
19. Bargaining in the global commodity chain: the Asia Floor Wage Alliance

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Within a framework of unequal regional and national development, an unequal and segmented labour market, and transnational companies (TNCs) enjoying the advantage of benefiting from both these factors, labour organizations in Asia have forged the Asia Floor Wage Alliance to address the urgent need for developing new pathways of bargaining on a global scale. This chapter explores these issues in one of the most globalized industries, the garment industry, and explains the strategies of the Asia Floor Wage Alliance.

The global commodity chain has been enabled by varieties of continually evolving transnational corporate structures and capital functions. Capital from the Global North, aided by Northern governments and multilateral institutions, and with acquiescence from Southern governments, creates an environment favouring the operation of such global commodity chains. Gary Gereffi initially put forward the concept of the global commodity chain (GCC) to analyse the shift in global production patterns (Gereffi 1994; Gereffi and Korzeniewicz 1994). It viewed the shift in organizational terms and went beyond the limitations of neoclassical explanations of relative prices to incorporate the concept of market power. It also provided a framework for studying the spatial reorganization of global production. The concept of a 'buyer-driven commodity chain' further located the impetus of this shift in TNCs enjoying immense market power in the Global North. In this buyer-driven chain the TNCs retain their domination as the lead firms in the chain. As such, they have the capacity to foster organizational flexibility, to reduce and externalize production cost, and to secure the highest profit margin in the consumer markets they dominate.

To examine the power dimensions and the structures of the global garment business, we also found the concept of the Global Production Network (GPN) useful (Hess and Yeung 2006). GPN is a term used to describe the contemporary production system, which results from the shift in international trade from exchange based on distant market relationships to one based on closely connected firms. In the past, exchange through trade was limited to the TNCs and their subsidiaries. However,

the contemporary process of exchange expands and transforms intra-firm trade to new dimensions. GPN helps us to understand that exchange takes place through a networked structure in which the TNCs do not formally own the overseas subsidiaries or franchisees but outsource production to them, without the burden of legal ownership.

In addition to understanding the power and structure of contemporary TNCs, another aspect, and one equally important to attend to, concerns the role of monopolistic practices. Stephen Hymer, one of the earlier economists examining monopolies, looked at the evolution of transnational corporations as monopolistic structures dominating modern industry (Hymer 1972). In light of the alarmist concern about monopoly in free market capitalism, it is important to understand that in reality the GPN provides the conditions for Global North TNC monopolism in the global economy. The evolution of GPN is the most evident form of global production in the contemporary epoch, and in our understanding, promotes a form of monopolistic structure. This chapter delves into these issues by examining the global garment industry, with particular reference to the growth of the Asia Floor Wage movement and the Asia Floor Wage Alliance.

THE BALANCE OF POWER IN THE GLOBAL PRODUCTION NETWORK

Even in the initial phase of development of GCC as an analytical tool, we in the international trade union movement found it a useful concept as it provided a framework for intervening in the 'social clause' debates in which the issue of corporate labour rights in international trade was raised. We argued, as Global South trade unionists, that the changing nature of the trade and the emergence of global exchange through the buyer-driven commodity chain required new regulatory mechanisms for which the nation-state regulatory framework of the ILO was inadequate. In the absence of an adequate regulatory framework in a world of unequal regional and national development, social clauses would become just another mechanism of wielding power by the TNCs and their home states in the Global North over the Southern economy to force the entry of new investment regimes and restructuring of trade (Roy 1996). Subsequently, the GCC provided a framework to examine the labour dynamics in garment commodity chains both at the industry level and at the firm level, which then helped the Asia Floor Wage Alliance develop a collective bargaining strategy for the global garment industry.

The concepts of buyer-driven GCCs and the GPN together help in

understanding the structure, the market powers and the leverage points in global production. The context and conditions for the emergence of GPN became more prominent and politically feasible in the period after the 1980s. The crisis in the Northern economy compelled the inherent tendency in developed capitalism to sustain a high rate of profit to take recourse to further internationalization of production, and hence to facilitate the great global job shift. It became necessary to ensure that the new industrial base that emerged in the post-colonial period in the developing countries, which were primarily domestic focused and state-centric, open up for export-oriented industrialization and allow Northern private capital to expand.

With the dominance of neoliberal thinking in the 1980s the export oriented industrialization (EOI) in post-colonial countries was established. This allowed for the scaling up of export-oriented production and enabled the formation of the GPN. This export became nothing more than a mechanism to capture low labour cost which was essentially poverty level wages. This is the essential ground within which the GPN needs to be understood. GPN structures built on the fertile ground of EOI became the dominant form of international trade, more particularly so in the sectors of automobiles, electronics and garments.

