProjects/vaughan_whitehead_wage_trends.pdf.

enterprise than in other instances and, along the same line, that low wages tend to be more prevalent in settings where unionization is low.

Panel 1: China

The main presentation regarding recent wage developments in China was made by Ian Spaulding, Founder and Managing Director, Infact Global Partners. The discussants were Yin Guoxin, President, Chenfeng Group, and Pun Ngai, Associate Professor, Hong Kong Polytechnic Institute.

Ian Spaulding stated that minimum wages in China doubled between 2004 and 2009 in five coastal areas, with the increase being higher (130%) in two areas, FuZhou and Quanzhou.³ The conventional wisdom is that 65-75% of product cost for shoes, apparel and accessories is raw materials and the rest is labor, overhead and profit. Assuming that labor is 20% of free on board (FOB), a 20% in the minimum wage translates into about a 4% increase in FOB price. Industry analysts predict that minimum wages will increase by 20% per annum for the next five years. Also impacting product prices are increases in prices of raw materials (particularly cotton) and currency appreciation.

Buyers and brands are following different strategies to cope with cost, including wage increases in China, among them moving production to other countries (Bangladesh, Cambodia, Indonesia), or to other areas in China's interior, accepting some price increases, changing styles and redesigning product, sourcing directly from factories (eliminating trading companies) and turning to agents with more attractive factory options. Meanwhile, factories are trying to cope with the cost, including wage increases by demanding price increases from brands, lowering margins, using more subcontractors, hiring more (cheaper) temporary workers and students, sourcing cheaper raw materials, increasing productivity, and going up-market.

Spaulding concluded that minimum wage increases in China in the last few years – despite a minimum wage freeze during the crisis – have been significant and increases will continue in the foreseeable future. Wage increases have contributed to overall cost increases, but rises in raw materials, energy and land costs have also been important, as has been renminbi (RMB) appreciation. He concluded quoting an apparel industry source who predicted that, after several years of declining or stagnant prices, apparel prices in the U.S. market will rise by 10% in 2011 and American consumers will have to accept it.

Yin Guoxin stated that garment suppliers and manufacturers in China face numerous cost pressures. First and foremost are raw materials prices, particularly of cotton. While the price of cotton was about 5.8 RMB per kilo last year, most recently the quoted price was closer to 11 RMB per kilo. Given the significant share of the cost of a garment accounted for by the fabric, the increase in the price of cotton – and other raw materials – significantly affects the competitiveness of Chinese garment suppliers. Other significant cost pressures arise from exchange rate changes and the expected reduction – or elimination – of tax rebates for garment exporters.

³ Ian Spaulding's PowerPoint presentation on recent wage developments in China is available at http://www.fairlabor.org/images/WhatWeDo/SpecialProjects/spaulding_wage_developments_china.pdf.

Turning to the labor market, Yin Guoxin stated that since the second half of 2009, Chinese suppliers of garments, electronics, and other labor-intensive products have been facing labor shortages. Demography is one of the reasons behind the labor shortages, but other factors at play are higher remuneration in other industries and in civil service, a generational change in China whereby young workers prefer to work in occupations that do not require so many hours of work and frequent overtime, and rapidly growing cost of living. These labor shortages have resulted in rising wages in labor-intensive sectors, which Yin Guoxin expects will continue to rise in 2011.

In the face of the cost pressures, Chinese producers of garments and other labor intensive products in the coastal areas have relatively few viable options. Relocation to rural areas in the interior of the nation is not practical: labor productivity and quality of production in these areas would be much lower, infrastructure is poor, and internal transportation costs are significant. Chinese suppliers would like to see a distribution of proceeds with the brands that is more favorable to suppliers.

Pun Ngai concurred with previous speakers that minimum wages had increased in the last few years, particularly in 2010.⁴ She stated that wage increases are more than just economic issues, also having social and political implications. Labor shortages in China are real, she argued, and affect enterprises of all sizes, from small workshops to giants like Foxconn. Wage increases promote social stability and mitigate social conflict. Worrisome are the huge regional differences in minimum wages across regions (with rural areas having much lower minimum wages) and also the huge disparity between minimum wages and average wages. This is particularly so because the minimum wage de facto becomes the ceiling wage for workers in many industries, including electronics and more specifically Foxconn.

