

# GLOBAL COMPARATIVE STUDY ON WAGE FIXING INSTITUTIONS AND THEIR IMPACTS IN MAJOR GARMENT PRODUCING COUNTRIES

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## REVISED Synthesis report for the ILO

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## 1. Introduction

Many developing countries have failed to create enough jobs to meet the needs of a rising population. As a result, the quality of the jobs created has received less attention than the quantity. In the decade up to the 2008-10 economic crisis there was a widespread resurgence of interest in one specific aspect of labour market regulation, namely minimum wage legislation. A revival and reinvigoration of what had typically been a relatively dormant minimum wage policy occurred in the major powers among developing economies: Brazil, China, and South Africa (Belser and Rani, 2011), as well as many others. The ILO has, to some extent, influenced this policy shift through its systematic and well regarded analyses of wage issues. Moreover, it has consistently argued for governments to reconcile their renewed interest in statutory wage-setting with the need to enhance the freedoms and rights of workers to associate and to negotiate wages collectively through agreements with employers (Hayter, 2011a). Recognition of the strong potential for complementarity between institutions of minimum wages and those of collective bargaining (Grimshaw et al., 2014), especially for their combined contributions towards pay equity, worker voice, industrial relations stability and productivity, provides ample motivation for a greater political commitment to support the collective associations of workers and employers.

The primary purpose of this comparative report is to review the role of minimum wage and collective bargaining institutions and their effects in a sample of major garment or textile producing countries. Part 1 of the report describes the institutional context of ten countries and Part 2 analyses the detailed character of policy and practice in the garment industry in seven of the ten countries (table 1.1). As well as international research and publicly available data from ILOSTAT and the World Bank, we also draw on eight National Reports commissioned by the ILO, of varying content and form of analysis, listed in Table 1.1; full details of the National Reports are provided in the list of references. The wider sample of ten countries covered in Part One, designed to broaden the international context, also includes a review of supplementary documentation, research studies and empirical evidence for Brazil and India. The ten countries were selected because of their relatively important role as garment producing economies in terms of their share of global exports, share of garment production in total manufacturing value-added, and share of total manufacturing employment (detailed in section 6).

Table 1.1. Selection of countries covered in the report

Country	Covered in Part 1	Covered in Part 2	Commissioned National Report
Bangladesh	✓	✓	✓(Moazzem et al. 2015)
Brazil	✓	x	X
Cambodia	✓	✓	✓(Reeve and Hwang 2015)
China	✓	✓	✓(China National Report 2015)
India	✓	x	X
Indonesia	✓	x	✓(AKATIGA-ILO 2015)
Pakistan	✓	✓	✓(Praxis Labs-ILO 2015)
South Africa	✓	✓	✓(Godfrey et al. 2015)
Turkey	✓	✓	✓(Bakoğlu and Ensari 2015)
Vietnam	✓	✓	✓(Chi and Torm 2015)

The key aims of this report are as follows:

- i) to develop a mapping of minimum wage fixing in the countries under review;
- ii) to critically assess the role of legal and customary approaches towards legal compliance, including inspection and enforcement mechanisms;
- iii) to map the linkages with collective bargaining practices;
- iv) to develop a better understanding of the goals, criteria and process of minimum wage fixing as it affects the textile and garment sector;
- v) to develop a better understanding of the outcomes of minimum wage fixing for pay equity, especially women's relative pay, legal compliance (pay and other worker rights) and linkages with collective agreements;
- vi) to develop a better understanding of current practices of collective bargaining affecting the textile and garment sector, including coverage, process, structure and outcomes.

In its policy analysis and constructive critique, the report seeks to enhance ILO capacity for policy advice to support constituents in developing a more inclusive wage and collective bargaining policy. The ILO undertakes valuable work with stakeholders to build and sustain effective minimum wage institutions in a manner that is tailored to a country's specific institutions and economic conditions, aligned with its Convention 131 (Minimum Wage Fixing Convention). It is hoped this report can further these aims and support coherent policy development in the area of wage setting, with a view to improving wages and working conditions in the global and domestic supply chains of the textile and garment industry.

**Acknowledgements:** We would like to express our gratitude for the many helpful and constructive comments on this report. At a detailed presentation of preliminary findings at a tripartite workshop in Bangkok during late 2015 (jointly organised by the ILO and the German sponsor GIZ), we received a great deal of valuable comment and many insights from government, union and employer representatives from Bangladesh, China, Indonesia, Pakistan and Viet Nam. We also received helpful comments and queries from the authors of the eight national reports commissioned by the ILO, as well as two reviewers as part of the ILO's internal reviewing process. Any remaining errors are the responsibility of the authors.

## PART 1 - Comparative overview of wage-fixing institutions in ten countries

### 2. Minimum wage fixing: diverse rules and trends in levels

While there is near universal application of minimum wages around the world, there is a great deal of international variety in minimum wage policy design. The differences reflect many factors, particularly the extent of shared historical legacies among countries, government use of the minimum wage as economic and/or social policy, the state of collective bargaining and its relevance in the formal and informal sectors of the economy (Eyraud and Saget, 2005; Grimshaw, 2013a). The ILO's Conventions, research and advisory activities have also shaped the development of minimum wage-fixing machinery in many countries (Belser and Rani, 2015; Marinakis, 2008). We begin in this section by focusing on the basic features of minimum wage design – the number of rates and the respective authority of social actors (the government, employers and unions) in fixing the rate(s). We then explore cross-country trends in the relative value of the minimum wage.

#### 2.1. Minimum wage design

Table 2.1 classifies our selection of ten countries according to two dimensions of minimum wage fixing rules. First, does the country apply a single national rate or multiple rates, or a combination of single and multiple? We ignore here the use of different rates for young workers, as well as separate rules for foreign and domestic companies. Second, where multiple rates are applied, do these distinguish by region or industry, or both? Across both dimensions, we find that minimum wages in all ten countries are fixed by statutory rules at central or provincial government level.

Only one of the ten countries, Turkey, relies exclusively on a single national statutory minimum wage. While an exception among our sample, Turkey is in fact in line with the experience of European countries where this is the most common approach to minimum wage fixing. The rationale for a single rate is that it facilitates a shared awareness of the minimum wage among citizens, it underpins a national approach to minimum standard-setting and ensures an institutional fit with national policy on welfare benefit payments (Grimshaw, 2013b). Nevertheless, a country's size (population and geography) and a high level of economic and employment inequality among industries and/or regions may be more significant factors to consider in establishing an alternative policy of multiple rates that differentiate across industry or region. The large size and high level of income inequality in the United States, for example, are key factors behind its use of a national (federal) minimum wage topped up by regional (state) minima. Among the nine countries considered here with a system of multiple minimum wage rates, we find three (Brazil, India and Viet Nam) where there is a similar layering on top of a national rate, although India is a rather special, more complicated case that defies stylised classification (see Belser and Rani, 2010<sup>1</sup>).

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<sup>1</sup> Belser and Rani (2010: 7) refer to India's minimum wage system as 'one of the most complicated in the world'

Table 2.1. Classification of minimum wage fixing rules<sup>1</sup> in selected countries

	Number of MW rates:		Multiple rates vary by:		Further details:
	Single national	Multiple	Industry	Region/province	
Bangladesh		✓	✓		42 Industry MW Boards (plus further differentiation by urban/rural and for export-processing zones)
Brazil	✓	✓	✓	✓	In practice very few states set a supplementary rate higher than national rate
Cambodia		(✓)	✓	(✓)	In principle multiple but to date only fixed for one industry (garment & footwear); rules allow for regional variation but none fixed
China		✓		✓	31 provincial tripartite committees; many provinces also vary rates by up to four wage districts
India	✓	✓		✓	36 provinces set statutory MW; national rate serves as informal guidepost
Indonesia		✓	(✓)	✓	33 province rates plus sub-province district rates; industry rates also set in some provinces
Pakistan <sup>2</sup>		✓	(✓)	✓	5 MW Boards (4 provinces plus capital) with power to fix different industry rates
South Africa		✓	✓	(✓)	9 industry MW rates (adults <sup>3</sup> ) -most also set minimum rates for main job types, some vary by region also; plus some industries covered by extended collectively agreed MWs
Turkey	✓				—
Viet Nam	✓	✓		✓	All 4 regions set higher than national rates (as well as higher rates for foreign firms until 2012)

Note: 1. The state may have sole responsibility or may require consultation with employers and trade unions, usually in the form of a committee, prior to making its decision (see table 2.2); 2. The classification of Pakistan is complicated by the ongoing announcement of a national rate by federal government despite its statutory authority in question (see text); there are 11 sectoral determinations in total, including 9 for adults (contract cleaning, civil engineering, private security, domestic workers, wholesale and retail, taxi workers, forestry, farm workers and hospitality), one for children in advertising, artistic and cultural activities and one for learnerships (skill development programmes).  
Source: National reports commissioned by the ILO, Belser and Rani (2010) for India, along with other secondary sources; authors' compilation.

The multiple minimum wage systems differentiate primarily either by industry, as in Bangladesh and South Africa, or by region/province/city, as in China, Indonesia and Pakistan. For each industry or regional rate there may also be further distinctions by occupation and skill. In each case governments (at either national or provincial/regional level) fix the rate either unilaterally or, as is most often the case, following recommendations from some sort of tripartite or bipartite committee (described below). Examples include the 42 Industry Minimum Wage Boards in Bangladesh (with separate rules for firms in export-processing zones), the 31 provincial tripartite committees in China, the 33 province minimum rates in Indonesia, the 36 province rates in India, the five province Minimum Wage Boards in Pakistan (which also set rates for varying industries) and the nine industry minimum wage rates ('sectoral determinations') covering adult workers in South Africa. Cambodia's relatively recent statutory minimum wage has to date only been applied in one industry, that of garment and footwear (Reeve and Hwang, 2015 p.30). The different country approaches are highly significant for workforce coverage, since differentiation by province, in all cases reviewed here where there is no national rate, encompasses all parts of the country while industry minimum wage setting tends to be highly selective, leaving many industries outside statutory protection (see section 3).

In Indonesia, the model is complicated by a further layer of minimum wage decision-making at the sub-province level of district or city. The minimum wage fixing process begins at the district/city level, then passes to provincial level for confirmation by the province governor. Until late 2015, the absence of a standard formula, or set of principles for uprating the minimum wage each year, in addition to limited devolved resources, made for a relatively complex scenario and posed a high risk that provinces would be unable to reach agreement on a minimum wage

(AKATIGA-ILO 2015, p.28). In 2015, for example, four of the 33 provinces did not settle a new minimum wage rate, meaning that in effect the minimum for those provinces would be the lowest rate of the various agreed district and city minimum wages.<sup>2</sup> For these reasons, the Indonesian government introduced a new scheme in November 2015<sup>3</sup>, which requires district and city level committees to apply a centrally designed uprating formula (box 2.1).

The circumstances for minimum wage fixing in Pakistan are also relatively complex. While it would appear to be the provincial government, not central government, that retains ultimate power over minimum wage fixing, there is considerable ambiguity in the formal and informal procedures and authority relationships, with empirical evidence pointing to the strong role of central government in fixing the minimum wage for workers in jobs requiring few skills (see box 2.2). Despite devolved powers, it appears that the five provincial boards tend to informally coordinate the fixing and announcing of new minimum wage rates. Provincial boards may also set rates for different industries. The Punjab board, for example, sets as many as 104 industry rates, each with several job grades. However, rather than careful specification each year in response to industry experts, the practice appears to be simply to apply universally the federally announced rate rise. Moreover, there are questions about the relevance of the industry rates in practice; indeed, the authors of the Pakistan national report recommend abolishing the multiple industry rates due to lack of awareness (Praxis Labs-ILO 2015).<sup>4</sup>

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<sup>2</sup> <http://www.wageindicator.org/main/salary/minimum-wage/indonesia>

<sup>3</sup> Details about this new regulation -Government Regulation Number 78, 2015 –formula and regional supplements were provided at the 2015 ILO Bangkok workshop.

<sup>4</sup> There are nevertheless some developments to make more use of the industry wage rates. In Sindh province, government and unions have begun to apply the wage rates in the glass bangle industry in an effort to bring informal sector workers into the formal economy (personal communication with Caroline Bates).

**Box 2.1. A new formula to fix minimum wages in Indonesia**

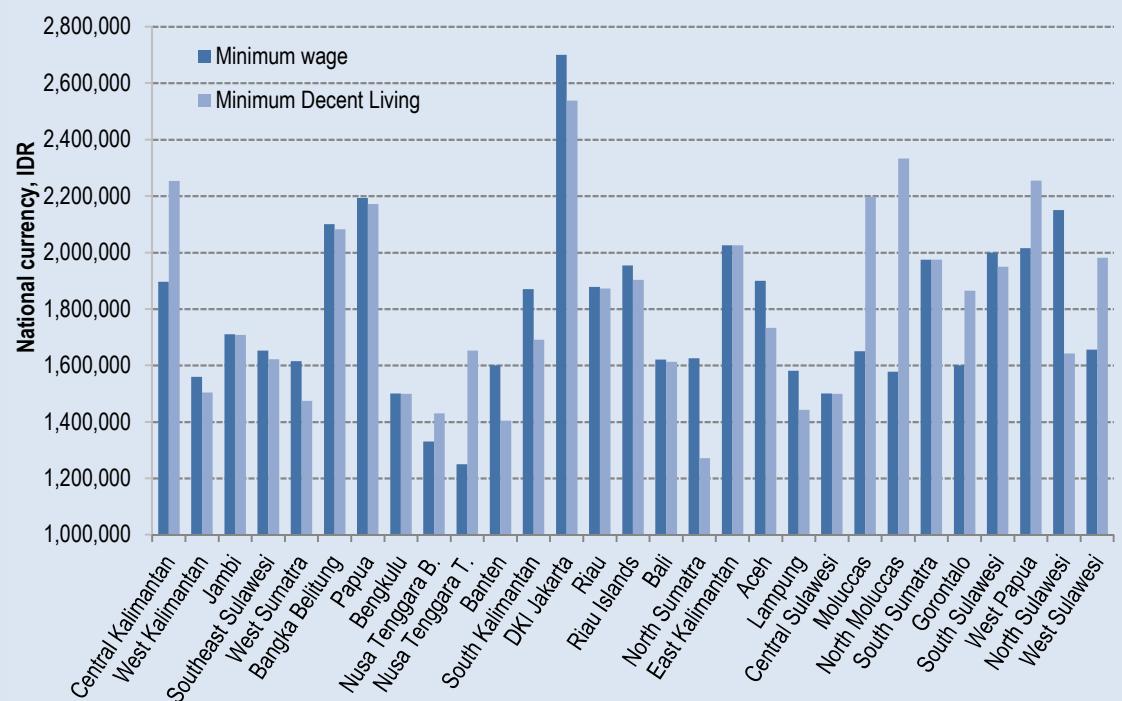
The Indonesian government has introduced a new formula to fix minimum wages in an effort to eradicate conflict and uncertainty (said to be frustrating efforts to grow foreign direct investment) and to narrow wage inequalities between regions. The new process has two significant elements. First, it applies an equation of national (not regional) indicators of inflation and GDP change, as follows:

$$MW_{t+1} = MW_t + MW_t(\text{Inflation}_t + \% \text{change in GDP}_t)$$

(if GDP growth is negative, then a 0% figure is applied)

Secondly, it enables those regions with minimum wages below the estimated 'decent standard of living' (defined by government for each region) to catch-up within a four-year period by applying a specific adjustment formula. In 2015, at least 8 of the 33 provinces (no data for four provinces) fell below the local decent standard of living (see figure 2.1) –in some cases significantly, such as North Moluccas (48% below), Moluccas (33%) and Nusa Tenggara T. (32% below and the province with the lowest minimum wage). The official government aim is therefore to eliminate 'the sense of injustice among regions'.<sup>5</sup>

**Figure 2.1. Minimum wages and levels of 'decent standard of living' for Indonesian provinces**



Source: <http://www.indonesia-investments.com/news/todays-headlines/what-are-the-minimum-wages-in-indonesia-in-2015/item2633>; authors' compilation; missing data for 4 provinces.