TNCs from the Global North increasingly transferred segments of value-added tasks of production to geographically dispersed locations. The World Investment Report 2013 by UNCTAD states that:

Today's global economy is characterized by global value chains (GVCs), in which intermediate goods and services are traded in fragmented and internationally dispersed production processes. GVCs are typically coordinated by TNCs, with cross-border trade of inputs and outputs taking place within their networks of affiliates, contractual partners and arm's-length suppliers. TNC-coordinated GVCs account for some 80 per cent of global trade.

This dispersal pattern of value-added tasks of production in many ways was dependent on the EOI policies of the state and on labour market conditions within the affected countries, in particular what can be called the surplus labour within those economies. The suppliers in the Global South competed for orders from the big buyers in the Global North and this evolved into the key factor in keeping the labour cost down, since this cost was determined by the labour market situation prevalent in those countries.

The global production network (GPN) framework expresses the organizational linkages that the TNCs use to reorganize production through services and contractual agreements, as an alternative to arm's length transactions in the markets. In fact the GPN is an organizational form

that expresses how TNCs from the Global North succeed in linking two distinct aspects of market control within their organizations: one, their dominance in consumer markets in the Global North, and the other, their access to cheap production sites in the Global South. It is our argument that the GPN shifts the market relationship between firms from a trade relationship to a quasi-production relationship without the risks of ownership. The global economy becomes more integrated and the GPN becomes the organizational form of a monopoly capitalism from which the risks have been removed.

The UNCTAD World Investment Report 2013 has called for a ‘regulatory framework to ensure joint economic, social and environmental upgrading to achieve sustainable development gains’. In other words, it is asking for a rebalancing of the global production system, in which inequality has reached such overwhelming proportions. This balance can only be brought about by creating a framework in which the bargaining power of local firms in the Global South can be increased. The Asia Floor Wage is a corrective strategy developed to intervene in the GPN from a class perspective, to bring about a more equitable trade framework.

THE GLOBAL RESERVE ARMY OF LABOUR AND GLOBAL ARBITRAGE

The first step towards a corrective intervention is to examine the capital–labour relationship within the GPN. In order to do this, the concept of *circuit of capital* developed by Marxist political economists is particularly helpful. It provides the vantage point from which the GPN can be viewed as a single process consisting of complementary, intersecting but distinct functional capitals, namely, commercial, production, and financial capital. These functional circuits result in different types and modes of competition. At the Northern end of the chain competition takes place among commercial (retail) capitals in the consumer market; at stake is market share. At the Southern end, the competition in the newly expanded export-oriented areas is among productive capitals, seeking to supply to global retailers. Finally, there is the vertical competition between the buyers in the Global North and suppliers in the Global South, hence between commercial and productive capital, over the distribution of profit. This vertical, North–South competition has been called ‘value capture’ in the business literature.

Though the GPN framework is useful to bring out the quasi-production relationships, it needs to be further studied from the perspective of labour-market dynamics. It is important to understand how GPN structures the

conditions of work in the chain. The concept of a low-cost production location as a monopolistic tool has been best expressed by Michael Porter when he writes that 'Having a low-cost production yields the firm above average returns in the industry' (Porter 1980: 35). Low-cost production came to be synonymous with a low-wage workforce. The buyers in the Global North compete in their home market on the basis of their share in accessing low-cost production areas, rather than through price competition. Their ability to indiscriminately gain access to low-cost production countries required a dismantling of the Multi-Fibre Agreement quota regime of the textiles industry, the free flow of capital, and a turn to export-oriented industrialization in production countries.

The dual dominance of TNCs from the Global North in their home countries' consumer market and in terms of access to low-cost production countries is absolutely critical. Only thus can they avert the possible competitive threat from firms in the South which otherwise might penetrate the Northern markets on the basis of their exclusive low-cost position in the globalizing economy. This dual dominance has been the result of a coordinated effort between Global TNCs, Global North governments, and international multilateral institutions. This strategy for exploiting a low-wage labour force came to be termed in the business world by Stephen Roach of Morgan Stanley as 'global labour arbitrage': as a system of economic rewards derived from gaining monopoly control over the international wage hierarchy, resulting in huge returns (cf. Delgado Wise and Martin, this volume).

The TNCs' monopolistic strategy is made possible by the growth of a global reserve army of labour in the Global South under a neoliberal globalization process, and realized by connecting the GPN into this reserve army. The neoclassical assumption that wages will inevitably adjust to productivity growth and will result in a new global equilibrium, has proved to be empirically wrong. While the global economy grew at an average of 3.3 per cent per year between 1995 and 2007, annual wage growth was at 1.9 per cent every year. The wage share has been declining across the globe. As the ILO's Global Wage Report 2010/2011, sounding the alarm, put it, 'The overall short-term impact of the crisis on wages should be looked at within the context of a long-term decline in the share of wages in total income, a growing disconnect between productivity growth and wages, and widespread and growing wage inequality.'