Pun Ngai then turned to her work – with a team of university researchers – on Foxconn, focusing on wages and hours of work and on use of student labor. Prior to the wave of worker suicides, Foxconn production workers were paid the minimum wage and also worked exceedingly long overtime, 100-110 hours per month. In response to the suicides, Foxconn increased wages in June 2010 and has stated that it intends to continue to increase wages in 2010 and 2011 and reduced overtime hours to 80 hours per month. Although there is a marked improvement on working hours, because of the reduction in overtime, doubts have been expressed if there is real improvement in the workers' real take-home pay. Turning to student labor, Pun Ngai stated that their research had found that in two of the Foxconn plants (in Kunshan and Taiyuen) up to 30% of the labor force on the production lines consisted of student labor. Students, aged 16 to 18, were assigned to front-line production jobs, had no labor contract, no social insurance coverage, and were required to work long overtime hours.

⁴ Pun Ngai's PowerPoint presentation on increase wage developments in China is available at http://www.fairlabor.org/images/WhatWeDo/SpecialProjects/ngai_wage%20development.pdf.

Panel 2: Southeast Asia

John Ritchotte, ILO Regional Office in Bangkok, focused on wage developments in Cambodia.⁵ Ritchotte recalled that Cambodia's labor law, adopted in 1997, embodies a fairly high level of statutory benefits (e.g. maternity protection, overtime, annual leave) and therefore does not leave a lot of areas for collective negotiation. The Labor Advisory Committee is the highest statutory tripartite body in the nation; it is responsible for making recommendations on national or sectoral minimum wages.

The only minimum wage in effect in Cambodia is for the garment, textile and shoe industry. The minimum wage for this industry (\$45 per month) was set in 2001, after strikes and disruptive actions by workers in 2000. This pattern of minimum wage increases after strikes and disruptions has continued through 2010. In 2006, a round of bipartite negotiations on the minimum wage between 17 union federations and the Garment Manufacturers Association in Cambodia (GMAC) failed to produce a negotiated settlement; the government stepped in and established a \$5 per month increase in wages. Similarly, another increase was promulgated by the government in 2008 (a \$6 per month "cost of living adjustment") and 2010.

The pattern that has emerged in three minimum wage setting episodes is that the union puts forth unreasonable demands (most recently demanding a living wage of \$93 per month), the industry responds with no change or offers a marginal nominal increase, a stalemate ensues, and the government steps in and makes an ad hoc determination of a wage increase. To move forward, Cambodia needs to adopt a minimum wage setting mechanism that has some transparency, is fixed by tripartite process on the basis of objective economic data, and operates in combination with collective bargaining in good faith.

Tobias Fischer, Regional CSR Manager, H&M Hennes & Mauritz, commented on wage developments in Cambodia from the perspective of a buyer. He stated that like other buyers sourcing from Cambodia, H&M followed developments in 2010 very closely and consulted with all parties to keep abreast of the process and promote peaceful and fair resolution of the disputes. He recalled that many factories producing for foreign buyers like H&M are part of the ILO Better Factories Cambodia program and therefore the ILO is also an important source of advice and guidance for buyers in Cambodia.

Turning to the most recent minimum wage setting episode (2010) in that country, Fisher stated that H&M representatives in Cambodia maintained a dialogue with the unions and GMAC and also kept in touch with the government of Cambodia and the ILO throughout the strikes and disturbances. H&M's position consistently was that tempers needed to be cooled down and the parties needed to sit down together and negotiate a workable settlement. H&M was reluctant to get pulled into the dispute but, together with other brands, H&M did write a letter to the parties encouraging them to come together and work out their differences bilaterally. All in all, while the 2010 minimum wage adjustment process was not smooth, Fisher noted that compared to previous wage setting episodes, there are signs that industrial relations have matured, though there is still much work to be done.

⁵ John Ritchotte's PowerPoint presentation on recent developments on minimum wage setting in Cambodia is available at http://www.fairlabor.org/images/WhatWeDo/SpecialProjects/ritchotte_ilo_fla%20wages.pdf.

Athit Kong, Vice President, Coalition of Cambodian Apparel Workers Democratic Union (C.CAWDU), stated that C.CAWDU was established in 2000 with the support of the Cambodian Labor Organization.⁶ The union currently has over 50,000 members in 55 factories in Phnom Penh. C.CAWDU is affiliated with the Cambodia Labor Confederation and with the International Textile Garment & Leather Workers' Federation (ITGLWF). The Cambodian garment sector began in 1994 and was helped by the bilateral agreement with the United States that gave Cambodia special quota allocations if certain labor rights standards were met; one of these standards was freedom of association and its observance helped the establishment of trade unions in Cambodia. The ILO monitoring system that was created by the trade agreement provides information on labor conditions in the industry but the reports lack depth; factories can prepare for ILO visits and disguise problems when the ILO monitors arrive, while trade unionists are aware of factory conditions every day of the year.