However, the new formula was not designed through consensual social dialogue, and indeed, as unions complain, it in fact replaces existing arrangements for tripartite social dialogue. The new formula also risks locking in what many view as a relatively low value, despite provisions for a special adjustment formula. The survey of decent living standards has also come under scrutiny by unions; in 2014 unions requested an additional 24 items to be included in the basket of goods and services<sup>6</sup>. Unions have reacted by calling for a general strike for late 2015, their fourth since 2012. There remain major questions therefore about how the government has handled this radical reform of minimum wage fixing: its desire for institutional certainty (in part to attract foreign investors) appears to have generated greater uncertainty caused by another round of industrial relations conflict.

<sup>5</sup> Presentation by government representative of Indonesia (Bangkok ILO workshop, November 2015).

<sup>6</sup> News referenced from the ITUC online source 'Equal Times' ('Indonesia: Minimum wage battle set to escalate' by Patrick Tibke, 26-11-14).

The nine statutory industry minimum wages for adult workers in South Africa were selected on the basis of indicators of labour vulnerability (low levels of union density or wages, in line with the Basic Conditions of Employment Act) and include domestic workers, security services, wholesale and retail workers, employees in the taxi industry, among others. It is estimated that coverage adds up to around one third of all employees in employment (Godfrey et al. 2006, cited in ILO 2011). In several cases, the industry minimum distinguishes by region (two or three), one sets different rates by firm size (hospitality sector) and many fix minima for the main job types<sup>7</sup>. While workers in other sectors are excluded from statutory wage protection, they may nevertheless be covered by a bargaining council agreement, which includes a non-statutory minimum base rate; such agreements are reckoned to cover around a quarter of the formally employed workforce (op. cit.) and include the garment sector, which is covered by a centralised industry agreement (with differential regional rates,) as we explore in Part 2. Moreover, where the parties to the agreement are sufficiently representative, collective agreements may be extended to establish a binding minimum wage across firms in the sector.

*Box 2.2. Custom and practice in minimum wage fixing –Minimum Wage Boards in Pakistan*

Pakistan provides an illuminating example of the complex formal and informal processes involved in minimum wage fixing. The issue here is the respective roles of central and provincial governments in exerting ultimate authority over the minimum wage settlement.

While 1969 legislation allowed for central government to set a national minimum wage, it appears it has been superseded by a 2010 amendment to the Constitution, which, on the one hand, devolved authority to the provincial governments (except Islamabad Capital Territory) yet, on the other, did not repeal the 1969 legislation. Empirical evidence of actual practice of the province minimum wage boards (MWBs) suggests that, while central government no longer plays a formal role, it does still set a national rate for unskilled workers and this may be imitated by the province boards.

"Federal and provincial government [interview] respondents almost invariably described the following process: each year, in or around June, the minimum wage rate for unskilled workers is announced by the federal Ministry of Finance as a part of the annual budget. Provincial governments often only refer or direct the MWB to make a recommendation after the federal minimum wage rate is announced. Occasionally, the provincial government will simply announce the rate itself before a formal referral to the MWB ... The Directors of Labour Welfare of each province, who generally have very cordial relationships with each other, might informally agree among themselves to set the same rates. The MWBs, familiar with this informal process and with the understanding that the government remains final authority in rate fixing, will 'recommend' the same rate as that set federally to the provincial governments. In effect, the government's decision on minimum wages is 'rubber stamped' or endorsed by the MWB ... The deeply political nature of the process undermines any efforts of provincial MWBs to recommend a rate based on economic data and technical expertise. ... In 2014, although the [Punjab] MWB had initially decided on 11,000 Rs per month at the minimum wage rate, the federal government announced its rate at 12,000 Rs. Therefore, the Punjab government followed the federal rate, although there is no formal requirement to do so. Some respondents noted that the same political party is in power in Punjab and at the federal level." (Praxis-ILO 2015 p.34).

In Bangladesh, the selection of 42 industries is said to have been a response to various competing political and industrial relations pressures, rather than a consistent labour market strategy; pressures arise from trade unions, from a political recognition of the job growth potential of certain industries, from foreign buyers who seek minimum labour standards in supply chains, as well as from activities and lobbying of different NGOs (Moazzem et al., 2015, p.10). Separate rates are set for enterprises in export-processing zones, representing around 7% of manufacturing employment (2011-12 data, op. cit.).

<sup>7</sup> <http://www.mywage.co.za/main/salary/minimum-wages>.

In common with the United States minimum wage system, three countries supplement a single national minimum wage with multiple rates made legally binding at region or industry levels. In Brazil a statutory national minimum wage is set each year and in addition each state is allowed to set a supplementary wage floor (*piso salarial*), although only five states out of 26 took advantage of this in 2015. India fixes a non-statutory national rate ('National Floor Level Minimum Wage'), said to serve as a benchmark, and then encourages each province to fix a specific statutory minimum wage at a level equal to or above the national rate. Also, in Viet Nam the statutory national minimum wage was supplemented in 2008 with three regional minimum rates and then in 2009 with a fourth (Chi and Torm, 2015, p. 9).

### ***Social dialogue in minimum wage fixing***

In all ten countries it is the state that exercises the primary role of fixing the minimum wage. None of the countries selected here follows the kind of model associated with, say, Italy or Sweden, where minimum wages are negotiated exclusively via sectoral or occupational collective bargaining, although the situation in South Africa arguably straddles both models, with statutory minimum wage rates fixed by government for a handful of industries and made legally binding following collective negotiation in others.

Even though the state enjoys authority in fixing the minimum wage, it generally follows, or is influenced by, a recommendation from a purposefully established committee for tripartite consultation. Brazil and Indonesia (since November 2015) are the exceptions. Brazil established a 'quadrupartite commission' in 2005, composed of federal government, state government, employers and unions, and charged it with formulating a long-term minimum wage policy, but then suspended it the following year.<sup>8</sup> Since then there has been no obligation on the state to consult with social partners. Indonesia, as we described above, has introduced an automatic uprating formula, despite strong opposition from trade unions and a general strike called for late 2015. Among the other countries, there is either direct consultation with, or advice issued by a specialised body, typically made up of social partner representatives. Table 2.2 summarises the varied character of membership and lists current issues arising.

India is somewhat unusual in that statutory authority in the setting of minimum wages for certain industries/occupations (termed 'scheduled employments') rests with the province not central government, while central government controls minimum wage setting for state-owned companies (Belser and Rani, 2010). Moreover, as in Pakistan (Praxis-ILO 2015 pp. 35-36), each province is empowered to add specific industries of employment to the list of those covered by minimum wage rules (Saharay, 2011).

In Indonesia, several studies have explored the functioning and implications of the three-tier (national-province-district) wage council system (reviewed in AKATIGA-ILO 2015, p.6-8). Following the reform in 2000 that delegated minimum wage setting to provincial governors, early evidence suggested problems in the performance of employer and union representatives in terms of their abilities, knowledge and commitment. However, more recent studies suggest there has been a politicisation of local minimum wage decisions in Indonesia. The ILO-commissioned study investigated three provinces and found unions determined to influence provincial Wage Council decisions by lobbying and protesting, in a context of seeming intransigent refusal of provincial governors to heed worker interests:

*'In every negotiation in [the province of Bekasi] Wage Council, the Indonesian Federation of Metal Labour Unions (FSPMI) deployed its members to watch the wage formation process. It has been a normal practice since 2006 and it reached its peak in 2012. Mass pressure is needed because the [Provincial] government usually does not side with workers' (AKATIGA-ILO 2015, p. 22).*

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<sup>8</sup> ILO information on international labour standards, [http://ilo.org/dyn/normlex/en/f?p=NORMLEXPUB: 13100:0:::P13100\\_COMMENT\\_ID:2276802](http://ilo.org/dyn/normlex/en/f?p=NORMLEXPUB: 13100:0:::P13100_COMMENT_ID:2276802).

Table 2.2. Detailed MW fixing procedures in ten countries

	Consultation?	Membership?	Details and issues?
Bangladesh	Yes, 42 Industry MW Boards	Tripartite: employer and union reps from specific industry appointed by government	-questions over impartiality -highly infrequent revisions (long periods of 'hibernation') -limited industry coverage
Brazil	No, following short experiment 2005-7	n.a.	-ILO criticism about lack of social dialogue
Cambodia	Yes, Labour Advisory Committee	Tripartite	-2014 reform established commitment to an annual review process -to date only fixed for the garment & footwear industry
China	Yes, 31 Provincial tripartite bodies	Tripartite membership	-must meet the terms of central government 'Employment Promotion Plan'
India	Yes, Province boards	Bipartite advisory committees and advisory boards	-statutory authority for many 'scheduled employments' rests with province; powers to extend industry/occupation coverage
Indonesia	No, new automatic formula since November 2015	n.a.	-formula applied via complex 3-tier system -special adjustment formula to encourage poorer regions to catch up
Pakistan	Yes, Provincial Wage Boards	Chair, independent, one worker rep, one employer rep (plus specific industry representation if required) <sup>1</sup>	-each province is tasked with fixing minimum rates for certain industries, e.g. Punjab (104 industries), Sindh (36)
South Africa	Yes, Employment Conditions Commission	Tripartite	-single body recommends rates for all selected sectors
Turkey	Yes, MW Fixing Committee	Tripartite	-law requires MW fixing at least every two years
Viet Nam	Yes, National Wage Council (since 2013)	15 members equally represented from government, employers and unions	-complex process of recommending a single percentage rise applicable to all four regional zones

Notes: 1. There is government representation (Labour Welfare responsibility) acting as Chair in Balochistan and KP, as well as a fifth Board member in Punjab.

Source: ILO commissioned National Reports; Belser and Rani (2010) for India.

In other provinces of Indonesia, however, there is a perception that local politicians seem more inclined to realise the populist appeal of minimum wage fixing and more open to union demands, in order to retain political power (op. cit., p.23). The 2015 introduction of a national uprating formula was designed, in part, to rid the model of such political influence. However, it lacks consensual support. More debate is required on the particular criteria and discretion for extraordinary upratings.

In South Africa, the national Employment Conditions Commission makes recommendations for all nine 'vulnerable' sectors currently covered by the legislation (eight for adult workers, one for child workers). For each sector, it receives written submissions from the relevant employer bodies and trade unions, conducts public hearings in different provinces and may also undertake workplace visits.<sup>9</sup> In Viet Nam, the tripartite National Wage Council was introduced very recently, in 2013. For a long period prior to 2013, government made the decision following a process of 'symbolic consultation' with social partners (Chi and Torm 2015, p.2). The new National Wage Council must make an annual recommendation of a percentage increase to be applied to all four regional zones. So, for example, in March 2015 members recommended, for January 2016, a single 12.4 per cent rise on the varying monthly rates

<sup>9</sup> See reports filed at [www.labour.gov.za](http://www.labour.gov.za)

of: Vietnamese Dong (VND) 3.1m, VND2.75m, VND2.4m and VND2.15m for Zones 1, 2, 3 and 4 respectively (*op. cit.*). In China, while the different provincial tripartite committees negotiate the minimum wage settlement, including the fixing of different rates for separate wage districts (in all but three provinces, Beijing, Shanghai, Tianjin), each must align with central government rules laid out in the five-year plans. For the 2011-15 period, the 'Employment Promotion Plan' stipulated an average annual rise of 13%.<sup>10</sup>

## 2.2. Cross-country patterns and trends in the value of minimum wages

Comparing the real values of minimum wages across the selected countries is difficult, given the mix of national and sub-national rates. Here we review both international data (from ILOSTAT), national data drawn from the ILO commissioned national reports and up-to-date information from government websites. The alternative data sources do not always coincide, as we show below. For those countries with multiple minima, ILO data construct a single minimum rate by either taking the average of the multiple regional minima or, where there are industry rates, the lowest for manufacturing or unskilled workers. It is also necessary, however, to compare the full range of minimum wages applied in each country, in order to contrast levels, and the magnitude of high-low minimum rates.

In our data presentation, minimum wage data refer to the monthly level, because this reflects the predominant policy focus in developing countries. This differs to European practice where minimum wage policy tends to fix hourly rates (e.g. in France, Germany and the UK). The difference in focus is in part explained by the stronger welfare function of minimum wage policy in developing countries, given the limited availability of welfare benefits to supplement wage income to a defined weekly or monthly subsistence level. It is interesting to note, therefore, that the 2004 amended minimum wage legislation in China introduced an hourly rate to be applied solely to part-time workers; a monthly rate still applies to full-time workers (China National Report 2015 p.9). Also, in Pakistan, minimum wages are typically announced as both daily (assumed 8-hour day) and monthly rates, while in India policy-makers announce daily rates with monthly equivalents based on a 26-day working month.

### **Comparing Purchasing Power Parity, high-low minimum wage values**

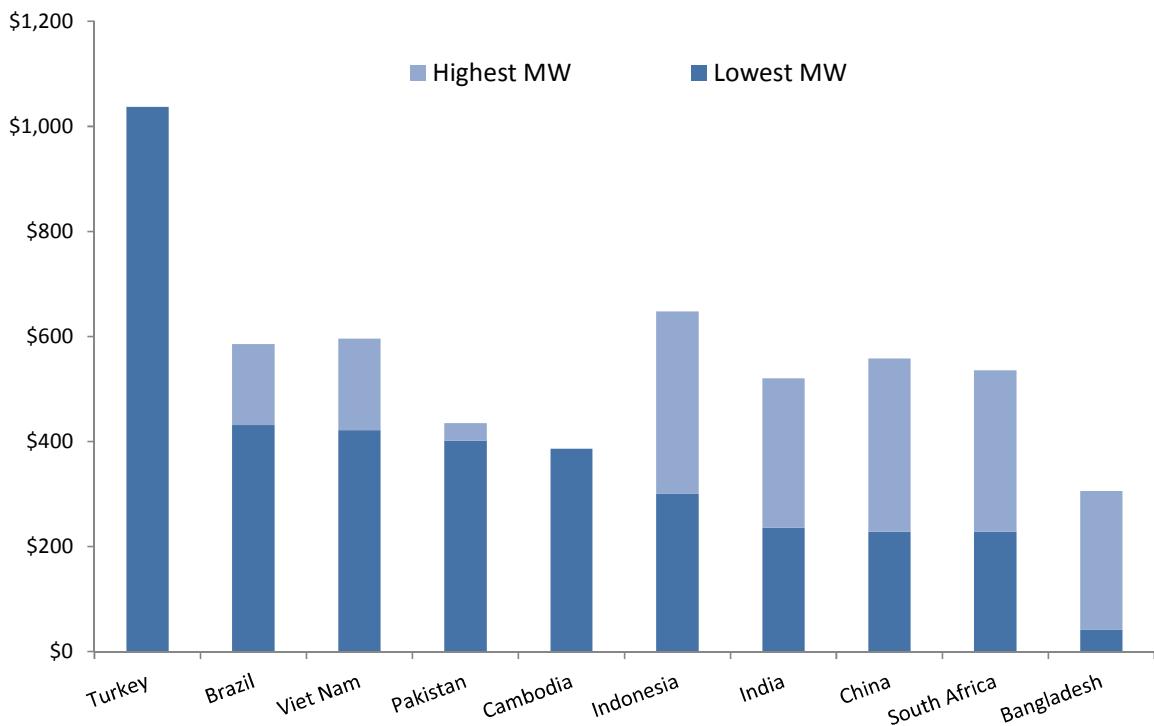
Drawing on data from national reports and government websites, figure 2.2 compares monthly minima in terms of purchasing power parity (US dollars) across all ten selected countries. In all except Turkey, the figure displays a high-low range based on the multiple minimum wages applied during 2015. *We can identify four country groupings:*

1. The first is Bangladesh, alone, with the lowest minimum wage value, by a long way. In 2015 this was fixed for unskilled workers in the tea garden industry -- a monthly minimum wage of just 1,170 Bangladeshi Taka (Tk) (US\$41). However, there is a very wide spread of statutory minima, the widest among all selected countries, with the highest industry minimum wage for the tannery industry more than seven times higher (8,750 Tk or US\$306).