In a capitalist economy, wages are kept low by the existence of labour reserves in the country. Wage rises are possible when growth is significant enough to exhaust an economy's labour reserve, and to induce tightness in the labour market, in other words, when the growth rate of the economy exceeds the growth of supply in the labour market. However, if a specific

sector grows rapidly in terms of output as a result of *capital infusion*, it raises the labour productivity in that sector relative to the rest of the economy, without triggering a wage rise.

The proportion of reserve labour to active labour, then, determines the nature of the labour market. In regions where there is a large section of latent labour in agriculture, the availability of reserve labour is proportionally large. The size of the reserve army of labour is what structures the labour market. Today it is in Asia that we find the largest reserve army of labour. According to Marx a major form of reserve labour is the one that involves extremely irregular employment, or in today's terms, the informal sector. The wages of the workers in this category could be said, according to Marx (1990: 792), to 'sink below the average normal level of the working class' that is, below the value of labour power, its reproduction cost, which in itself is historically determined. Rosa Luxemburg deepened our understanding of the process by the phrase, 'the surplus labour from non-capitalist modes of production' to characterize the reserve army of labour. It is the enormous weight of the relative surplus labour population that tends to pull down the wages below the average value.

Between 1980 and 2007, the global labour force according to the ILO grew from 1.9 billion to 3.1 billion, most of them from the developing countries and with India and China contributing 40 per cent of this rise (cf. Selwyn, this volume). Still according to the ILO, there are 555 million working poor, a significant percentage being female. 'Since the mid-1990s the proportion of people on low pay – defined as less than two-thirds of median wage – has increased in more than two-thirds of countries with available data.' The ILO's *Global Employment Trends 2011* shows that 'the number of workers in vulnerable employment is estimated at 1.53 billion workers globally in 2009, more than half of all workers in the world'.

It is important to note that the global labour force to which these discussions refer is too often viewed as a homogeneous bloc. Of course in reality, this labour force is far from homogeneous. It is highly segmented geographically and its characteristics depend on the poverty level of the region and the country. Asia, the largest recipient of foreign investment, *also* holds the largest workforce and represents most of the global working poor, among which women comprise an increasingly significant proportion. This is no coincidence because foreign investment seeks out the most pliant, poor and under-valued working class. The garment industry is of course one such labour-intensive industry that absorbs both low and high-skilled workers.

The GPN draws on this new labour in organizing global production. To illustrate, Nike and Reebok rely on their global supply contractors for 100 per cent of their production. In other words, the production workers

for Nike and Reebok are all in the developing countries but they are not recognized as workers of these firms. The struggle for an Asia Floor Wage focuses on this global arbitrage – the manifest form of the development of absolute law of capitalist accumulation in the new global phase. In economics, the term ‘arbitrage’ means the buying of an asset at a low price and then immediately selling it on a different market at a higher price. In other words, a single product, but access to two different markets, is what creates the conditions for profitability, unrelated to the production cost itself. This arbitrage is made possible by an augmentation of the imperialist rent extracted from the South through integration of low-wage, highly exploited workers into the capitalist production. According to Marx (1990: 792), ‘The relative surplus population is therefore the background against which the law of demand and supply of labour does its work. It confines the field of action of this law to the limits absolutely convenient to capital’s drive to exploit and dominate the workers.’

In the garment industry output has increased but real earnings have not grown at the same rate, though the productivity has increased due to capital infusion in the garment industry in Asia. An important question for the labour movement is the distribution of the enormous and consistent surplus that is generated from arbitrage and higher productivity.

NODES OF INEQUALITY IN THE GLOBAL GARMENT INDUSTRY

The global fashion apparel industry is one of the most important sectors of the economy in terms of investment, revenue, trade and employment generation all over the world. The Asia-Pacific region is home to the largest amount of production and trade in the apparel industry worldwide. Globally there are an estimated 40 million garment workers, with a significant proportion female. The global garment industry’s total revenue was estimated to reach a value of US\$1782 billion by the end of 2010. The level of garments’ sales rarely drops; in fact, research shows that even when prices rise, sales continue. Apparel imports of the United States witnessed an increase of 13.5 per cent in January–April 2011 from the corresponding period of the previous year and amounted to US\$23.2 billion. For the same period, US imports of apparel from India increased by 12.7 per cent to US\$1313 million dollars against US\$1165 million in January–April 2010. US imports from China saw an increase of 8.3 per cent in January–April 2011 over the corresponding period of the previous year and all the other major suppliers, such as Vietnam, Indonesia, Bangladesh and Mexico also witnessed increase of 16.9 per cent, 18.2 per cent, 29.7 per cent

and 8.4 per cent, respectively. Among the top six suppliers, Bangladesh registered maximum growth from the previous year of the same period.