Turning to wages, Kong recalled that garment sector wages were \$20-\$35 per month in the early days of the industry, and rose to about \$45 per month when a minimum wage was set in 2001. Some adjustments have been made since then, but the wage setting process has not been satisfactory to C.CAWDU because the government has not taken into account the needs of workers and has not listened to the demands of the unions. Not helping the process either is the division among unions and the lack of a unified workers position, although all unions agree that wages are insufficient to meet the needs of workers. The recent round of strikes in Cambodia – supported by the majority of garment workers – supports this position. While the strike is now over, there are still workers who have not been able to return to work because management is preventing it. Reinstatement of these workers and good faith negotiations between the unions and GMAC are essential to go forward.

Carey Zesiger, Global Standards, addressed wage-related issues in Vietnam.⁷ Zesiger stated that Vietnam lacks effective unions and collective bargaining, which result in rising numbers of strikes over wages. Migrant workers from the northern provinces were a major factor when the apparel industry was concentrated around Ho Chi Minh City; with the establishment of factories in the north, near Saigon, migration has virtually ended and labor shortages have developed in some areas in the south.

The Government-mandated minimum wage depends on location and legal structure, with higher minimum wages for foreign-invested factories compared to locally-owned. They also differ by region, with different wages for urban, suburban and rural areas. Recently the minimum wage has increased annually, raising income of factory workers. Most factories pay workers the government-mandated minimum wage instead of developing wage scales and going beyond minimum wage.

In 2010, an industry-wide collective agreement was signed between the Vietnam Textile and Apparel Trade Union and the Vietnam Textile and Apparel Association (VITAS) that for the first

⁶ Athit Kong's PowerPoint presentation on wage developments in Cambodia is available at http://globalaction4fairlabor.files.wordpress.com/2011/03/athit_kong_wages.pdf.

⁷ Carey Zesiger's PowerPoint presentation on wages in Vietnam is available at http://www.fairlabor.org/images/WhatWeDo/SpecialProjects/zesiger_globalstandards.pdf.

time set higher wages and benefits than those that are legally mandated. But so far the agreement has not been widely applied, with only about 70 state-owned or formerly state-owned firms applying it. Continued pressure for higher wages is being driven by the shortage of skilled workers, rising inflation and cost of living, the Vietnam General Confederation of Labor (VGCL) and its local unions, and external campaigns.

More and more widely-adopted collective bargaining and stronger unions may lead the way in the future to improving industrial relations and reducing strikes, but this is a long term process.

Youngmo Yoon, ILO Office in Vietnam, recalled that minimum wages were first established in Vietnam in 1990 only for foreign-invested enterprises. Since then, a two-track minimum wage system has been implemented that covers foreign-owned and domestically-owned enterprises. There have been 9 adjustments of the minimum wage since 1990 and recently discussed a new adjustment. There were no adjustments of the minimum wage between 2000 and 2006 and numerous strikes and workers actions broke out. Also being discussed at this time is a unification of the minimum wage – ending the disparity between minimum wages for foreign-invested and domestic-owned enterprises – although regional differences in the minimum wage will still remain.

Major challenges for reforming minimum wages and wage setting mechanism in Vietnam are: (1) the complexity of the system, which has its roots in the socialist economy of yesteryear and is very difficult to implement; (2) minimum wages are used extensively and in situations for which they were not designed, for example as a reference for civil service salaries, retirement pensions, welfare benefits; (3) lack of consensus on the nature of the minimum wage – Is it a floor? A ceiling? Should it be negotiated rather than administratively set?; (4) lack of consensus on the definition of the minimum wage; some employers contain the monetized value of all benefits in determining compliance with the minimum wage; (5) there is a dearth of reliable and timely information on wages and other variables that could assist in wage determination, whether through collective bargaining or government fiat; and (6) unduly sharp focus on the minimum wage because of the lack of other indicators and the inclusion of the concept of compliance with minimum wage in criteria used internationally (for example in the U.S. Generalized System of Preferences program) to award trade preferences to Vietnam.