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<sup>10</sup> <http://www.china-briefing.com/news/2014/06/11/complete-guide-minimum-wage-levels-across-china-2014.html>.

Figure 2.2. Statutory monthly minimum wages (high-low range<sup>1</sup>) in US dollars converted to Purchasing Power Parity, 2015



Note: 1. The high-low range of statutory minimum wages is constructed separately for each country to reflect the varying minima (by industry, region, district –see table 2.1) of its multiple minimum-wage-fixing system using 2015 data (sourced late November 2015). Where there are both industry and regional rates, variation is limited to the lowest paying region (e.g. in South Africa) and where there are rates for different job types only the lowest (usually unskilled) job type is referred to. Details of the min-max range (monthly rates in national currencies) are as follows: Bangladesh (1,170 for tea garden workers to 8,750 tanneries industry –no data for 11 of 42 industries); Brazil (788.06 national rate to 1070.33 Parana state); Cambodia (single garment & footwear MW US\$128); China (830 in Guanxi (4<sup>th</sup> wage district) to 2,030 in Shenzhen); India (4,160 national rate to 9,178 Delhi unskilled -daily rate converted to monthly by multiple of 26); Indonesia (1,250,000 in Nusa Tenggara T. to 2,700,000 in DKI Jakarta –province data only); Pakistan (12,000 in KP province to 13,000 in all other provinces) the figures used are for the highest and lowest unskilled minimum wage; South Africa (1,284 for domestic workers in Area D to 3,017 for contract cleaners in Area C –ignoring rates in the relatively well paid civil engineering sector); Turkey (1,274 single national rate); and Viet Nam (3,400,000 in Region 4 to 4,800,000 in Region 1).

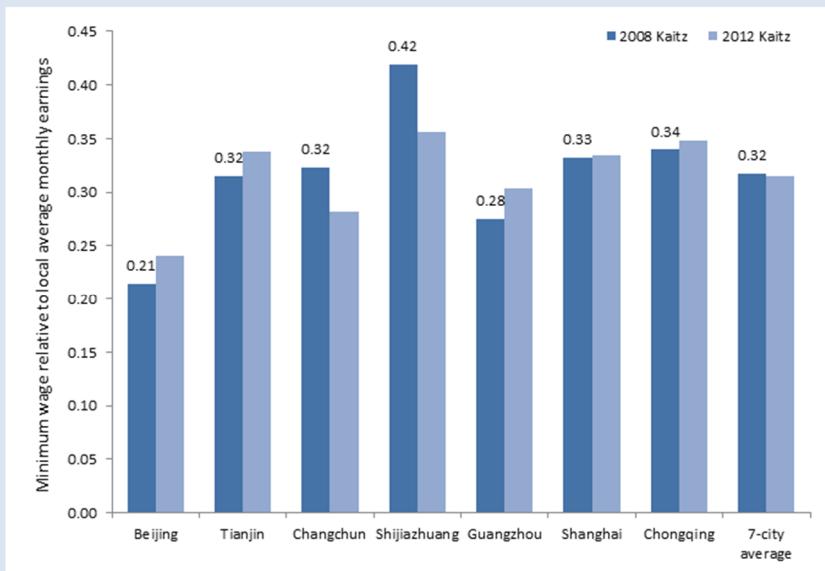
Source: National reports; countries' official government websites; [www.quandl.com/data/ODA/](http://www.quandl.com/data/ODA/) for 'implied conversion rate per US dollar'.

2. Four countries, Indonesia, India, China and South Africa, constitute a second country group. They share a relatively similar, low minimum wage value (just US\$228-300 per month, PPP) and a wide spread across regions/industries (such that the highest minimum is at least double the lowest minimum wage). For three of these countries, the wide range of minima reflects very different wage and employment prospects by region. In China, the regional variation also extends to sub-province variation in 28 of 31 provinces, with most distinguishing three or four 'wage districts'; as such the lowest monthly minimum wage in 2015 refers to the 4<sup>th</sup> wage district in Guanxi province -- 830 Chinese Renminbi (RMB) or US\$228 PPP; Box 2.3 shows the range of minimum wage levels relative to average earnings in selected major cities. South Africa is the exception, since the multiple minimum wages are first set for different industries and then varied by regional zones. For example, the lowest minimum wage was set in 2015 for domestic workers working in Area D and the highest (excluding the civil engineering sector) was registered for contract cleaners in Area C; for both workforce groups, higher rates are set in the region defined as Area A.

*Box 2.3. China's minimum wages in seven cities relative to average earnings*

In China, Chi and Torm (2015) estimated average earnings for private and non-private enterprises for seven large cities over 2008-2012 (figure 2.5).<sup>11</sup> The lowest relative value of the minimum wage (0.24 of average local wages) is observed in Beijing where high earnings exert a substantial upwards pull on average pay in the city, and the highest relative value is found in Shijiazhuang (0.36). Over the four years it is notable that there is no consistent pattern in uprating and in fact the seven-city average (unweighted) records a fall of one percentage point. The sharpest cut in relative value was experienced in the city with the highest Kaitz index, Shijiazhuang, while all three cities with a Kaitz at or below the seven-city average experienced a rise in relative value, particularly in Beijing and Guangzhou.

*Figure 2.5. China -Minimum wage relative to average monthly earnings in seven cities*



Source: China national report (2015: table 4); authors' compilation.

3. Brazil, Viet Nam, Pakistan and Cambodia form a third country group. Their lowest minimum wage value is relatively high (around US\$400 per month PPP) and the high-low range is narrow (from a differential of just 8% in Pakistan to 41% in Viet Nam). In Pakistan, had Khyber Pakhtunkhwa province fixed a new level for 2015 then it is likely there would be no inter-province differential at all, since KP is likely to copy the other four province boards and fix the new monthly rate at 13,000 PKR (US\$435 PPP); as noted in section 2.1, the tendency is for province boards to coordinate closely their announced levels. Cambodia displays no high-low variation since, although the MW rules allow for diverse industry rates, only the garment and footwear industry has to date been protected. In Brazil the range displayed in figure 2.2 somewhat overstates the reality, since only five of its 26 states supplemented the national wage with a 'piso salarial' in 2015, so that in fact the vast majority of workers are covered by the national wage floor, 788 BRL (US\$431 PPP).

<sup>11</sup> Note that this indicator compares the minimum wage to average not median earnings. It is often not appreciated that there is an especially wide gap between average and median earnings in developing countries due to the high concentration of workers with very low earnings (pulling median earnings down) and a significant share with very high earnings (pulling the average up). As such this measure does not compare with the one presented for Viet Nam in box 2.4.

4. Finally, Turkey stands apart, both for its single national statutory rate and the much higher level of purchasing power parity. At 1,274 lira (US\$1,037 PPP), the basic monthly minimum wage in Turkey is almost twice the level of the highest minimum wage in countries such as Brazil, Viet Nam and Indonesia. The significantly higher level in Turkey compared to the other nine countries might be expected to reflect a much higher GDP per capita. However, World Bank data reveal Brazil as having the highest average living standards: in 2014 Brazil recorded GDP per capita of US\$11,380 compared to Turkey's US\$10,520;<sup>12</sup> China is placed third among our sample with US\$7,590 and Bangladesh the poorest country with just US\$1,090.

#### **Comparing harmonised ILOSTAT trend data for real minimum wage values**

Drawing on ILOSTAT data, table 2.3 shows the changing real values in national currencies over the ten-year period 2003-2013, adjusted for 2013 prices, and divided into two five-year periods. According to these data, by far the largest gains between 2003-2013 in the real minimum wage value occurred in Bangladesh and China, both witnessing a near doubling of the real value. Medium improvements in the range of 24%-36% occurred in five countries, Pakistan, Turkey, Viet Nam, Brazil and India. Only weak gains in the real value were recorded for Indonesia, Cambodia and South Africa. For South Africa, in particular, these data suggest the real value of the minimum wage has more or less flat-lined over the ten-year period.

In four countries the improvements have not been at all consistent over the ten years. In Bangladesh the substantial increase is in fact the result of two extraordinary rises, in 2010 and 2013, against the backdrop of a falling real minimum wage during 2006-2009 and 2010-12. In India, the pattern is more of a fluctuating trend with around half the gains experienced during 2003-2009 lost in recent years. The same could be said of Pakistan, but here there has been a recent revival marked by a significant 18% rise during 2012-13. Finally, in Viet Nam, the upsurge witnessed during 2004-07 has subsequently come to a halt. Overall, while all ten countries have higher real value minimum wages in 2013 than in 2003, in three countries (Pakistan, India, South Africa) the 2013 value is in fact lower or not significantly higher than it was in 2008.

*Table 2.3. Ten-year trend in real monthly minimum wage levels, local currencies (adjusted for 2013 prices)*

	2003	2004	2005	2006	2007	2008	% change 2003-2008
Bangladesh	--	--	--	2,697	2,547	2,392	-11.3
Brazil	523	497	533	578	588	604	15.4
Cambodia	71	69	66	69	66	62	-11.9
China	757	865	861	914	1,004	1,020	34.8
India	2,409	3,061	2,896	2,778	2,610	2,992	24.2
Indonesia	1,133,015	1,187,518	1,211,366	1,256,730	1,221,729	1,221,900	7.8
Pakistan	7,382	7,069	7,872	7,355	9,473	11,519	56.0
South Africa	2,318	2,384	2,434	2,438	2,431	2,432	4.9
Turkey	763	898	880	892	899	924	21.2
Viet Nam	864,476	808,765	893,594	1,052,074	1,162,845	1,060,698	22.7

	2008	2009	2010	2011	2012	2013	% change 2008- 2013	% change 2003- 2013
Bangladesh	2,392	2,218	3,750	3,500	3,245	5,300	121.5	96.5
Brazil	604	621	635	625	658	678	12.3	29.6
Cambodia	62	55	66	64	62	80	28.7	13.3
China	1,020	946	1,137	1,284	1,290	1,400	37.2	85.0
India	2,992	3,442	3,245	3,424	3,218	2,990	-0.1	24.1
Indonesia	1,221,900	1,155,956	1,167,988	1,102,513	1,161,110	1,332,400	9.0	17.6
Pakistan	11,519	10,175	9,838	8,875	8,477	10,000	-13.2	35.5
South Africa	2,432	2,505	2,494	2,430	2,426	2,474	1.7	6.7
Turkey	924	895	933	972	1,006	1,022	10.6	34.0
Viet Nam	1,060,698	1,040,785	1,100,481	1,116,430	1,164,723	1,150,000	8.4	33.0

Notes: for Bangladesh the 2003-08 change refers to 2006-08.

<sup>12</sup> World Bank data available at <http://data.worldbank.org/indicator/NY.GDP.PCAP.CD>.

Source: ILOSTAT (Global Wage Report dataset) for minimum wage data, World Bank national accounts data (World Development Indicators) for inflation level (GDP deflator); authors' compilation.

Assessment of the longer time series from 1996 clarifies the general upwards trend in real minimum wages among the sample of countries, albeit not especially notable in the case of South Africa, and for Indonesia the upward trend holds against a 1999 starting point but not especially when compared to 1997-1998. Figure 2.3 presents the same real monthly minimum wage data as table 2.3 but indexes to 2003 and divides countries into three groups according to the consistency and pace of minimum wage improvement over the 2003-2013 period: (Further detailed data, drawing on national sources, for Vietnam and China are provided in Appendix 1. )

### 1. *Steady and slow uprating trend: Brazil, South Africa, Turkey and Viet Nam*

- a) The **Brazilian** federal government uprates the national minimum wage each year and although it uprated above inflation twice in direct response to the economic crisis (including bringing forward its April 2009 uprating to February that year<sup>13</sup>) it has generally followed a slow uprating approach (according to ILOSTAT data).
- b) Regular annual uprating occurs in **South Africa** for all nine sectors protected by a statutory minimum wage and tends to follow the formulae, uprating = inflation + sector rise.
- c) Regular annual uprating also occurs in **Turkey** through tripartite mediation but the minimum wage was stagnant in real terms during 2000-10 despite a near 50% nominal uprating in 2004<sup>14</sup>.
- d) In **Viet Nam**, apart from 2007-2009, there has been regular uprating of the national minimum wage and this seems to have been strengthened in purpose and process since 2013 following the establishment of the tripartite National Wage Council. National data also show that minimum wage rises since 2010 have outpaced changes in median earnings (see box 2.4).

### 2) *Sporadic and overall slow uprating trend: Cambodia, India, Indonesia and Pakistan*

- a) Real gains in the minimum wage in **Cambodia** have only recently been witnessed, in response to successful trade union campaigns and industrial action (see below), following a long period of erosion of its real value (only one uprating during 2000-09).
- b) Statutory minimum wage rates in the different provinces of **India** tend to follow announcements by central government concerning the recommended non-statutory national wage floor, but irregular approach.
- c) In **Indonesia**, regulations provide for annual upratings at province and district levels but decisions found to be affected by local politics, absence of a standard formula and indexation with the cost of living index<sup>15</sup>.
- d) In **Pakistan** while province minimum wage boards seek to recommend each year an uprating that reflects economic data they can be overtaken by central government announcements described as an overtly 'political' process, leading to sudden upsurges in minimum rates and then falls.

### 3) *Sporadic and significant uplifting trend: Bangladesh and China*

- a) In **Bangladesh** industry-level minimum wages suffered during the 1980s to mid-2000s from a near absence of regular uprating, a 'period of hibernation'<sup>16</sup>; subsequent years have witnessed attempts in

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<sup>13</sup> Berg (2009)

<sup>14</sup> For further details on minimum wage trends in turkey see Erdogan (2010).

<sup>15</sup> AKATIGA-ILO (2015).

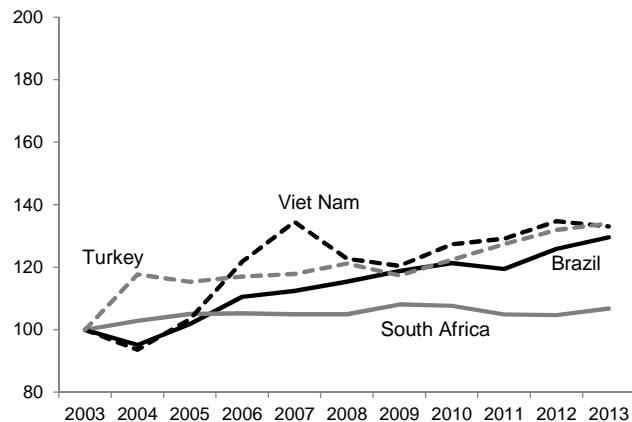
<sup>16</sup> Moazzem et al. (2015: 15).

the different industries to compensate for the long-term decline with sudden hikes, then a pause say of three to five years, followed by another hike.