Today the largest bulk of garment manufacturing, although spread across all the continents, is found in Asia. Asia manufactures 60 per cent of the world's clothing. In terms of scale of production, size of workforce, access to raw materials, technology, diversity of skills, and labour cost, Asia offers the greatest competitive advantage. Within Asia, garment production takes place in many countries such as China, India, Bangladesh, Sri Lanka, Pakistan, Indonesia, Cambodia, Vietnam and Thailand. In the Global North, multi-goods retail companies and big brands set the standard for the garment global supply chain.

An astonishing phenomenon is that even as prices of most commodities have shot upwards, the prices of garments have *fallen* in the Global North. Yet profits of garment brands have been impressive. This can be explained by the fact that the prices that brands pay to the manufacturers in Asia have decreased, reducing the profit margins of Asian manufacturers, which depresses the poverty wages production workers continue to get. American consumers, despite falling income, can be relied upon to continue buying by depressing prices and pressing down on wages at the production end. 'Much of the emphasis on competitiveness has focused on production costs and, in particular, labour costs. Consumers in affluent nations benefit from low-wage imports when retail prices fall for the goods they purchase.' (Heintz 2002).

It is our argument that the surplus produced, through dual and exclusive access of the TNCs to the consumer market in the Global North and low-cost production areas in the Global South, is disproportionately distributed between local/Asian producers and the global buyers via the price mechanism. At one end of the chain, in the consumer market dominated by the large brands, there is a tendency for retail prices to move upwards. At the production end, on the other hand, the expansion of the supplier base in the developing countries, and because the market for garment manufacturing has become plain commodity production (rather than a skill-based labour market), have combined to create competitive pressure among the suppliers, leading to a race to the lowest level of production costs. The two components of the GPN thus operate in different competitive structures. The buyer-supplier price mechanism links the two and constitutes the node at which the disproportionate sharing of the surplus takes place. It also provides the possibility of a wage rise in the export sector in the garment sector in production countries, if only the workers could develop this node as a leverage point for a common demand, and build an effective strategy and an organization structure to support it.

Under monopoly capitalism in general, wage rises are always smaller

than productivity rises unless there is a labour struggle that can force the wages upwards. As David Harvey says, 'The geographical organization of capitalism internalizes the contradictions within the value form. That is what is meant by the concept of the inevitable uneven development of capitalism' (Harvey 1982: 417).

As contemporary capitalism reorganizes itself by geographical dispersion, assuming the organizational form of a GPN, the question remains as to how both the dependency and the unequal exchange are intertwined within the value analysis of the GPN. It is at the level of the FOB (Freight-on-Board meaning till goods reach the ship's board) price – essentially the transfer price from production area to consumer area – that the unequal exchange in the GPN is hidden. The FOB price is the manifest market mechanism covering the inequality of the price of labour, given equal labour productivity. Such a value transfer can only operate within the GPN, EOI and 'free' capital flow that underpin the globalization of production and consumption.

The FOB price is also the nodal point at which the exchange rate operates. By basing their buying decision on the exchange rate of individual countries, the buyers render opaque this value transfer. To make this transparent one needs to see there is a twofold operation involved here. One concerns the purchasing power exchange that takes place between the Northern consumer market and the Southern production (production task market); the other is the comparative nature of productivity and wages in a regional labour market within the GPN. This becomes possible by calculating both the prevailing wages and the potential living wage, in Purchasing Power Parity (PPP) dollar terms. The wages in national currencies or in exchange rate terms appear far apart. But they can be brought around into a narrow band if calculated in PPP\$ terms, a more appropriate measure for comparison. This makes visible the extent of labour exploitation and the undervaluation of the labour price with their regional productivity.

Two realities dominate labour at the global level. One, the GPN that is built on wage arbitrage or the system of imperialist rent; and second, the existence of a massive global reserve army of labour that makes this wage arbitrage possible. It is the super exploitation of labour that is behind the expansion of production in the Global South. The net result is a fall in purchasing power of the majority of people in Asia, over production of goods for which there are not enough consumers and unemployment in the Global North. The purchasing power of working class and poor people in Asia is falling and poverty levels are being pushed down so that few people can be listed below it. This has blocked the majority of today's consumers from the consumer market. As Gary Gereffi has written,

Unlike producer-driven chains, where profits come from scale, volume and technological advances, in buyer-driven chains profits come from combinations of high-value research, design, sales, marketing and financial services that allow the retailers, designers and marketers to act as strategic brokers in linking overseas factories and traders with product niches in their main consumer markets. (Gereffi and Memedovic 2003: 3).