Panel 3: South Asia

William Anderson, Head of Social & Environmental Affairs, Asia Pacific, adidas Group, discussed the situation that arose in the province of Karnataka, India, with respect to an increase in the state minimum wage. Anderson stated straightforwardly that buyers do not have a role to play in the setting of minimum wages – which is a process that should involve employers and workers and the government – but buyers do have the opportunity to influence, in holding government to account for the outcomes. He recalled that in March 2009, the government of the state of Karnataka made an adjustment to minimum wages, the first adjustment in about 8 years, and published the new regulation on the Official Gazette, thereby giving it the force of law. The Indian Garment Manufacturers' Association of the state disputed the adjustment and called on its members not to implement the new minimum wage. In the fall of 2009, brands sourcing from the area questioned the lack of implementation of the new minimum wage and began to take steps to get suppliers to pay the new wage and make arrangements to pay arrears. A local union

also filed a suit against the employers and the government for lack of enforcement of the statute. By now, suppliers for large multinational brands are paying the higher minimum wage and have made up most of the back wages. The main lesson that Anderson drew from the Karnataka situation is that brands and international buyers can play a facilitating or a support role in issues such as minimum wage law implementation, but their ability to influence the process when manufacturers and the local government take strong positions is quite limited.

A. J. Srinivasan, Labor Advocate, state of Karnataka, provided additional legal details regarding the minimum wage situation described by Anderson. Srinivasan was the lawyer for the union in the litigation. He stated that in India, under the Minimum Wages Act, minimum wages for the tailoring industry (which includes apparel workers) was last revised in 2001 and as per the Minimum Wages Act it had to be revised every three years and not later than five years. The Government finally revised it in March 2009 but it was not implemented by employers in the garment industry for nearly a year. A writ petition was filed by the union against the employers and the Government seeking prosecution of the employers for non-implementation of the law. During the pendency of the writ petition, another notification was given by the Government in March 2010 stating that there was an error in the calculation of the allowances in the previous notification. This not only bailed out the employers from prosecution for not implementing the minimum wages, but also decreased the benefit to the employees from the earlier revision.

Turning to Bangladesh, **Zia Ahad**, Human Rights Senior Regional Leader for the Middle East, Africa, the Indian Subcontinent and South Asia, Phillips-Van Heusen Corporation, recalled the significance of the apparel industry for Bangladesh.⁸ Currently, about 4,500 apparel factories are in operation (compared to virtually none in the early 1980s). Apparel accounts for about 80% of Bangladesh's export earnings. The industry has very limited backward linkages, as Bangladesh is not a producer of cotton and has very limited textile production. The Bangladeshi industry, therefore, is closer to a tailoring industry. The industry employs some 2.5 million workers, predominantly women.

A minimum wage for the garment industry was first established in January 1994. (Today, there is still no national minimum wage in Bangladesh, but there are as many as 28 sectoral minimum wages, one of which is for the garment industry.) The garment sector minimum wage was not revised until October 2006 – almost fourteen years later – in the aftermath of numerous strikes and job actions, after a period of high inflation, and just before national elections.

The most recent episode of minimum wage adjustment occurred in 2010. The Minimum Wages Board met for about six-months from January to June 2010 and ultimately proposed a set of adjustments that would raise the lowest minimum wage from 1662 Taka per month (about USD \$24) to 3000 Taka per month (about USD \$44). During the time period when the Board was deliberating, numerous strikes and actions were taken by workers. Workers denounced the process while employers loudly complained that a minimum wage increase would harm the economic viability of the industry. While on its face a substantial increase in wages, workers nevertheless protested and strikes and riots broke out in part because the implementation of the wage increase was delayed until November 1, 2010. The Bangladeshi apparel industry faces

⁸ Zia Ahad's PowerPoint presentation on minimum wage issues in Bangladesh is available at http://www.fairlabor.org/images/WhatWeDo/SpecialProjects/ahad_wage_bangladesh.pdf.

serious challenges – inefficient port management, inadequate land transportation infrastructure, and insufficient electric power – that raise overall production costs, putting pressure on wages in the sector to remain low. Sadly, it would seem that the one comparative advantage Bangladesh has to offer appears relegated to low wages it pays workers in the industry.

RESPONSES TO ADDRESS WAGES

Panel 1: Wage Pressures and the Role of Collective Bargaining

John Ritchotte discussed the role of collective bargaining in addressing wage pressures in Asia using Cambodia as a case study.⁹ He recalled that unions emerged in Cambodia in the mid-1990s starting in the garment industry. Unions have expanded in Cambodia to other industries such as hotels and airports, food and beverage, tobacco, transportation, construction and handicrafts. With limited role of labor courts, a very important institution in Cambodia is the Arbitration Council, a statutory alternative dispute resolution body created with support of the ILO, mandated by law to reach independent decisions on collective labor disputes over rights and interests. The Arbitration Council is composed of 30 arbitrators nominated in equal numbers by employers, unions, and the Ministry of Labor and Vocational Training (MOLVT). Since 2003, the Arbitration Council has heard over 900 cases, approximately 95% from the garment industry, and has resolved about 70% of the disputes. Process is speedy and transparent.