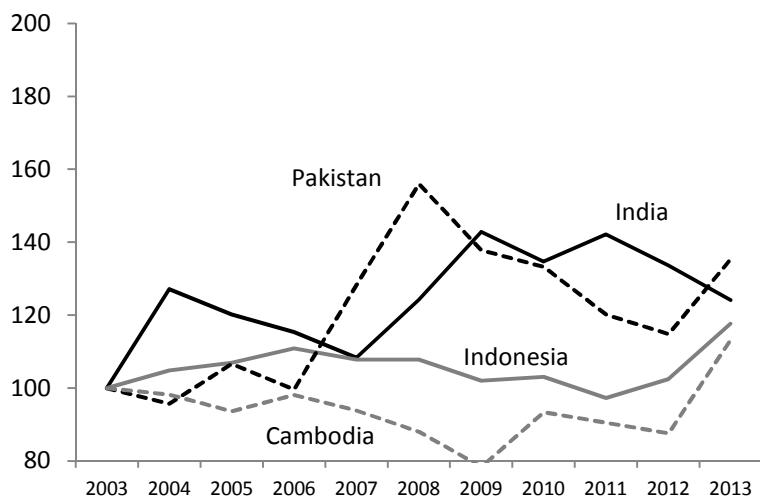
b) In **China** the 2004 minimum wage regulations require provinces to adjust rates at least once every two years, but in response to the economic crisis the government in fact imposed a freeze during 2008-10. There were then rapid increases in some provinces (2010-12), which have since slowed. It is notable however that the five year plan for 2011-15 aims to raise the minimum wage on average by 11% each year.

Figure 2.3. Trends in real monthly minimum wage levels, adjusted to 2013 prices (indexed at 2006=100)

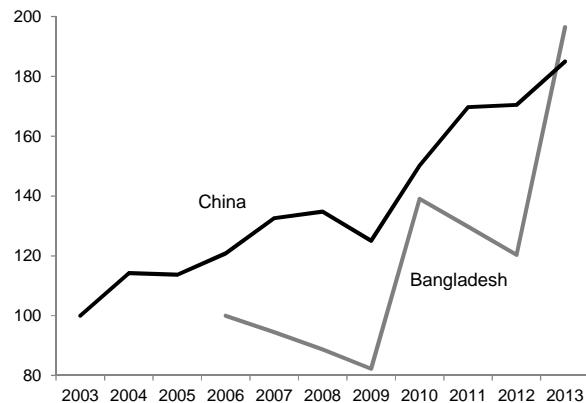
a) Steady and slow uprating –Brazil, South Africa, Viet Nam



b) Sporadic and overall slow uprating trend: India, Indonesia, Pakistan



c) Sporadic and significant uplifting trend: Bangladesh, China



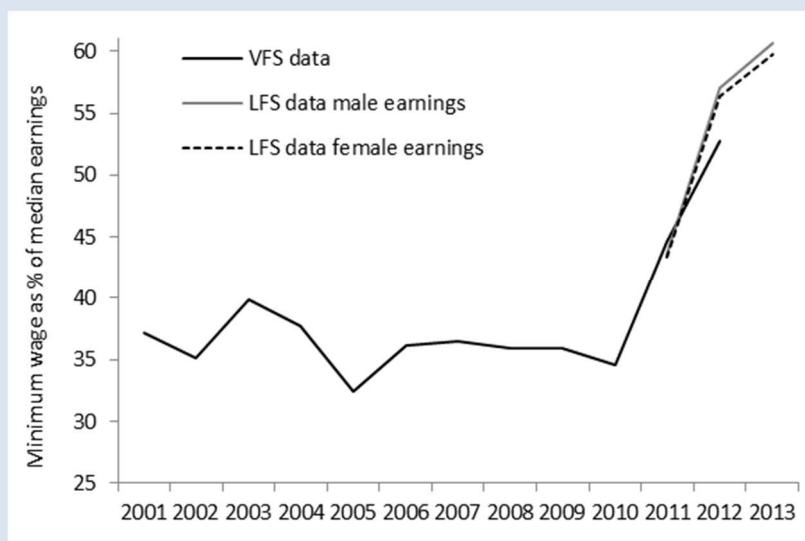
Note: where multiple minimum wages apply, the ILOSTAT estimates the average for each year.

Source: ILOSTAT (Global Wage Report dataset) for minimum wage data, World Bank national accounts data (World Development Indicators) for inflation level (GDP deflator); authors' compilation.

#### *Box 2.4. Trends in the relative value of minimum wages: Viet Nam*

In Viet Nam, recent gains in minimum wages across all four regions outpaced changes in median earnings, generating a rising Kaitz index. Figure 2.6 shows how the longstanding low relative value of Viet Nam's minimum wage has since 2010 witnessed a considerable uplift –from one third of median earnings (35%) to more than half (53%) by 2012, and from 44% in 2011 to 60% in 2013; disaggregation by male and female median earnings display little difference. This improvement takes the country closer to the higher rates estimated in other developing countries (Rani et al. 2013 p 393).

*Figure 2.6. Viet Nam -Trends in the Kaitz index (minimum wage to median earnings), 2001-12*



Source: Chi and Torm (2015: tables 6 and 8).

### **2.3. Summary**

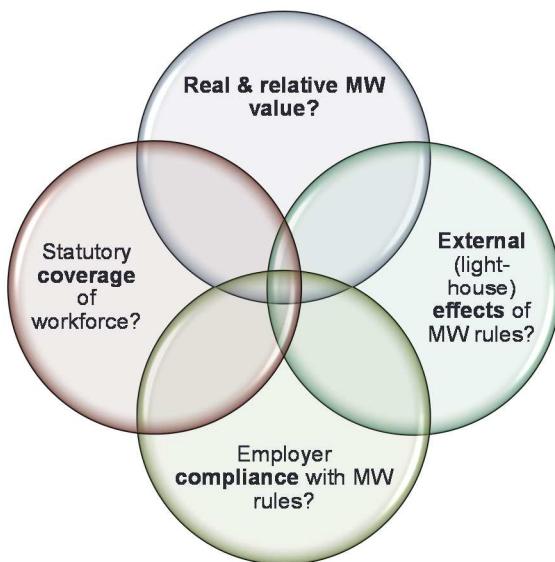
This section focused on the basic features of minimum wage design: the number of rates, their applicability at national, regional and industry levels and the respective authority of social actors (the government, employers and unions) in fixing the rate(s). It found considerable complexity in minimum wage systems in several countries, notably: India, with mixed statutory powers at central and provincial levels and varied exercise of decentralised powers across different provinces, and Bangladesh, with its incomplete development where industry coverage remains very limited and there are major failings in the system for regular uprating. The complexity makes for a difficult task in assessing and comparing trends in each country's minimum wage. As such we presented an original compilation of high-low rates for the selected ten countries, alongside the ILO's ILOSTAT data for minimum wage trends. This shows three distinctive patterns among the countries investigated in terms of regularity and size of minimum wage upratings over time. Further work to check accuracies of ILOSTAT data and methods for consolidating multiple rates into a single country rate in such databases would be welcome.

### 3. Minimum wages in practice: Compliance and enforcement regimes

As seen in section 2, minimum wages are present in almost all developing economies. In this regard, the key question is not so much whether or not to have a minimum wage, as most countries have (at least) one, but how the minimum wage rules operate in practice. Is it a term that refers to its capacity to fulfil its aims by improving workers' conditions at work, or is it just another formal element in the body of national labour law with little impact on workers' lives? In more detail, we define the degree of effectiveness of a minimum wage in a given country context as contingent on its real and relative value, as we explored in section 2, along with the following critical factors (figure 3.1):

- a) *Minimum wage coverage*. Is the minimum wage universally applied to all workers or is it limited to certain workers, sectors, occupations or regions?
- b) *Minimum wage compliance*. To what extent does *de facto* minimum wage coverage (workers in practice covered by statutory minimum wage) deviate from *de jure* coverage (workers legally protected by minimum wage regulation)?
- c) *Minimum wage external effects*. Is there evidence of external effects through which the minimum wage affects, either positively or negatively, workers who fall outside of formal coverage?

Figure 3.1. The four-leaf clover of minimum wage effectiveness



This section will address these issues by focusing on country-specific elements that affect the level of coverage and the degree of compliance (particularly mechanisms of monitoring and enforcement). Before doing so it is important to present briefly the characteristics of the employment structure of less developed countries as these characteristics will have an impact on the target population of minimum wage rules, issues of enforcement and the rate of compliance. We are especially interested in the relative shares of the workforce employed in agriculture and in own-account self-employment – often submerged in the informal segments of the economy.

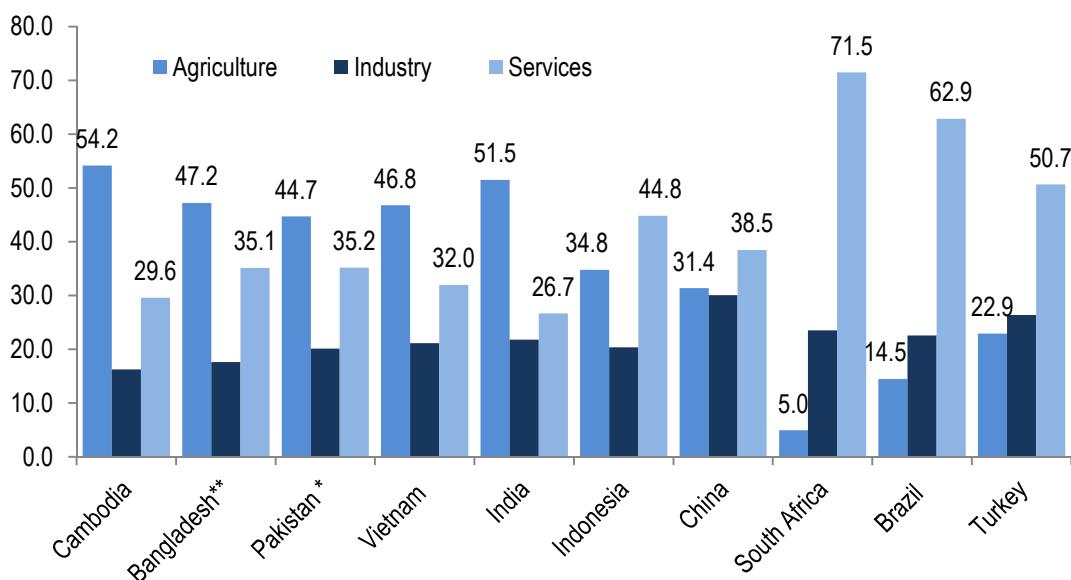
#### 3.1. Employment structure of low- and middle-income countries

One of the few universal laws or stylized facts of economic growth and development is the existence of a process of structural change, according to which the relative importance of the different economic sectors of activity changes as the economy grows. In the canonical model, agriculture is the dominant sector of activity in low-income countries,

with small industrial and services sectors. As the economy grows, so the traditional model claimed, first industry and then services would successively take the leading role. At the end, developed economies are characterized by a very low contribution of agriculture to employment and GDP, a massive presence of the service sector and a relatively low (and diminishing) participation of manufacturing in total output. However, this canonical pattern of structural change has often been altered in developing countries, with an unanticipated and rapid increase in the size of the service sector, which in many country examples has bypassed the stage of manufacturing growth (Pandit, 1990).

Due to the lower labour productivity of both agriculture and services, this unbalanced process of development translates into a much higher difference in terms of employment share by economic activity, with lower income countries showing higher shares of agriculture employment. Figure 3.2 presents the different employment structures of the countries included in this report, using 2013 data. We can see how for the countries of the sample with lower per capita income (ranging from US\$3,124 in PPP in 2014 for Bangladesh to US\$5,708 for India), employment in agriculture accounts for almost half of total employment. To the extent that the rate of self-employment is affected by the type of economic activity, namely, higher in agriculture and services and lower in industry, the distribution of employment will affect the impact of minimum wage.

Figure 3.2. Employment by broad economic activity, 2013



(\*) 2008; (\*\*) 2011

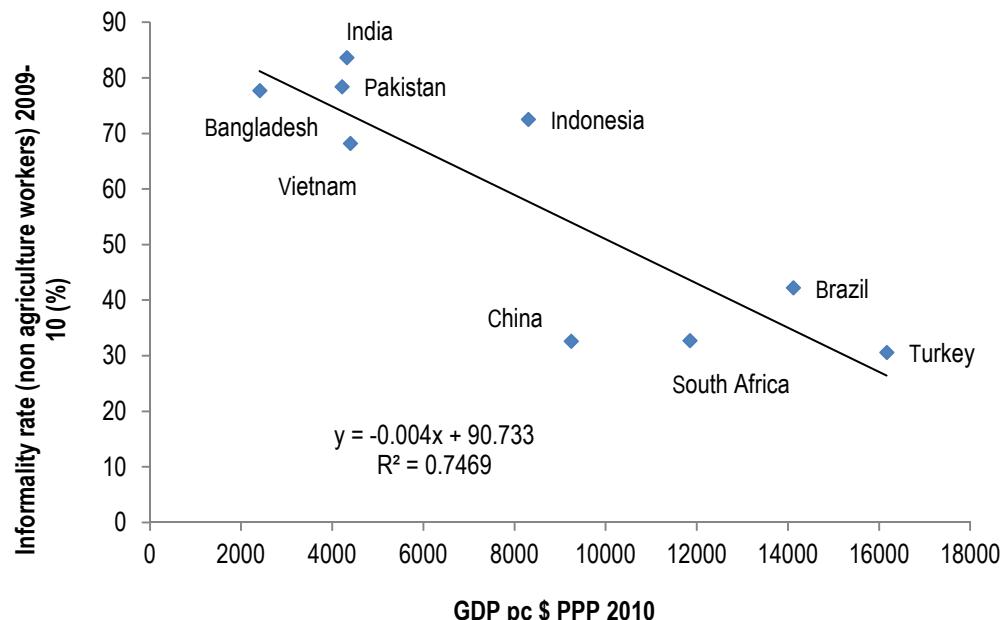
Source: Authors' analysis from ILO Statistical Database and National Sample Survey Organisation (NSSO) survey data for India.

Another important fact of economic growth, related to the process of structural change itself, is the change in the composition of the labour force from high levels of self-employment and informal work to growing rates of dependent formal employment. In fact, we could think of the process of economic development as a process by which the once dominant self-employment and subsistence economy is slowly substituted by dependent employment in production for the market economy. As a result, most developing countries have high levels of informal employment.

According to the ILO definition, informal employment *'is a job-based concept and encompasses those persons whose main jobs lack basic social or legal protections or employment benefits and may be found in the formal*

sector, informal sector or households' (ILO 2012, p.2)<sup>17</sup>. Figure 3.3 reproduces the estimated level of informal employment as a share of total employment (excluding agriculture) together with the level of economic development of the country as measured by GDP per capita. It clearly shows both the high level of informal employment existing in all countries, and its decreasing value with the growth of income per capita. As informality rates are higher in agriculture (as much as 99% in Bangladesh, for example (Maligalig et al., 2009), the data represented in figure 3.3 clearly underestimate informality rates for each country.