He goes on to say,

The lavish advertising budgets and promotional campaigns needed to create and sustain global brands, and the sophisticated and costly information technology employed by mega-retailers to develop ‘quick response’ programmes that increase revenues and lower risks by getting suppliers to manage inventories, have allowed retailers and marketers to displace traditional manufacturers as the leaders in many consumer-goods industries (ibid.: 4).

Any intervention to benefit production workers in this global garment production structure has to simultaneously consider the interlinked factors of low retail prices, brands’ huge profits, reduced prices for Asian manufacturers, and stagnant wages of Asian workers.

THE ASIA FLOOR WAGE STRATEGY

In a global scenario, where mobility of labour does not exist, it is the localized labour market and the ratio of the active labour force to the reserve labour force in the localized area that determines the character of these labour markets. In the phase of globalization, these labour markets tend to get interlinked. It is our argument that this interlinked labour market takes a regional form. Therefore, the extent of the reserve army of labour in these regions determines the character of the labour market.

From a GPN vantage point the regional character of the labour market, specific to a specific industry, determines the average cost structure of the product, with each country within the region providing the different margin to sustain the average. The threat of relocation of capital or sourcing that the workers face, when unionizing, is confined to the regional labour market and not uniformly spread at a global level. The space for relocation is regional.

The Asia Floor Wage strategy is built on the argument that Asia has the largest reserve labour force in agriculture. It also has more than a third of the world’s working poor. So the relocation of garment production, which is labour-intensive and requires masses of labour, from Asia to a different region of the globe is improbable, at least until the reserve labour in Asia has been exhausted. In this context, the threat of relocation that the labour

face can be addressed if unions take, as the unit of analysis and action, the region, in this case Asia.

Garment workers in Asia, the majority of whom are women, currently earn around half of what they require to meet their own and their families' basic needs, such as food, water, education and healthcare. A living wage has been a key demand among labour activists in the garment industry for a long time. This demand has been posed to the brands over a long period with very little progress other than rhetorical support. Three main reasons have often been adduced by reluctant brands. One, that there is no common definition of a living wage and no method of calculation; therefore, it is not possible to pay something that is not defined. Two, that any attempt to demand a living wage at a national level results in relocation across the border, and therefore is punitive to national economies. Three, that demand for a living wage is often driven by Northern activists without a collective demand from the Global South.

Trade unions and labour rights organizations in Asia, after years of experience in the garment industry, came together to frame a demand that is bargainable and deliverable, and that is appropriately targeted given the structure and economics of the industry as a whole. The Asia Floor Wage Alliance began as an Asia-focused alliance and grew into a global alliance with Global South and Global North partners. It has been building towards a global movement for an Asia Floor Wage in the global garment industry. The process of building an Asia-centred, union-led, industry-wide initiative has been inspiring and historic.

The Asia Floor Wage movement can be seen to have three phases. The first phase was a bottom-up consensus-building process in Asia to develop the demand concept. The second phase was the presentation of the demand. The third phase, the present one, is struggle and bargaining.

Phase 1: Consensus-based Bottom-up Demand Development

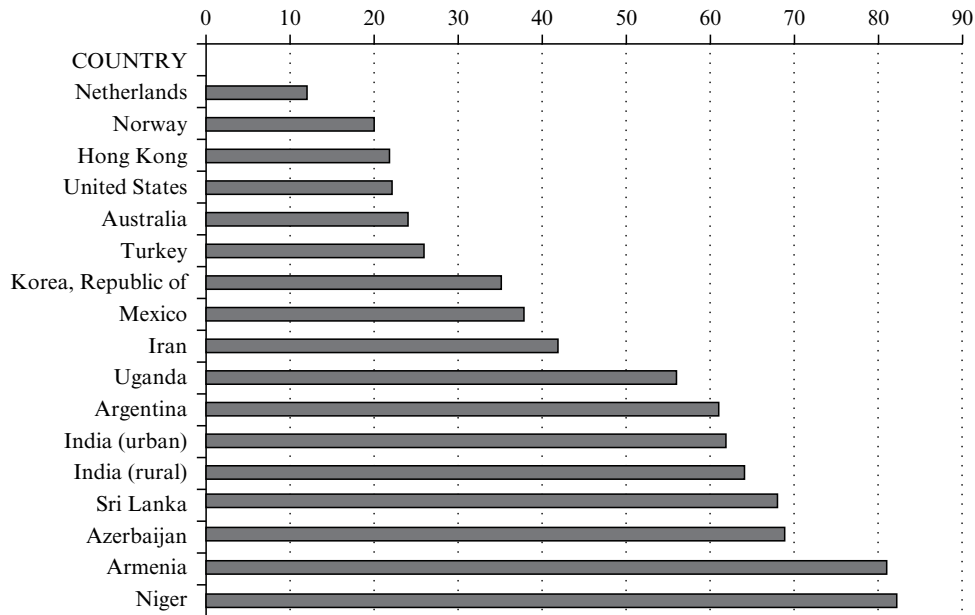
This phase consisted of union meetings in key garment-producing Asian countries on the issue of wages. Workers and worker representatives were frustrated with the statutory poverty level minimum wage as a ceiling in an industry that produces a vast amount of global wealth for global employers; they resented the continual threat of relocation that brands and suppliers imposed on workers, exploiting intra-Asia competition. Dialogue and secondary research confirmed the reality that it is Asia's large labour force, which manufactures most of the world's clothing, that creates the conditions for a recognition of Asian garment workers as a single bargaining bloc or unit. The analysis of the global commodity chain reveals a global subcontracting production chain in which the brand is the principal