Key to collective bargaining in Cambodia is the achievement by a union of “most representative status” (MRS), which is reached when a union organizes 51% of the workers and 33% of the dues paying workers in an enterprise. MRS grants exclusive bargaining rights to a union. Clarification in regulations led to an increase in MRS certification in 2007-2009. A very important challenge to collective bargaining in Cambodia is the very low level of understanding on the part of unions and their members about collective bargaining and general opposition by employers. Also, there is a culture of dispute, not negotiation. Efforts are being made to train unions on collective bargaining and to assist in getting “high quality” collective bargaining agreements that can have a positive demonstration effect. GMAC and six confederations have signed agreement that supports collective bargaining; a new trade union law is under development and may be implemented in 2011.

Panel 2: Asian Floor Wage and PUMA Initiative

In introducing the panel, van Heerden pointed out that a common thread through the case studies presented during the previous session was the failure on the part of governments to address a key element of the labor market, namely wages. This failure on the part of government has put the onus on other parties – trade unions, companies, civil society organizations -- to play a more active role in “moving the ball” with respect to wages. In some instances, civil society organizations have played a catalytic role in bringing about wage increases. As was already stated by a buyer, technically buyers have no role in minimum wage setting in the countries where they operate. In reality, buyers can play a positive role perhaps through collaboration with trade unions or with civil society organizations.

A specific wage proposal from a group of civil society organizations is the Asian Floor Wage (AFW), developed by a coalition of trade unions and civil society organizations in India and throughout Asia. While one may agree or disagree with the assumptions and calculation

⁹ John Ritchotte’s PowerPoint presentation on collective bargaining in Cambodia is available at http://www.fairlabor.org/images/WhatWeDo/SpecialProjects/ritchotte_ilo_collective_bargaining.pdf.

methodology, it is incumbent on other parties to respond to serious initiatives such as the AFW, argued van Heerden. PUMA is one brand that has engaged with the AFW to explore ways to improve wages for workers in its contract factories. The FLA has asked Ashim Roy, one of the proponents of the AFW, and Reiner Hengtsmann, Global Head of Social and Environmental Affairs for PUMA AG, to discuss the AFW and PUMA's initial response.

Ashim Roy, General Secretary, New Trade Union Initiative, India, described briefly the main tenets of the AFW. Roy argued that the concept of minimum wages has different meanings depending on the national context. In developed countries, minimum wages are at the bottom of the wage scale and are typically set at about 60% of average wages. Whereas, in most Asian countries, the minimum wage is more or less worked out at poverty level wage, and though many workers earn even less than that, it is far below a living wage. Roy commented on the situation regarding minimum wages in Bangladesh. The minimum wage in Bangladesh, he stated, is based on a food intake of only 1500 calories, 600 calories less than the bare daily minimum of 2100 calories set by the Food and Agriculture Organization (FAO) of the United Nations. How could a person work up to 80 hours per week on the basis of a daily caloric intake of 1500-1700 calories? In fact, it is a case of suppressed minimum wages. Such low wages are bound to create the worker unrest that has been described by Zia Ahad.

The AFW is build on the concept of minimum living wage, which they have defined based on internationally recognized standards; the calculation has been worked on a regional basis and in terms of purchasing power parity in order to make it comparable and to avoid the differences that arise in defining a living wage on a national basis (e.g., as discussed in an earlier session, whether the cost of a cellular phone in Vietnam is a basic need). The standards are: (1) a 3000 calorie daily minimum intake per industrial worker; (2) that an industrial worker is expected to sustain himself/herself and two adjusted adult dependents on his/her earnings; (3) a worker allocates one-half of his/her earnings to food; and (4) works for standard hours per week. Based on these standards, the AFW initiative has made robust estimates of what the minimum living wage needs to be in different countries throughout Asia and are pursuing this objective in each country through different means.