Figure 3.3. Rates of informal employment in non-agriculture and GDP per capita (2009-10)



\* Banten and Yogyakarta

Source: Authors' analysis from *World Development Indicators*, World Bank, *Women and men in the informal economy - A statistical picture. Country-specific tables*, ILO, and Maligalig et al. (2009).

This negative relationship between income level and informality rates operates in both directions. On the one hand, as the economy grows the formal sector displaces productive activities belonging to the informal sector and creates new formal jobs. On the other hand, informal employment has lower productivity, contributing less to GDP than formal jobs. The same could be said about poverty, with higher poverty rates in countries with high informal employment rates. These two characteristics of developing countries -- higher rate of agriculture employment (often self-employment) and higher rate of informality -- have to be taken into consideration when studying the minimum wage, as own account workers are by definition excluded from statutory or collectively agreed minimum wage regulation and compliance with minimum wages is lower and more difficult to monitor and enforce among workers in informal segments of the economy. We turn to this issue in the next section.

<sup>17</sup> Informal employment comprises: (a) Own-account workers and employers employed in their own informal sector enterprises; (b) Contributing family workers, irrespective of whether they work in formal or informal sector enterprises; (c) Employees holding informal jobs, whether employed by formal sector enterprises, by informal sector enterprises, or as domestic workers employed by households; (d) Members of informal producers' cooperatives; (e) Own-account workers engaged in the production of goods exclusively for own final use by their household (ILO 2013).

### 3.2 Coverage, compliance and enforcement regimes

The existence of high levels of both agricultural employment and informal employment is a major element to take into consideration when addressing the question of *de facto* coverage of minimum wage, as opposed to its coverage *de jure*. In order to gauge the overall coverage rate of a minimum wage, it is necessary to estimate the proportion of workers not covered by the minimum wage due to their status as self-employed or family workers. Table 3.1 shows that on average, dependent employees (working in both the formal and informal sectors) constitute approximately half of total employment in the sample countries. This means that half of the workforce is immediately excluded from statutory coverage, weakening the direct impact of minimum wage legislation<sup>18</sup>.

Table 3.1. Employment status (excluding agriculture) in 8 developing countries

	Brazil	China	India	Indonesia*	Pakistan	South Africa	Turkey	Viet Nam
Employers, own-account workers	41.4	45.7	37.9	39.4	41.9	33.2	30.7	49.9
Contributing family workers	4.9	5.0	9.3	9.8	10.2	2.3	9.2	9.9
Employees	53.7	49.3	52.8	50.8	47.9	64.5	60.0	40.2
<i>Formal sector employees</i>	22.6	37.7	17.8	13.4	10.0	17.8	---	21.8
<i>Informal sector employees</i>	14.9	11.4	32.9	34.3	37.8	19.7	---	18.4
<i>Domestic workers employed by households</i>	16.1	0.2	2.1	3.2	0.1	27.0	---	---

\* Banten and Yogyakarta

Source: Authors' analysis from *Women and men in the informal economy - A statistical picture. Country-specific tables*, ILO ; no data available for Bangladesh and Cambodia.

Focusing now on dependent employees with a formal employment relationship, as we showed in section 2, all ten countries have a statutory minimum wage in place. But not all minimum wages provide universal coverage of all sectors, occupations and/or regions. In five countries -- Brazil, China, Viet Nam, Turkey and Indonesia -- legal coverage is universal, while in the other five there are significant exceptions (table 3.2). In Pakistan, agriculture is among a handful of sectors excluded. In India, only around two-thirds of wage earners are estimated to be covered (Rani et al., 2013). In South Africa, although currently there is a debate about the suitability of developing a national minimum wage<sup>19</sup>, the statutory minimum wage only applies to sectors with low wages and low trade union affiliation rates, such as contract cleaning or taxis, leaving the regulation of most activities to collective agreements. In Cambodia only workers in the textile, garment and footwear industries benefit from MW.

<sup>18</sup> Bangladesh is not included in the ILO Data Base *Women and men in the informal economy*. Maligalig et al. (2009) present some information about informal employment in Bangladesh, but unfortunately using a different classification. According to this source, in 2005 around 86% of total employment could be considered informal employment. Nearly half informal employment were own account workers, 25.3 % unpaid family workers and the remaining 25.9 % informal employees (irregular paid workers, day labourers, domestic workers and apprentices).

<sup>19</sup> In his State of the Nation Address of June 2014 President Zuma promised to investigate during the current term 'the possibility of a national minimum wage as one of the key mechanisms to reduce the income inequality' (<http://www.thepresidency.gov.za/pebble.asp?relid=17570>).

Table 3.2. Legal coverage of minimum wage legislation by industry/occupation/region

Country	Source	Coverage
Bangladesh	Moazzem <i>et al.</i> (2015)	Many industries excluded. Only 42 industry minimum wage boards (23% of total), mostly manufacturing (76%); no national statutory MW
Brazil	Lemos (2004)	All workers included
Cambodia	Reeve and Hwang (2015)	Only workers in the textile, garment and footwear industries
China	China National Report (2015)	All workers included
India	Rani <i>et al</i> (2013)	The Central Government sets 45 minimum wage rates for different job categories in agriculture, mining, oil extraction and state-owned corporations. State governments determine minimum wage rates for 1,679 job categories in 'scheduled' industries.
Indonesia	Hohberg and Lay (2015), Oelz and Rani (2015)	Domestic workers excluded
Pakistan	Praxis Labs-ILO (2015) Karamat <i>et al.</i> ( 2015)	All workers included with the exception of: (a) Employees of the federal or provincial governments; (b) Agriculture workers (c)Workers employed by state contractors for physical infrastructure.
South Africa	Cottle <i>et al.</i> (2015)	MW limited to sectors with low wage and union density: domestic workers, wholesale & retail, farm workers, forestry, hospitality, taxi, contract cleaning, private security, Expanded Public Works Programme.
Turkey	Bakoğlu and Ensari (2015)	All workers included
Viet Nam	Dieu and Dong (2015)	All workers included

After the deduction of self-employed and family workers (formally non-dependent employment) and those employees not covered by the minimum wage provisions by decision of the legislator, the next (big) group to be deducted, in order to reach the group of workers covered *de facto* by minimum wage, is informal employees in sectors of activity protected *de jure* by minimum wage provisions. In this case, in contrast with the previous groups, the workers, as employees, are formally protected, but excluded from the minimum wage *de facto* due to the employer non-compliance with minimum wage regulations. These workers can be both employees working at informal firms, and employees working at formal enterprises that do not comply with the minimum wage legislation. On average, for the selected countries (excluding Bangladesh) around 40% of informal employees -- excluding agriculture -- are employed by firms belonging to the formal sector, with as many as 76% in China, where the informal (non-agricultural) employment is, above all, a characteristic of 'formal' firms<sup>20</sup>. It is in relation to this last group, workers formally covered by the minimum wage legislation, that coverage rates are calculated.

#### **Measurement and determinants of compliance with the minimum wage**

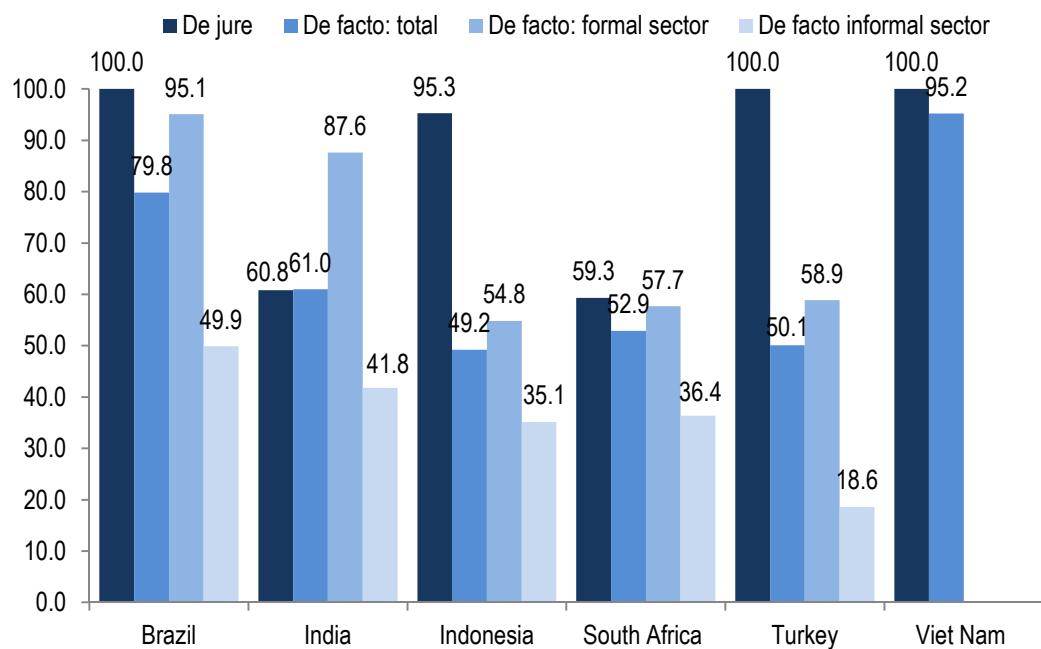
There are three different approaches to the measurement of minimum wage compliance (Rani *et al.*, 2013): the first concerns statistics of labour violations as detected by labour inspectors; the second is via direct information from workers' surveys or statistics of complaints brought by the labour inspectorate or the judiciary for non compliance with minimum wage regulation; and the third approach consists in calculating, from earnings data, the proportion of workers earning less than the statutory minimum wage. This last approach can be complemented with the intensity of the violation, offering information about the gap between the average wage of workers paid below the minimum wage and the minimum wage<sup>21</sup>. Using this last approach, Rani *et al.* (op. cit.) calculate compliance

<sup>20</sup> The other outlier is Viet Nam, with 54%, and to a lesser extent Brazil with 42%. In the rest of the countries the value refers to the authors' analysis of data provided in *Women and men in the informal economy - A statistical picture. Country-specific tables*, ILO.

<sup>21</sup> For example, Kanbur *et al.* (2013) obtain an average minimum wage violation rate for Chile in the period 1990-2009 of 18% with an average gap of 26%.

rates for 11 countries in the late 2000s with values ranging from 95% in Viet Nam<sup>22</sup> to 49% in Indonesia. The corresponding rates for India, Brazil and South Africa were 60%, 80% and 53% respectively.

Figure 3.4. Legal coverage and compliance rates of minimum wages in six countries.\*



Note: \* De jure = workers legally covered by the statutory minimum wage; De facto = Workers covered in practice by the minimum wage

Source: Authors' analysis from Rani et al. (2013: 408-409).

Figure 3.4 reproduces these numbers along with the estimated percentage of dependent workers covered *de jure* by the minimum wage legislation. The figure also includes information of compliance rates for the informal and formal sectors. As expected, compliance rates in the informal sector are lower than in the formal sector. Further interesting results obtained by Rani and colleagues are the lower compliance rate of rural areas *vis à vis* urban areas (50% versus 85% in India, for example) and the gender gap in compliance rates (57% for men against 39% for women in Indonesia). Finally, countries also reveal very different results, in terms of the wage gap, of workers receiving less than the minimum wage: 40% in Brazil at the low end and 29% in India and Viet Nam at the high end. For China, Ye et al. (2015) use employee-employer matched firm data and find a high level of minimum wage compliance among formal sector firms: only 3.5% of full-time workers earn less than the legal monthly minimum wage. This high level of compliance is, nevertheless, accompanied by a high level of nonpayment of overtime with almost one in three workers (29%) working unpaid overtime and more than two in three (70%) paid less than the corresponding overtime premium (1.5 times the regular wage). In fact, according to Rani et al (op.cit.) employers responded to an increase in the statutory minimum wage by increasing the share of unpaid hours worked.

The level of compliance with minimum wage legislation is affected by many elements that can be classified as those related with the supply side of the labour market, those related with the demand side, and those of an institutional nature. *Supply side factors* include:

<sup>22</sup> This rate of compliance is very similar to the result obtained by Nguyen (2010) for 2006: over 96% in the case of formal and private sector workers, 96% for public sector and 93% for the informal sector.

- a. the degree of informal employment in the country, as informal employees tend to be underpaid (figure 3.3);
- b. the level of unemployment (Bhorat, 2014), since high levels of unemployment reduce employees' bargaining power and facilitate the payment of sub-minimum wages. In Pakistan, the specially commissioned report found that for some employers, 'the fact that some workers are willing to accept wages below the statutory minimum was evidence that the wage was adequate' (Praxis Labs-ILO, 2015, p.42). The level of unemployment and scale of informal employment also inversely affects the informal wage, increasing employer incentives for non compliance; and
- c. workers' awareness of minimum wage rules. In this respect, for example, the British government ran five campaigns from October 2007 to March 2008 to raise awareness of the minimum wage (Benassi, 2011). The experiences of *Better Factories Cambodia*<sup>23</sup>, as well as of Costa Rica (Gindling et al., 2012),<sup>24</sup> demonstrate the importance of workers' awareness, especially when combined with other measures to improve minimum wage compliance.

In turn, the items affecting the level of compliance from the *demand side* include:

- a. the size of the company, as small and medium companies tend to make higher use of informal labour and be less compliant with labour standards; and
- b. the degree of in-house production, as opposed to subcontracting, as firms with more strongly integrated value chains have lower control over the working conditions of their suppliers.

Among the *institutional factors*, we would highlight the following items affecting compliance rates:

- a. the architecture of the minimum wage;
- b. the quality of the enforcement mechanism; and
- c. the existence of 'countervailing powers'.

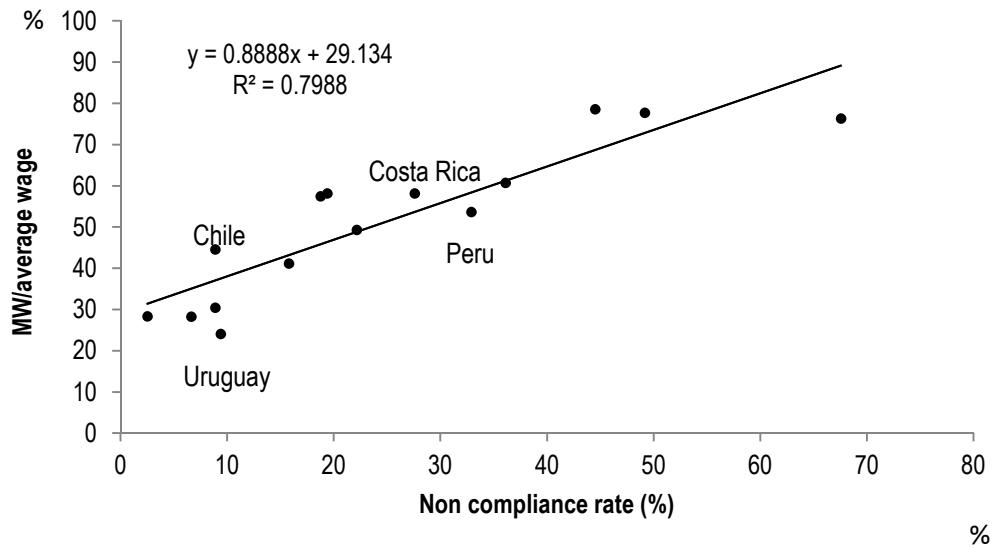
In relation to the minimum wage architecture, two elements are relevant in explaining compliance rates. The first is the existence of one or multiple minimum wages (described in section 2). As shown by Rani et al. (2013), having a simple minimum wage system, involving one or only a small number of minimum wage rates, facilitates both the communication of information and the awareness of actors involved in managing wages. In contrast, systems of multiple minimum wages (with multiple levels of minimum wage fixing or stratified systems) have proven to be more difficult to enforce. The second relevant element is the minimum wage value relative to the median or average wage – better known as the Kaitz index (1970). Figure 3.5 depicts the relationship between the minimum wage noncompliance rates of 15 Latin American countries and their corresponding Kaitz index for 2011. It shows a strong positive relationship between the two variables. In other words, there seems to be a tight relationship between low value minimum wages (albeit at risk of making them useless for the purpose of fair remuneration of labour) and high compliance rates. A similar relationship is found by Bhorat et al., (2015), for a sample of sub-Saharan countries. It is worth noting that from the ten countries of our study, the one with highest compliance rates, Viet Nam, is also the country with the lowest Kaitz index (40% average 2009-12 according to Chi and Torm, 2015).