employer and the Asian supplier factory is a subcontractor. Asian unions held the view that like any other subcontractual relationship, the principal employer must be held accountable for the growing poverty and desperation among garment workers.

The demand for an Asia Floor Wage first began developing in 2006 through a collective consensus-building process among Asian labour organizations. In a segmented global labour market, Asian organizations came to the conclusion that the combination of the scale and the wage level of the workforce made Asian workers the largest workforce producing garments. Moreover, the wage levels of the garment workers in the major garment-producing Asian countries were not too dispersed when compared in terms of purchasing power, and were nearer to the poverty level wage. The prevalence of a legal minimum wage in these countries did not affect these poverty level wages. In fact, in some countries the minimum wage was below the universally accepted poverty level norms! This understanding provided the basis for evolving and establishing the idea of a homogeneous bloc that would act as the 'bargaining unit' in the global garment industrial framework. The AFW Alliance has developed a concrete formulation for a regional living wage. The goal was to have a common regional wage that would raise workers' wages without disturbing the competitive ranking of the Asian countries, thus allowing wages to be taken out as a factor in intra-Asia competition.

The AFW Alliance decided to first conduct a need-based survey in garment-producing countries to determine workers' needs so as to calculate a living wage at the country level. The results of the survey were in local country currencies. The AFW Alliance used data from need-based surveys in India, China, Bangladesh, Sri Lanka and Indonesia as a basis for the AFW formula. The Asia Floor Wage is based on widely accepted norms that are institutionalized in existing policies, laws and practices in Asian countries and on Asian government figures and international research. The Asia Floor Wage is composed of two categories: Food and Non-food. Both categories are estimated at a broad level, the goal being to provide a robust regional formula that can be further tailored by trade unions in different countries, based on their needs and context. In Figure 19.1 the share of expenditure on food in total household expenditure is given for the poorest 10 per cent of households.

The poorer the economy, the more the workers spend on food. In Asia, food cost takes up the most substantial part of a worker's income. The food component of the AFW is expressed in calories rather than food items, in order to provide a common basis. The AFW calorie figure is based on studying calorie intake in the Asia region by governmental and intergovernmental bodies, and the physical nature of work. The AFW



Source: ILO Laborsta.

Figure 19.1 *Poorest households' expenditure on food (latest years when data was available, percentage of total expenditure)*

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.

The AFW study of the working class population in various countries in Asia shows an average of 50 per cent of household income being spent on food. Therefore non-food costs are taken to be the other half of the income, leaving the details of what comprises non-food to be left to the trade unions in local contexts. The 1:1 ratio of food costs to non-food costs was thus calculated based on the ratio that currently exists for the working class of different Asian garment-producing countries. Since the AFW unions decided to base an AFW on a family, the Alliance studied family sizes in key Asian countries and the ratio of earner to dependents. In order to account for childcare costs, the AFW assumes a single income family, and uses a formula based on three adult consumption units.

The AFW, then, is a basic wage figure prior to benefits. It defines the regular working week as a maximum of 48 hours prior to overtime. AFW's definition of a working week and the assumption that there are no further benefits sends a clear message that workers need to earn a minimum living wage without having to sacrifice humane working conditions. The

Table 19.1 Asia Floor Wage in local currency on the basis of PPP, 2012–13

Country name	PPP conversion factor, 2011	Local currency figure for 540 PPP\$, 2012	Local currency figure for 725 PPP\$, 2013
Bangladesh	35.43	19 132	25 687
Cambodia	2 182.99	1 178 815	1 582 668
China	4.32	2 333	3 132
India	22.4	12 096	16 240
Indonesia	5 583.76	3 015 230	4 048 226
Malaysia	2.16	1 166	1 566
Nepal	39.11	21 119	28 355
Pakistan	36.38	19 645	26 376
Sri Lanka	63.68	34 387.2	46 168