AFW proponents have been stressing that they believe that their proposal is both legitimate and feasible and the minimum living wage can be accomplished in the garments supply chain through the contribution of various stakeholders: (1) suppliers through savings from more sustainable production methods; (2) workers through increases in productivity associated with better production planning and improvements in work flows; and (3) if the first two forms of saving are not enough, then through contributions from buyers, possibly through price adjustments or elimination of latent in- efficiencies in the buying function. AFW proponents are excited about the pilot project they are undertaking with PUMA on the wage gap analysis with AFW benchmark and exploring mechanism for quantifying contribution to enable AFW and have very high expectations. The commitment from PUMA's CEO to the project has been critical. So has been the support of the FLA in promoting the dialogue and providing its expertise and FLA tools to conduct fair wage assessments at the enterprise level and to identify gaps.

Reiner Hengstmann stated that PUMA has been grappling for several years with the issue of wages in contract factories. The objective, which has the full support of the CEO, is to move toward a situation where workers are paid a fair wage or a decent wage. This is easier said than done, and defining the precise objective and how to get there is very difficult. PUMA and the AFW have had several discussions seeking to find some common ground to move forward. PUMA arranged for the FLA to conduct fair wage assessments at a number of its strategic suppliers (the 20% of factories that supply about 80% of its products) in Asia and was somewhat disappointed with the results on wage practices among suppliers. It is clear that much needs to be done in these factories to meet fair wage standards. PUMA is now focusing on three long-term suppliers and, with collaboration from the AFW, trying to identify ways for factories to be able to pay better wages to these workers. Among the factors being analyzed are increased overall efficiency through LEAN manufacturing, more efficient energy use, and some adjustment to prices paid by consumers. This work is just getting started, but PUMA has high hopes for it. Hengstmann indicated that they expect to have results they can share by mid-2011.

Panel 3: Fair Wage Approach Implementation

Since the fair wage approach was elaborated, a number of questions on wages could be added in the FLA auditing exercise. This led to a number of findings on fair wage practices along the supply chain. Latest results from the 2009 audit were prepared by Vaughan-Whitehead for the Hong Kong meeting.¹⁰

This exercise allowed us to better identify performance of suppliers on the different fair wage dimensions and identify possible remedies. It confirmed some basic problems among a majority of suppliers such as noncompliance to minimum wage and overtime legislation, and poor practices regarding pay systems and wage adjustment mechanisms.

At the same time, these results illustrated wage adjustments made during the economic crisis. Many suppliers absorbed the demand shock through wage cuts, starting by removing bonuses and non-monetary benefits, and then minimizing wage increases. These results confirm that wages absorbed part of the shock and were used again as the adjustment variable at the end of the supply chain.

Low motivation, high turnover, difficulties hiring new workers especially among the pool of skilled workers, and the wave of social conflicts in most countries under survey have highlighted the possible implications – especially in the longer term – of this low-cost adjustment strategy.

¹⁰ Daniel Vaughan-Whitehead's PowerPoint presentation on fair wage practices along the supply chain is available at http://www.fairlabor.org/images/WhatWeDo/SpecialProjects/vaughan_whitehead_audit.pdf.

CONCLUSIONS AND NEXT STEPS

In his closing comments, Aurret van Heerden stressed the complexity of the issues surrounding wages. Daniel Vaughan-Whitehead brought forth the many dimensions of wages and their interactions. The case studies from Asian countries provided vivid illustrations of the complications: increasingly tight labor markets, workers having more choices and demanding higher wages, social dialogue deficits. A common theme running through the day's discussions is poorly regulated labor markets that tend to be unstable, prone to inefficiencies and subject to frequent costly disruptions affecting businesses and workers. Unstable labor markets do not serve the interests of businesses or workers. Socially responsible actors – suppliers, buyers, trade unions, civil society organizations – are compelled to take action to avoid potentially dreadful consequences. The epitome of what can go wrong is Foxconn.

To create positive outcomes in poorly regulated labor markets, leadership and partnerships involving suppliers, buyers, civil society organizations and labor unions are required. Van Heerden stated that he has seen a certain hesitation on the part of actors to take the lead. The risk is generalized conflicts and strikes. Do we have to wait until waves of strikes and suicides before taking action? Clearly not.

What can be done? Who takes the lead? What is the role of the local employer? Of the foreign buyer? Of civil society organizations? In some countries discussed today, leadership seems to be lacking, and socially responsible buyers are being expected to fill in the void. But there is no “table” where the different stakeholders can discuss their views and develop a potential rational distribution of responsibilities. Can we use our relationships, our networks, to resolve these vexing issues or are we passengers in a train leading to a collision? The FLA intends to continue to provide a forum where constructive engagement on complex issues related to wages can be addressed and creative solutions can be developed.