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<sup>23</sup> See <http://betterfactories.org/>

<sup>24</sup> In 2010 the Costa Rica government started a comprehensive program to increase compliance with MW regulation. Among other elements the campaign intended to: 'create a level of consciousness among employers and workers regarding the importance of complying with the MW'. The campaign had a positive but modest impact on compliance rates as the wage of those being paid less than the MW increase around 10% more than the earning of those above the MW.

Figure 3.5. The relation between non-compliance rates and relative minimum wage value (minimum wage/average wages) in 15 Latin American countries, 2011



Source: Marinakis (2015: 17).

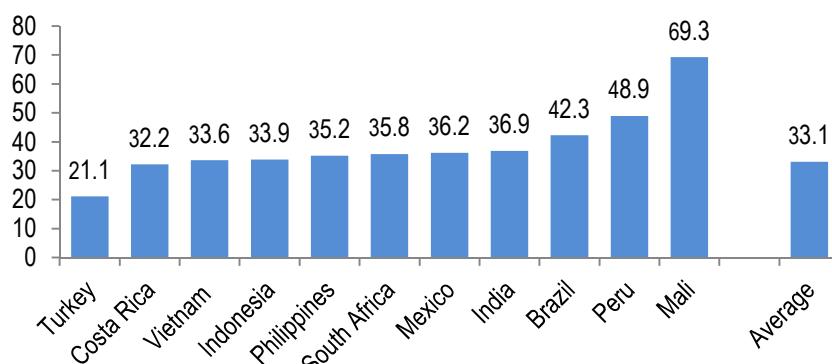
Another important institutional variable affecting compliance rates is the quality of the labour inspectorate and the sanction system in place in case of non-compliance. From a *homo economicus* perspective, in a context of no moral constraints, employer compliance with minimum wage regulation would depend on the following variables:

$$(1) \text{Compliance} = f[(MW - M^aW), pd, F]$$

Where  $M^aW$  is the market wage for informal workers,  $pd$  is the probability of detection by the labour inspectorate in case of non-compliance with minimum wage, and  $F$  is the size of the fine imposed in case of detection of non-compliance. Therefore, the higher the difference between minimum wage and market wage, plus the lower the probability of detection, plus the lower the punishment in case of detection, the higher the non-compliance rate.

The index of minimum wage violation calculated by Rani et al. (2013) can be used to quantify the advantages of non-compliance (the first variable of equation 1). According to such estimates, firms hiring informal workers would save, on average, one third of the wage bill of paying the statutory minimum wage.

Figure 3.6. Average underpayment of workers paid below the minimum wage in a sample of 11 countries



Source: Rani et al. (2013: 410) and author's calculation.

On the other hand, a well staffed, trained and motivated labour inspectorate, with high rates of detection of firms underpaying the minimum wage, and a system of high and credible fines would act as counterweights to the incentive to cheat. In this respect, however, most developing countries have very few resources allocated to this endeavor. Table 3.3 presents an index of labour inspection load, defined as the labour force divided by the total number of labour inspectors, for the period 2003-2006 for a group of 27 low- and middle-income economies. It shows a large number of countries have very high workloads per labour inspector. The results are especially striking in the cases of Bangladesh, where each of the 20 labour inspectors has to take care of more than two million workers, and Ethiopia where the number of workers per inspector is  $\frac{3}{4}$  of a million. In contrast, in countries such as Brazil or China, the index of labour inspection load is similar, if not better, than in some European countries such as France or Germany (10,000 and 20,000 workers per labour inspector, respectively). Not only are resources clearly often inadequate, but so, too, is the capacity of inspectors to fulfill their duty.

Table 3.3. *The average number of workers (labour force) per labour inspector, 2003-2006*

Brazil	7,094	Morocco	32,387	Viet Nam	140,406
Mongolia	13,289	Turkey	35,923	Mexico	155,675
Laos	14,777	Egypt	36,976	Uganda	168,526
Mauritius	15,512	Malaysia	37,301	Philippines	169,940
China	17,595	Peru	45,696	Pakistan	168,899
Chile	20,041	Thailand	69,996	Tanzania	205,704
Honduras	22,850	Jamaica	74,498	Cambodia	328,158
Kazakhstan	24,554	Indonesia	97,765	Ethiopia	752,018
Argentina	27,266	Nigeria	114,911	Bangladesh	2,394,625

Source: Authors' analysis from ILO (2006: 15), Praxis Labs-ILO (2015), Blanpain (2006) and ILO Labour Force Statistics.

An extreme example of this is supplied by the case of Pakistan, where in 2003 the province of Punjab banned labour inspections, following demands by employers and factory owners, in order, allegedly, to avoid harassment and demands for bribes by labour inspectors. Three years later, the adoption of 'one inspector - one policy', which allocated to one single inspector all areas of inspection of a given company, negatively affected the efficacy of the inspections, due to the higher demands placed on the inspectors in terms of expertise across different areas of labour, from wages to health and safety, from child labour to social security, increasing also opportunities for corruption (Praxis Labs-ILO, 2015 pp. 50-51).

Furthermore, the analysis by Praxis Labs-ILO (2015) of the allocation of these scarce inspection resources in Pakistan shows that the incidence of inspection is lower among firms in sectors with higher rates of tax evasion and larger shares of low skill workers, precisely the sectors with higher probability of non-compliance (Almeida and Ronconi, 2012).

Moreover, inspection fines are far from being high enough to produce the desired deterrence effect. The situation in South Africa is illustrative. The maximum permissible fine for minimum wage violators follows an increasing pattern: \$22.74 per employee for employers with no record of previous violation; \$45.50 per employee for employers with no record of previous violation in respect to the same provision; and so on up to \$113.70 for employers with four or more previous violations of the same provision within the last three years. Considering that the gap between the average wage paid to workers under the minimum wage and the minimum wage is 24% - equivalent to \$1.70 - the fine for a first time offender is paid off with just 13 hours of work by an underpaid employee. In the second case, the fine is paid by 26 hours of work, while for the maximum fine it would be enough to have a worker working for

more than 65 hours, less than two weeks, to have full compensation; this formula for fines is obviously not a very tough piece of legislation.<sup>25</sup> Sanctions, at least in principle, are far higher in Indonesia, where noncompliance can be subject to criminal prosecution (leading to up to four years of imprisonment) and large fines (Tjandra and Klaveren, 2015).

The inadequacy of a country's labour inspectorate could perhaps be compensated for by mechanisms that provide further countervailing powers to non-compliant employers. The obvious example is for trade unions to have an effective presence on the shop floor tasked with monitoring employer compliance with minimum wage rules (as well as other employment rights). In fact, according to Almeida and Ronconi (2012), in low and middle income countries, firms with a unionized workforce are more likely to be inspected. Unfortunately, however, many developing economies have weak unions and decreasing affiliation rates (Thomas 1999). This is the case, for example, of Pakistan and Bangladesh, with estimated affiliation rates of no more than three per cent (Praxis Labs-ILO, 2015). Moreover, often trade union activity is concentrated at the national level, as in Bangladesh, where few industries practise trade union-related activities at the firm level (Moazzem et al., 2015). The counterexample is provided by Viet Nam or China, with affiliation rates of 32% (Chi and Torm, 2015) and 60% (Traub-Merz, 2011). In fact, in China the 2004 minimum wage regulation awards trade unions the legal task of helping labour inspectors to supervise compliance with minimum wage regulations (Hu 2015)<sup>26</sup>. Brazil offers another interesting example of the positive role played by trade unions in rising compliance (Rani et. al., 2013). Indeed, the Brazilian case is a good example of a successful multi-pillar strategy of minimum wage compliance. It is based on a simple minimum wage architecture, supported by strong unions and a well staffed labour inspectorate, and generates evidence of high compliance rates, even in a context of a high-value minimum wage relative to average earnings.

### 3.3. External effects of minimum wages

So far we have been treating informal and formal employment as if they were two separate and unrelated realities. Obviously they are not. Decisions taken with respect to minimum wage rules are likely to shape not only conditions of formal employment covered by the minimum wage, but also conditions of informal employment. In this respect, minimum wage regulations might affect workers not covered by minimum wage legislation (either because they are formally excluded from the statutory minimum wage, or due to lack of compliance by firms). Of the three different mechanisms of transmission, which are changes in labour demand, in labour supply and in wages, we would like to focus, in this section, on the last one.

According to the mainstream economic analyses of minimum wages (see section 6), a statutory minimum wage set above the equilibrium wage will produce a reduction in employment, as firms reduce their demand for labour to compensate for the now higher market wage. In that case, the once formal employees, now unemployed, might offer their labor in the informal labour market. The corresponding increase in supply of informal labour would reduce the informal wage. As a result, higher income of employees benefiting from the minimum wage would come at the price of lower numbers in formal employment, lower earnings in the informal sector and higher informal employment.

Several studies that have sought to test this hypothesis have in fact obtained the opposite result. In the words of Richard Freeman, 'the big surprise in studies of minimum wages in developing countries is a substantial body of evidence from Latin America that the minimum wage raises wages in the informal sector' (2010, pp. 46-70). In this respect, Maloney and Nuñez Mendez (2003) find that the minimum wage acts as a reference throughout the economy, including the informal sector and those not legally bound by it. In fact, 'the influence seems far stronger on the informal sector than the formal in Brazil, Mexico, Argentina and Uruguay' (op. cit., p.10). Similarly, for the case of Costa Rica, Gindling and Terrell (2005) conclude that the minimum wage also affects wages of workers in sectors where the legislation is often considered not to be enforced; for Brazil, Lemos (2009) finds significant

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<sup>25</sup> Calculated from Cassim et al. (2015).

<sup>26</sup> The 2004 MW regulation also increased substantially the fines for MW violations from an earlier range of 20%–100% of the wage owed to 100%–500% (Ye et al., 2015).

positive wage effects of a minimum wage increase in both informal and formal sectors for the period 1982-2004; for Argentina Khamis (2013), using quasi-experiments of minimum wage changes, finds evidence confirming that informal workers experienced significant wage increases when the minimum wage was raised. In their analysis of cross-country data for 19 Latin American and Caribbean (LAC) countries, Kristensen and Cunningham (2006) find that minimum wages affect the wage distribution in both the formal and, especially, the informal sector, mainly in countries where the minimum wage is relatively low in relation to mean wages<sup>27</sup>; and Saget (2006) obtains similar results for India, at least in the Punjab construction sector, and for South Africa among farm workers, where there are high concentrations of informal workers at the minimum wage.

Although the dynamics behind such behavior are yet to be fully explored, there are different mechanisms at work that might explain it. The first is the existence of pay norms linked to the minimum wage that informal sector employers follow when setting wages. In the same line of argument, informal employees might also look to the statutory minimum wage as a benchmark when building their own wage expectations. This dynamic is known in the literature as the *efeito farol* (Souza and Baltar, 1982) or 'lighthouse effect'.

From a different perspective, Boeri et al. (2010) argue that this *efeito farol* can be, at least partially, the result of the existence of a change in the skill composition of the informal workforce, derived from the introduction, or increase, of the statutory minimum wage. According to this perspective, the minimum wage would lead to a reduction of employment in the relatively high-skill formal sector. Some of the new unemployed workers will look for jobs in the informal sector, resulting in an increase of the average skill-mix, productivity and wage in the sector. That is, the 'lighthouse' effect would be, at least partially, explained by the sorting and composition effects between the formal and informal sectors, derived from the existence of the minimum wage.

A third channel of transmission would be the potential impact of the minimum wage on the consumption of minimum wage earners, and on informal employment if this sector covers an important share of the minimum wage employees' effective demand. This increase in informal employment could, in turn, raise average earnings of informal employees<sup>28</sup>.

### 3.4 Summary and conclusions

As we know, a large number of countries in the world have a statutory minimum wage (ILO 2014). Thus, the question is not so much having a minimum wage but having an effective minimum wage. We have argued in this section that having a minimum wage is not enough to reach the goal of minimum wage legislation, which is to make work pay. Following figure 3.1, the effectiveness of minimum wage legislation in a given country depends on four successive conditions. First, it depends on whether the minimum wage covers all sectors and occupations (as in Viet Nam or Turkey, for example) or whether it is limited to specific sectors (as in Cambodia). A second crucial element is the degree of compliance of firms with the statutory minimum wage. In this respect, as we have seen, the extension and pervasiveness of informal employment (along with other elements such as the degree of complexity of minimum wage legislation and the existence of a good system of labour inspectorate) act as a major handicap to the effectiveness of minimum wages in developing countries. The third requisite is the sufficiency of the minimum wage itself, as a low minimum wage, even if fully implemented by firms across all sectors, might not contribute to the central purpose of a minimum wage. In this regard, the existence of feedbacks between the level of minimum wage and the level of compliance is a good example of the difficulties of having an effective minimum wage system. Finally, as the impact of the minimum wage is not limited to the formal sector, but might also affect the informal sector of the economy, both in terms of number and remuneration of informal workers, the lower the impact on employment levels in the informal sector (i.e. the lower the 'crowding-out' effect of minimum wages on formal employment) and the higher the 'lighthouse effect' (minimum wage taken as reference wage for informal workers) the greater the effectiveness of a minimum wage. Summing up, the effectiveness of the minimum wage

<sup>27</sup> In ten countries, the minimum wage affected pay for both formal and informal workers, while in four countries (Bolivia, El Salvador, Guatemala and Mexico) the impact was felt only in the informal sector (Kristensen and Cunningham 2006).

<sup>28</sup> The linkages of formal and informal sector from the demand side are explored in Fiszbein (1992)

is enhanced by its formal universality, high rate compliance, being set at a 'sufficient' level and the existence of positive external effects on informal workers.