Source: Asia Floor Wage Alliance.

currency through which the Asia Floor Wage is expressed is the imaginary currency of the World Bank, Purchasing Power Parity (PPP). The reasoning for choosing the PPP as opposed to exchange rates is that exchange rates are determined by supply and demand for each currency globally, in other words, by the currency market. Exchange rates are highly volatile and fluctuate on a daily basis and are not reflective of national conditions. PPP, on the other hand, is based upon the consumption of goods and services by people within a country; it reflects the standard of living and hence is a more appropriate tool for comparing wages.

The AFW Alliance conducted country-based surveys of monthly food costs for a family in which an adult consumes 3000 calories per day. This cost was doubled to include non-food costs. This AFW in local currency was converted to PPP\$ and the result was a comparable spectrum of values in PPP\$. The AFW Alliance unions then discussed the spectrum of values and came to a consensus on AFW in PPP\$ for the region as a whole. This figure has been adjusted annually to account for inflation and the AFW Alliance conducts fresh food cost surveys every three years to re-establish the base food cost component. Table 19.1 gives the key indicators for the different countries.

Phase 2: Presentation of Demand

The AFW movement entered the second phase of presentation of demand through an International Public Launch on 7 October 2009. The AFW Alliance wrote letters to almost 60 brands demanding meetings for the

delivery of AFW. From 2009 onwards, the AFW Alliance has engaged in numerous debates and dialogues with brands and multi-stakeholder initiatives (MSIs); and several meetings with the ILO and Global Union Federations (GUFs). Over two years, the AFW achieved international credibility and legitimacy and began to be used as a benchmark by some brands/MSIs and semi-government agencies, just as it gained currency in ongoing discussions on labour issues worldwide.

The Asia Floor Wage bargaining process targets the brands, the principal employers of the buyer-driven global subcontracting commodity chain, in order to ensure decent wages for workers in the industry. In the global garment industry, global buyers (or brands and retailers) exercise maximum influence over the way that production is organized. They set prices and determine how production takes place. These practices immediately impact the capacity for suppliers to pay a living wage. Scholars have found that brands force supplier companies to operate below production costs, causing wages to be adversely affected. Brands and retailers' sharing a negligible fraction of their profit can dramatically raise millions of workers and families out of poverty.

Central to the demands of the AFW is, therefore, the need for a concerted effort by brands and retailers to address the issue of unfair pricing (the FOB or Freight-on-Board cost), as an important first step towards the implementation of a living wage in the garment industry. 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. Global sourcing companies pay approximately the same prices to their supplier factories in Asia: around 25 per cent of the retail price. Garment workers' wages make up a very small proportion of the final retail price for clothes (around 1 to 2 per cent) so substantial wage rises could be achieved without increasing retail prices. The proposed demand is an Asia Floor Wage for Asian garment workers in conjunction with fair pricing that would make Asia Floor Wage possible.

A key finding is that fashion retailers are not engaged in any systematic costing of the labour input into garment manufacture (Miller 2013). The imprecise clarification of 'labour minute values' and factory efficiency is a significant factor in the chronic persistence of factory non-compliance on wages and overtime. It is possible to calculate labour minute values for any garment, which also incorporates a living wage element. It is possible to determine and ring-fence the agreed labour cost and to make this an explicit part of the contractual obligation between the buyer and the supplier, in the same way that fabric is itemized in negotiations. Ring-fencing the labour cost would force brands and suppliers to address the issue of how the factory is operating since the basic minimum wage would be the

same regardless of factory efficiency. Labour cost is one of the most suppressed costs of production. Other factors of production include quality of infrastructure, access to raw materials, technology, energy, transportation, quality of management, legal systems and so on. Yet another factor in production costs is the purchasing practices of buyers that include lead time, quantity of order, advanced planning and so on.

The AFW fixes the labour cost and 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. An initiative involving labour costing will require a high degree of transparency and openness between sourcing companies and their suppliers. Some buyers insist unilaterally that their suppliers ‘open their books’ during price negotiations, a practice which some observers see as naked power play in an attempt to drive prices down. In such circumstances, it is argued, suppliers have no other option but to hedge by distorting their figures. A more cooperative ‘open book costing’ will require integrity measures on the part of buyers such as price increases, long-term supply agreements and the offer of productivity expertise where available. Buyers will also require an assurance that the additional amount of money identified as the living or sustainable wage element in excess of the current prevailing unit labour costs is reaching the workers. The AFW Alliance has shown a willingness to participate in helping brands to develop such mechanisms.

The Asia Floor Wage is a practical implementation of the concept of a ‘Minimum Living Wage’, the original ILO concept. Although minimum living wage is an important qualitative concept, there exists no concrete quantitative definition. The Asia Floor Wage is a quantitative definition of Minimum Living Wage for garment workers in the global garment industry. The Asia Floor Wage has several other social benefits as well. AFW will help decrease the gender pay gap by raising the floor. Worldwide, women form the vast majority of garment workers. Women are over-represented among low-paid workers and their ability to move into higher wage work is also lower. In fact, some believe that the garment industry, a modern manufacturing industry, has such low wages because its workers are predominantly women (unlike, say the more male automobile industry).

Workers work back-breaking overtime hours to earn a minimum living wage. Workers’ family lives, health and basic humanity are lost in the race to earn a minimum living wage. A new generation of children without parental care or education will lead to more child labour. Raising workers out of poverty leads to sustainable communities where new generations can lead a better future. The AFW affirms the principle that the only way

to enforce AFW is through unions. The AFW implementation requires the existence of a union, and is not a substitution for unionization. In so far as the AFW is a collective bargaining strategy, the right to ‘effective recognition of collective bargaining’ is essential, and efforts must be made to secure the necessary legal and institutional framework for this. The ILO makes explicit the link between collective bargaining and wage setting in its *Global Report on Wages 2008/09*. It notes that ‘higher coverage of collective bargaining ensures that wages are more responsive to economic growth, and also contributes to lower wage inequality’.

Since the Asia Floor Wage was made public on 7 October 2009, it has gained recognition as a credible benchmark for a living wage in the industry, in the garment labour movement, and in scholarly discussions. The AFW has become a point of reference for scholarly living wage debates such as by Richard Anker and Daniel Vaughan-Whitehead. It has been adopted as a living wage benchmark by the multi-stakeholder forum, the Fair Wear Foundation, and serves as a point of reference for brand-level associations such as the Fair Labor Association. The German development organization GIZ has acclaimed the value of AFW. The AFW has been adopted by a few brands as a comparative benchmark for wage analysis; its credibility and feasibility continue to act as a pressure point. The Workers’ Rights Consortium has used the AFW in a variety of ways in its analysis and benchmarking.

Phase 3: Struggle and Bargaining

The present phase of the Asia Floor Wage Alliance is struggle and bargaining. The AFWA actively supports all minimum wage struggles in garment-producing countries; minimum wage rises are critical steps towards an AFW. The AFW Alliance condemns and resists all employer attacks and resistance to unionization, because unions are central to the implementation of an AFW; the AFW is a demand of unions and cannot be reduced to a Corporate Social Responsibility policy or a discursive tool. The AFW Alliance sees the growth of contract labour or short-term contract workers as an attack on freedom of association; therefore the Alliance calls for the abolition of such contractual labour.

The AFW Alliance has developed the Asia Brand Bargaining Group (ABBG) consisting of Asian unions to enable greater coordination and regional bargaining that complements national priorities and struggles. The ABBG has four common demands for the welfare of garment workers in Asia: Living Wage, Freedom of Association, Abolition/Regulation of Contract Labour, and an End to Gender-based Discrimination. The AFW Alliance has also conducted three National People’s Tribunals in

India, Sri Lanka and Cambodia on the issue of Living Wage and Working Conditions in the garment global supply chain. Dozens of women workers have testified. Brands have been asked to testify as well to demonstrate what they have done to deliver a living wage. The jury verdicts that have emerged point to shocking deficits in decent labour standards and dangerously low wages. For example, in Cambodia, the mass fainting of women workers in the workplace was clearly attributed to malnutrition and poverty wages. The juries in all three tribunals have unanimously recommended that a living wage needs to be paid immediately and that any other activity of the TNCs (most popular being further research to learn what is already well known) are only delaying tactics.

The Asia Floor Wage Alliance believes that the Asia Floor Wage must be implemented by brands that possess the political and economic power in the global supply chain. They are the principal employers in the global subcontracting chain. A generalized pricing mechanism can be developed taking into account the unit AFW labour cost of a garment in terms of both FOB and retail costs. AFW would fix the floor for the labour cost so that the FOB costs can be adjusted accordingly through other factors and the price agreed.

The premise of Asia Floor Wage implementation requires freedom of association to be respected and for unionization to occur, since enforcement can only be done effectively with unions and worker representatives as part of the process. Therefore, the right to organize is central to the ultimate success of the Asia Floor Wage campaign. An AFW is possible only in the presence of dynamic workers' struggles. In fact, the AFW campaign unites national struggles into an Asian framework and so complements and adds to the power of bargaining at national levels.