## 4. Institutional intersections with collective bargaining

A statutory minimum wage, properly enforced, is a necessary institutional instrument that can underpin a country's goal to root out unduly low pay and establish fair wages. It nevertheless is not a sufficient condition. We know from a range of international studies that institutions of collective bargaining are an additional necessary institutional instrument for three principal reasons. First, collective bargaining is the only arrangement that can effectively balance employers' and workers' divergent interests and identify areas of common concern (Hayter, 2011b). This is fundamental if a country seeks to foster industrial relations peace and a culture of mutual gains at workplace and sector levels (e.g. towards skill development and the introduction of new technologies). Second, the development of 'worker voice' encourages proactive and flexible decision-making and establishes workers as a critical stakeholder (or what economists call a 'residual claimant') in an organisation's long-term fortunes (Lazonick, 2011). When properly utilised, worker voice can be effective in improving workplace practices and productivity in response to fast-changing product markets and financial pressures. Third, minimum wages acting alone (as an 'isolated wage-setting institution') may generate unintended outcomes, such as a concentration of workers paid the minimum wage. We find this kind of outcome in some of the liberal market developed economies (e.g. the UK, United States) where governments have sought to address problems of exploitative pay with a statutory minimum wage, but this has done little to reduce the relatively high shares of low paid work. By contrast, a 'complementary intersection' between minimum wages and collective bargaining may generate more far-reaching pay equity outcomes for a wider share of the workforce (Grimshaw et al., 2014).

In light of these issues, this section focuses on the relationship between a country's minimum wage rules and its system of collective bargaining. It does not imply that this institutional intersection is necessarily the most important for each country – since the intersection with welfare and social security payments (housing assistance, pensions and other social security benefits) may also be critical in shaping minimum wage policy. Nevertheless, for some countries our analysis does show that collective bargaining is very important in improving the effectiveness of the minimum wage (especially compliance) and/or strengthening fair wage outcomes. Equally, we suspect that the absence of collective bargaining in some countries is a key cause of weakly effective minimum wage systems. Our general objective is to identify instances of both complementary and conflictual intersections between minimum wage and collective bargaining institutions. We begin by comparing the basic features of trade union and employer organisations in the selected countries and then set out a loose classification of intersection types that apply to each country.

### 4.1. Union and employer organisations

While all ten countries have a form of statutory minimum wage, its effective operationalisation requires sustained commitment from government, employers and trade unions. In the absence of agreement from representative bodies for business, on the one hand, and workers, on the other, government rulings on minimum wages risk failure. Some consideration of the industrial relations environment and country structures of employer and union representation is thus warranted.

Table 4.1. Government, employer and union stakeholders in nine selected countries

	Government	Employer confederations	Trade union confederations
<b>Bangladesh</b>	Department of Labour, Inspectorate of Labour Directorate	Bangladesh Employers' Federation	Bangladesh Labour Federation, Bangladesh Free Trade Union Congress (BFTUC), Bangladesh Jatyatabadi Sramik Dal (BJSD)
<b>Brazil</b>	Ministry of Labour and Employment	National Confederation of Industry	Central Unica dos Trabalhadores (CUT) , Força Sindical (FS) and General Confederation of Workers (UGT)
<b>Cambodia</b>	Ministry of Labour	Cambodian Federation of Employers and Business Associations (CAMFEBA)	10 different Confederations of unions
<b>China</b>	Ministry of Human Resources and Social Security	China Enterprise Confederation (CEC)	All China Federation of Trade Unions (ACFTU)
<b>India</b>	Ministry of Labour and Employment	Employers' Federation of India	Including Confederation of Free Trade Unions of India (CFTUI), All India Trade Union Congress (AITUC), Indian National Trade Union Congress (INTUC), and others
<b>Indonesia</b>	Ministry of Manpower and Transmigration (MOMT)	Indonesian Employers' Association (Apindo)	All Indonesian Workers Union Confederation (KSPSI), Confederation of Indonesian Prosperity Labour Union (KSBSI) and Indonesian Trade Union Confederation (KSPI)
<b>Pakistan</b>	Provincial Labour Departments	Employers' Federation of Pakistan	Pakistan Workers' Federation
<b>South Africa</b>	Department of Labour	Business Unity South Africa (BUSA)	Confederation of South African Workers' Unions (CONSAWU), Congress of South African Trade Unions (COSATU), Federation of Unions of South Africa (FEDUSA), National Council of Trade Unions (NACTU)
<b>Turkey</b>	Ministry of Labour and Social Security	Turkish Confederation of Employer Associations	Confederation of Turkish Trade Unions (TURK-IS) (the largest)
<b>Viet Nam</b>	Ministry of Labour, Invalids and Social Affairs (MoLISA)	Viet Nam Chamber of Commerce and Industry (VCCI), Viet Nam Collaborative Alliance, Viet Nam Textile and Apparel Association (VITAS)	Viet Nam General Confederation of Labour (VGCL)

Source: ILO commissioned National Reports; country government websites.

Strength of trade union representation, as measured by the density of membership among workers, varies among the selected countries. In light of the problems of reliability, Figure 4.1 compiles three alternative data sources. Also, it compares density levels for the formally remunerated workforce, the 'narrow' definition, and for all in employment including informal employment, the 'comprehensive' definition (following the measures outlined in Hayter and Stoevska, 2011).

Very high union density as a proportion of formal employment is recorded for China (almost 80% according to ICTWSS data), and relatively high levels are also found in Viet Nam, South Africa and India. The lowest levels (varying data sources) are recorded for Cambodia (5%) and Turkey (6%), as well as Indonesia (12%) and Pakistan (16%). The data for Turkey has recently been revised considerably with the introduction of a new e-union membership system. This may explain the disparity in figures between ILOSTAT data and national data presented

in figure 4.1a. Figure 4.1b shows clearly how density levels drop substantially when estimated using the comprehensive definition, broadening the denominator to all in employment. Density levels in Brazil drop from around one third to one fifth, in China from 40-80% to an estimated 16% and in India and Indonesia the wider definition brings union density to a level only marginally above zero due to the large shares of informally employed workers (see section 3).

Alongside the varying strengths of union density, countries also differ in the form of trade union structure. Some, such as Bangladesh, have many thousands of enterprise unions, each union representing members in a single employing organisation; the number and size of enterprise unions, therefore, reflects the divergent industry structures, with few, large unions, in the tea industry for example, (seven unions each representing around 12,000 workers on average,) and many small unions in the transport industry (1,034 unions with around 500,000 members each on average) (Moazzem et al., 2015, table 16).

## 4.2. Intersections between minimum wages and collective bargaining

It is now commonly acknowledged that questions concerning the effective functioning of a particular labour market institution need to consider its relationships with other relevant institutions, since interaction effects may reinforce or undermine its intended purpose. Where performance is reinforced via the combined functioning of related institutions, the relationship is said to be 'complementary' (Amable, 2003); and where performance is undermined by, or destructive of, a related institution the relationship may be said to be 'conflictual'.

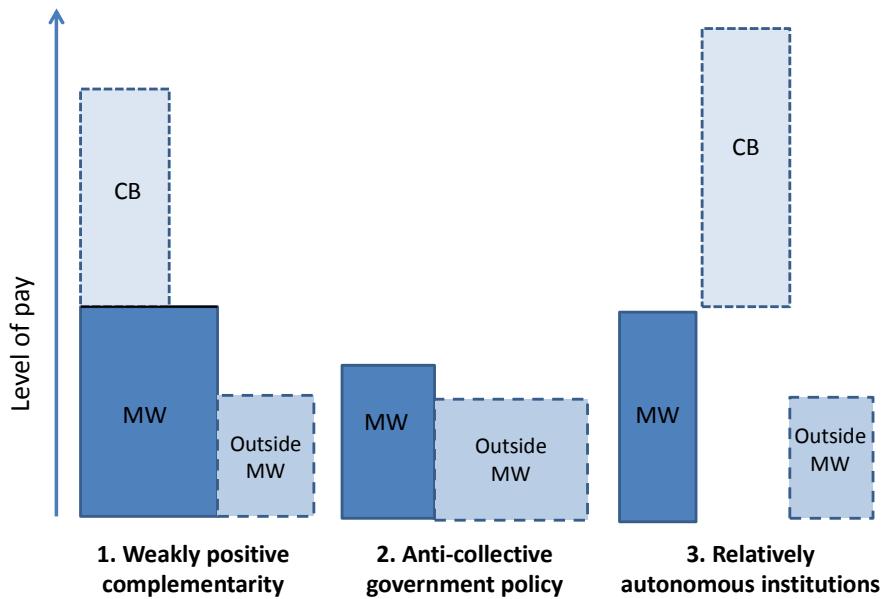
Comparative analyses have identified several country-specific examples. Among European countries, well-known flexi-curity models, for example, depend on the dual functioning of either weak employment protection rules combined with generous welfare protection (see Madsen 2002 for Denmark) or flexible deployment of non-standard employment combined with strong equality and security protections (van Oorschot, 2004, for the Netherlands). Also, vocational training is more likely to support sustained investment in innovation when combined with either strong employment protection or generous unemployment insurance (Filippetti and Guy, 2015).

In this fashion, the effective performance of a country's statutory minimum wage is likely to depend on its relationship with several labour market institutions including: vocational training, welfare policy (especially unemployment insurance, health insurance and pensions<sup>29</sup>), enforcement mechanisms, tax and social security policy, job subsidy programs, employment protection rules and collective bargaining. Here we focus on the central intersection with collective bargaining since this interplay between institutions has a significant influence on wage setting and the resulting wage structures (Grimshaw, 2013a). Each country is home to a specific form of institutional intersection, reflecting historical and societally specific conditions developed over time through actions by the main social actors –government, employers and trade unions, as well as international actors such as the ILO – in response to changing economic conditions and political goals. We provide a stylised portrait of three types of institutional intersection in figure 4.2. The figure represents three inter-related factors: the presence and relative value of a statutory minimum wage; the share of workers excluded from minimum wage protection; and the share of workers protected by a collectively bargained wage agreement. For reasons of simplicity, the figure necessarily abstracts from the specific structures of minimum wages, such as multiple regional and/or industry rates described in section 2.

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<sup>29</sup> Sometimes this interaction may develop accidentally. For example, in many developing countries because actual wages are often misreported the social security administration may decide to use the statutory national minimum wage as a standard against which to calculate an employer's required social security payments (for Viet Nam, see Chi and Torm 2015: 4-5).

Figure 4.2. Three stylised types of institutional intersections



Source: authors' compilation, adapted from Grimshaw and Bosch (2013).

**A first type of institutional intersection**, referred to as 'weakly positive complementarity', describes a wage-fixing landscape where a statutory minimum wage has medium-strong (*de jure*) coverage of workers in the formal sector, along with medium-strong employer compliance, and is complemented in a sizeable share of industries (relative to other developing countries) by collective bargaining over pay and conditions. This loosely describes the situation in Brazil and to some extent Viet Nam, (although the comparison is significantly muddied by the higher share of informal employment in Viet Nam) (figure 3.2 above). Both countries have strong *de jure* minimum wage coverage for workers in the formal economy (figure 3.3 above) and relatively high levels of workers protected by collective wage agreements. Figure 4.3 displays the data for both countries using various definitions and data sources; according to the 'narrow' definition, coverage is approximately 60% of the formally employed workforce in Brazil and two thirds (67%) of unionised enterprises in Viet Nam.

In Viet Nam, amendments in 2012 to its Labour Code considerably strengthened collective bargaining by extending the right of workers in non-unionised enterprises to be covered by a relevant collective agreement (Chi and Torm, 2015: 9). There are also signs that efforts are underway to construct the foundations for sector-level bargaining, which would add to the resilience and purpose of collective bargaining. At the moment, as in most countries, collective bargaining in Viet Nam takes place mostly at the enterprise level. However, legislation allows for collective bargaining at both enterprise and industry levels, and a first agreement for the industry was signed in 2010, by social partners in the garment industry (see Part Two).

There are, nevertheless, two weaknesses to the collective bargaining environment in Viet Nam. The first concerns the actual substance of collective agreements. While coverage is high, the signed collective agreements are, on the whole, said to offer few benefits for covered workers beyond conditions provided for by law. A 2009 joint review between the ILO and trade unions found that most agreements in Viet Nam were initiated by employers to fulfil CSR requirements rather than as a consequence of genuine labour-management negotiations. Also, analysis by the union confederation found only two in five agreements offered at least one provision that was better than the minimum labour standards (Chi and Torm, 2015). The second problem is that collective bargaining rules purposefully exclude many categories of workers, which runs counter to policy efforts to improve labour market

inclusion (see table 4.2). The labour legislation excludes workers in foreign enterprises and the many types of workers who perform periodic casual or temporary work for a company without an employment contract, or those contracted to provide subcontracted work whether as an individual or via a third party agency or enterprise. As these employment forms are pervasive in the garment industry (see Part 2), this legislation poses a major problem for policies to promote inclusive collective bargaining in Viet Nam.

Table 4.2. Collective wage bargaining provisions in selected countries

	Relevant legislation	Workers excluded from CB	CB coverage	CB level
<b>Bangladesh</b>	2006 Labour Act (BLA, revised 2013)	-domestic workers -many public sector workers <sup>1</sup> -agricultural workers in small farms (<10)	Negligible	Enterprise
<b>Brazil</b>	Consolidacao das leis do Trabalho, 1943		High –approx. 60% of formal workforce	Region/Industry/Enterprise
<b>Cambodia</b>	1997 Labour Law		Negligible	Enterprise
<b>China</b>	e.g. Labor Law (1994), Trade Union Law (2001), Labor Contract Law (2008), Company Law (2014)		Expanding from a low level -51 million covered by wage agreement <sup>2</sup> (2009)	Enterprise
<b>India</b>	Industrial Dispute Act, 1947		Limited	Industry (core industries), industry/regional (mostly private sector: cotton, textile) & Enterprise
<b>Indonesia</b>	2003 Manpower Act		Low –approx. 14% of formal workforce	
<b>Pakistan</b>	Industrial Relations Act 2012 and provincial equivalents	-public sector (incl. education + health) -agriculture, fishing	Negligible, <1% <sup>3</sup>	Enterprise
<b>South Africa</b>	1983 Basic Conditions of Employment Act (revised 1997), 1995 Labour Relations Act, 1998 Employment Equity Act	-armed forces/secret service		Industry ('Bargaining councils' and other multi-employer agreements) & Enterprise
<b>Turkey</b>	2012 Trade Union and Collective Bargaining Act		Low –approx. 6%	Enterprise
<b>Viet Nam</b>	1990 Trade Union law and 1995 Labour Code (revised 2002, 2012)	-public sector -enterprises with fewer than 10 workers -foreign enterprises -subcontracted workers	High –approx. 2/3 of unionised enterprises covered	Enterprise

Notes: CB =collective bargaining; 1. a government-appointed pay commission with no workers' representation fixes and adjusts wages for central and local government employees, as well as state-owned water and electricity companies (ITUC 2013); 2. Collective bargaining in China is not defined in the same way as in the other countries shown here (see footnote 28 below); 3. According to evidence presented at the ILO Bangkok workshop, Nov. 2015.

Source: ILO commissioned National Reports; [survey.ituc-csi.org](http://survey.ituc-csi.org); ILO (2013b); Hayter and Stoevska (2011); for India, Nishith Desai Associates (2015) and Pratap (2011); for Brazil, Bravo (2001).

**A second type of institutional intersection** is characterised in figure 4.2 as 'anti-collective government policy'. This describes a general lack of protection for freedom of association and collective bargaining alongside genuine policy support for a statutory minimum wage, albeit at a relatively low level and with major gaps in legal coverage and employer compliance. It is possible in this kind of institutional configuration that the bulk of social dialogue and interaction between trade unions and employers in fact occurs within the spheres of minimum wage fixing rather than in the relatively moribund arena of collective bargaining as traditionally conceived. This raises the prospect that unions and employers utilise this active policy arena with the purpose of not only fixing a statutory wage floor but also with the extended goal of negotiating wage rates for a wider range of job grades and categories. At the same time, however, any collective negotiation is severely curtailed by the over-riding authority of government to authorise the wage decisions and the absence of associated rights to strike and so on as part of the minimum wage fixing process. Tripartite negotiations of minimum wages may, therefore, overlap with some of the areas traditionally covered by collective bargaining, but the extended arena of minimum wage fixing would not, at first glance, appear to offer anything like a 'functional equivalent' to collective bargaining. We return to this issue in section 9.

Concerning the extent to which unions and employers have extended the institutional reach of minimum wage fixing by deploying the machinery to negotiate a range of wage rates for jobs paid above the statutory wage floor, this is certainly the case in Bangladesh and Pakistan. In both countries, minimum wage fixing is more than simply a matter of fixing a base rate that the general labour market can bear. Instead, it involves wider consideration of a worker's skill and even job grade, as well as the particular economic conditions of certain industries. As such, there is a blurring of minimum wage and collective bargaining institutions, although it is of course significant that the state retains overall authority. In Bangladesh, the tripartite minimum wage boards for the 42 selected industries consider a variety of types of worker. There is little consistency of approach across industry boards since the goal is rather to conform to industry wage-setting norms (Moazzem et al., 2015). Thus, for the rubber industry the minimum wage board fixes three rates applicable to workers of varying levels of skill, while for the textiles industry it fixes 11 rates for the 11 job grades. Moreover, further sub-division of minimum wage rates is sometimes considered, for example by location and sophistication of technologies (op. cit. pp. 6-7). This extended role of the tripartite minimum wage board thus constitutes an alternative to traditional collective bargaining. There are problems, however, particularly regarding the industry expertise of board representatives, which often fails to reach the required level (op. cit. p.6).

The provincial minimum wage boards in Pakistan are tasked with setting minimum wages for a varying number of industries – for example, in 2014-15 Punjab notified minimum wage rates for 51 industries, Sindh for 36, and Balochistan for 30 (Praxis Labs-ILO 2015 p.35). As in Bangladesh, the boards also pay further attention to actual job grades such that within each industry each province board fixes rates for different jobs. For the Punjab hosiery and knitted goods industry, for example, the board fixes minimum rates for nine job categories, varying by skill (albeit excluding the highest skilled categories). Statutory authority, as to which industries are covered and which jobs, appears to rest with the provincial minimum wage board – "There is no limitation to the number of industries or categories of workers for which the provincial government can fix the minimum wage" (ibid.); indeed, the Punjab board doubled the number of covered industries to 102 in 2014. Nevertheless, in practice, the evidence suggests the minimum wage boards tend to conform to similar benchmarks so that there is little inter-industry differentiation. The bottom rate set for unskilled workers, regardless of industry, conforms to the general province rate, a factor that is said to contribute positively to improving public awareness about the minimum wage (ibid. pp. 34-38).

In both countries, the extended minimum wage fixing process clearly risks crowding out collective bargaining. However, the evidence is mixed. In Bangladesh, around half of all manufacturing industries engage with trade unions (67 out of 136 industries), while among those with a minimum wage board the share is in fact slightly higher, around three in five (24 out of 42 industries) (Moazzem et al., 2015, p.11). In Pakistan the very low level of union membership points to a major crowding out effect, yet at the same time trade unions point to their significant and sustained influence in shaping minimum wage rules.<sup>30</sup>

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<sup>30</sup> According to participants at the ILO Bangkok workshop, Nov 2015.

**A third type of intersection** between minimum wages and collective bargaining is labelled 'relatively autonomous institutions'. This type describes an environment where both minimum wage policy and collective bargaining agreements are relatively effective in protecting wage floors but tend to operate at a distance from each other. We see this in the case of South Africa where there is a dual system of minimum wage protection via 'sectoral wage determinations' in nine sectors (for adult workers) and collective agreements in many others, including binding extensions of those agreements where rules for representativeness of both employers and workers are met. Moreover, a strong tradition of collective bargaining dates back to 1924 legislation which provided the legislative framework for voluntary establishment of 'industrial councils', the structures of industry-level collective bargaining; these have since been renamed 'bargaining councils' following the 1995 Labour Relations Act (Godfrey et al., 2015). These structures of collective bargaining are complemented by voluntary multi-employer agreements and many enterprise agreements. Overall, it is estimated that 27% of workers in formal employment are covered by collective bargaining, and 17% of all workers are (see figure 4.3 above).

The direction of legislative reforms in South Africa, however, has been mixed. On the one hand, late 1990s legislative reforms granted greater possibilities for employers to exempt themselves from collective agreements reached by the industry-level bargaining council, thereby diminishing the degree of inclusiveness. In particular, each sectoral bargaining council is obliged by law to enable employers to apply for exemption from some or all provisions of the bargaining council agreement (Godfrey et al., 2015, p. 5). This has proven to be especially significant for the garment sector as we show in Part 2 of this report. On the other hand, statutory minimum wage protection under so-called 'sectoral determinations' has been extended to cover workers in farming and domestic services (op. cit., pp. 5-6).

A final word is left for the case of China. We have purposively excluded China from a comparative classification due to its distinctive form of wage fixing – especially given that the state prohibits workers or employers to undertake protected industrial action. China has witnessed a significant centrally administered push to expand the scale and scope of collective agreements in an effort to effect 'harmonious labour relations' (China National Report). Local and city laws have recently been established to regulate collective wage negotiations (numbering 11 provinces and 5 cities by 2013). As a consequence, the number of agreements and size of workforce covered has expanded in recent years – from 703,000 agreements and 94 million workers covered in 2009, up to 1.7 million agreements and 160 million workers covered by 2013 (417,000 collective wage agreements covering 51 million workers), (op. cit., tables 6 and 7). Nevertheless, there are doubts as to whether this expansion reflects workers' voluntary initiatives or rather '*an intervention of the visible hand of the Party-State in a top-down manner, out of its concern over maintaining stability and harmony*' (Lee and Liu, 2011, p.208). Several studies indeed illustrate that collective bargaining has limited influence on wage determination at workplace level (reviewed in China National Report, 2015).<sup>31</sup>

A further development in China is perhaps illustrative of challenges facing other countries in our sample. The central government has, since 2010, sought to raise the various provincial minimum wages by more than 13% per year. This has had a profound influence in shaping pay strategies of unions and employers: "As a result, collective bargaining becomes an appendix to the minimum wage and can hardly exert any real influence on the wage-fixing practices at both the regional and the enterprise levels" (China National Report, 2015, p.4). The lesson for policy-makers is that while a fast-rising statutory minimum wage is welcome from the perspective of setting a more generous floor to basic wage conditions, it ought to be designed and implemented in a manner that is complementary with the prevailing collective bargaining institutions. As studies of the French experience show, there is a risk that statutory minimum wage institutions can overpower and crowd out collective bargaining to the extent that the primary role of social partners is to figure out how to respond and catch up with frequent or *ad hoc* minimum wage adjustments (Gautié, 2010).

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<sup>31</sup> The situation in China is different because the law mandates the official union to represent workers' interests in a process of collective consultation with employers over wages and other concerns of conditions of work. The legal provisions do not, however, provide for workers or employers to carry out protected industrial action.

## 5. Implications for employment, working conditions & pay equity

Research on the impact of a minimum wage on labour market performance has a long tradition in labour economics and, to this day, continues to be at the core of the debate on labour market interventions, with a myriad of works dealing with the effects of minimum wages on different outcomes, from employment and unemployment to human capital formation. In spite of the vast amount of empirical evidence gathered on this issue, there is still no consensus as to the impact of a minimum wage on the labour market and especially on the magnitude of such effects.<sup>32</sup> Although most of the literature focuses on high-income countries, minimum wage research in specific developing countries has gathered momentum in the last decade with the improvement of databases and the increase in interest in addressing pay equity and poverty alleviation from different perspectives. With no pretension of making an exhaustive review, this section assesses the impact of minimum wages on labour market and societal outcomes in developing countries. We focus on three related issues: i) the effects of a minimum wage on employment levels; ii) the effects of minimum wages on wages and wage inequality; and iii) the impact of minimum wages on poverty reduction.

### 5.1. Minimum wage impact on employment

The analysis of minimum wage employment effects in developing countries is complex because, in contrast to high-income countries, where the alternative to employment in the formal and regulated sector is, for the most part, unemployment, in developing economies unemployment can be considered almost a luxury that few workers can afford. It is in this respect that unemployment in developing countries is considered to be a poor signal of labour market stress (Fields, 2011). This explains the traditionally lower unemployment rates in developing countries compared to high-income economies (figure 5.1). As such, when studying the impact of a minimum wage on employment in developing countries, it is necessary to analyse both the formal and the (sizable) informal sectors of the labour market.

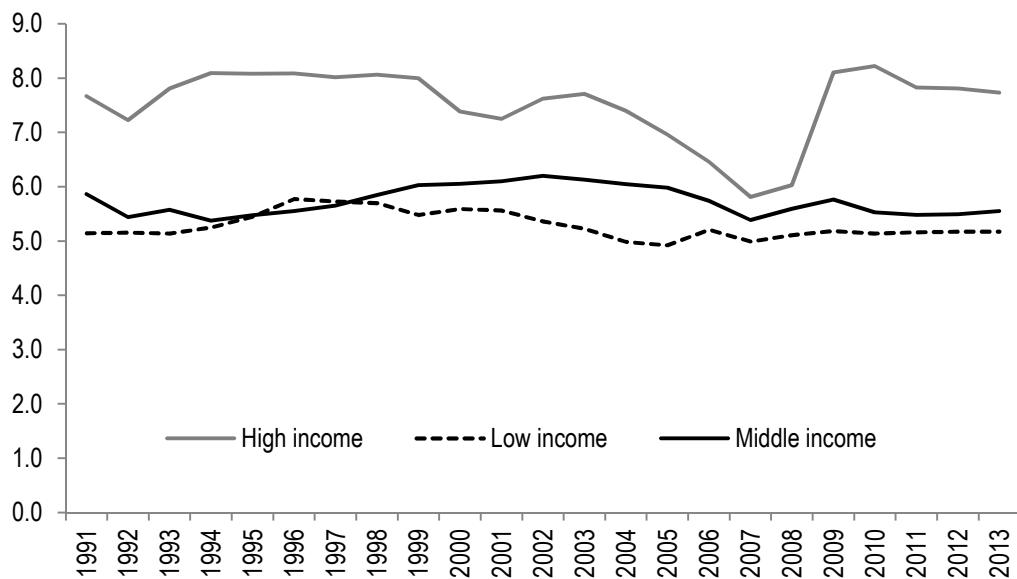
This element of complexity is further complicated by the different impact that minimum wage regulation is expected to have from a theoretical point of view, depending on the degree of labour market competition. In competitive markets, neoclassical economic theory predicts that the fixing of a minimum wage above the equilibrium wage of the market (where wage equals marginal labour productivity) will have a negative impact on employment (in the formal sector). In contrast, in the presence of imperfect labour market competition (e.g. where many employers exercise a degree of monopsonistic power), a minimum wage might lead to increases in employment in the formal sector (since monopsonist employers are likely to set wages at a level below the marginal productivity of labour).<sup>33</sup>

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<sup>32</sup> As mentioned, the literature is very extensive. See, among many others, the evidence collected and reviewed by Belman and Wolfson (2014), Card and Krueger (1995), Boeri and van Ours (2008), Neumark and Wascher (2008) and Vaughan-Whitehead (2010).

<sup>33</sup> It is beyond the scope of this introduction to explain the theoretical underpinnings of such results. For an analysis of minimum wage in monopsony see Manning (2003).

Figure 5.1 Unemployment rates (%) in high, middle and low income countries: 1991-2013



Source: Authors' analysis from the World Development Indicator Databank, World Bank.

Table 5.1 reproduces the different expected results of an increase (or introduction) of a minimum wage, for both formal and informal employment, according to the type of labour market (perfect versus imperfect competition). In the case of formal employment, in a competitive labour market, a minimum wage increase causes reduction of employment, of higher or lower intensity depending on the sensitivity of labour demand to changes in wages (known as the labour elasticity of demand,  $\varepsilon$ ) and raises wages. The net outcome in terms of total wage income depends on the relative intensity of the increase in wage and the reduction in employment. In contrast, in a monopsonistic (imperfect) labour market, with wages below the marginal productivity of labour, a minimum wage increase is compatible with both higher employment and higher wage income.

Table 5.1. The impact of a minimum wage increase in the formal and informal sectors under different competition models

	Perfect competition	Imperfect competition
Formal sector	<ul style="list-style-type: none"> <li>- <math>\downarrow</math> Employment (higher the higher wage-employment elasticity, <math>\varepsilon</math>)</li> <li>- <math>\uparrow</math> Wage</li> <li>- <math>\uparrow</math> Total wage income if <math> \varepsilon  &gt; 1</math>  <math>\downarrow</math> Total wage income if <math> \varepsilon  &lt; 1</math></li> </ul>	<ul style="list-style-type: none"> <li>- <math>\uparrow E</math> (If <math>W &lt; \text{minimum wage} &lt; \text{MPL}</math>)</li> <li>- <math>\uparrow W</math></li> <li>- <math>\uparrow</math> Total wage income</li> </ul>
Informal sector	<ul style="list-style-type: none"> <li>- <math>\uparrow</math> Labour supply (displaced formal workers)</li> <li>- <math>\uparrow</math> Employment</li> <li>- <math>\downarrow</math> Earnings</li> </ul>	<ul style="list-style-type: none"> <li>- <math>\downarrow E</math> if informal sector move to formal sector to fill the growing demand for labour (in excess of existing unemployment in formal sector)</li> <li>- <math>\uparrow</math> Earnings</li> </ul>

Notes: MPL = Marginal Productivity of Labour;  $\varepsilon$  = elasticity of labour demand (defined as  $\Delta\% \text{ labour demand} / \Delta\% \text{ wage}$ ).

Source: Authors' analysis.

In the informal sector, if we assume competitive labour markets, then the displaced formal workers look for work in the informal sector and the increased labour supply could produce a reduction in informal earnings and an increase in employment. The intensity of this effect would depend on whether displaced formal workers restrict their job

search to the formal market or extend it to the informal sector too. In a context of imperfect labour markets, informal workers might move to the formal sector to fill the jobs demanded by firms, leading to a reduction in informal employment and higher informal earnings (assuming new jobs are not taken by unemployed workers in the formal sector).

Summing up, due to multiple and inter-related variables affecting the impact of a minimum wage on employment, the question of the size and direction of employment effects of an increase in a minimum wage is largely an empirical issue. In the following brief assessment, we first review the empirical evidence for the employment effects of minimum wages in developing countries, and then turn to specific details for four of the countries considered in this report: Viet Nam, China, Indonesia, and South Africa.

### ***Empirical evidence***

Most surveys of research evidence on the employment effects of minimum wages in less developed countries conclude that there is, at the most, a very modest negative impact on employment, with significant variation among countries and with results varying according to the statistical methods used in the analysis (Freeman, 2010; Neumark and Wascher, 2008; Nataraj et al. 2014, Chletsos and Giotis, 2015). Belser and Rani (2015), after analyzing five countries (Brazil, Costa Rica, India, Peru and Viet Nam) for the mid-to-late 2000s, conclude that employment effects are statistically insignificant in most countries and, in fact, have a positive employment impact in Peru. Similar conclusions are presented in Broecke et al. (forthcoming) after a systematic review of the existing evidence of the impact of minimum wages on employment in ten major emerging economies, among them China, India, Indonesia, South Africa and Turkey. The meta-analysis concludes that there is only a minimal impact, or none at all, on employment.

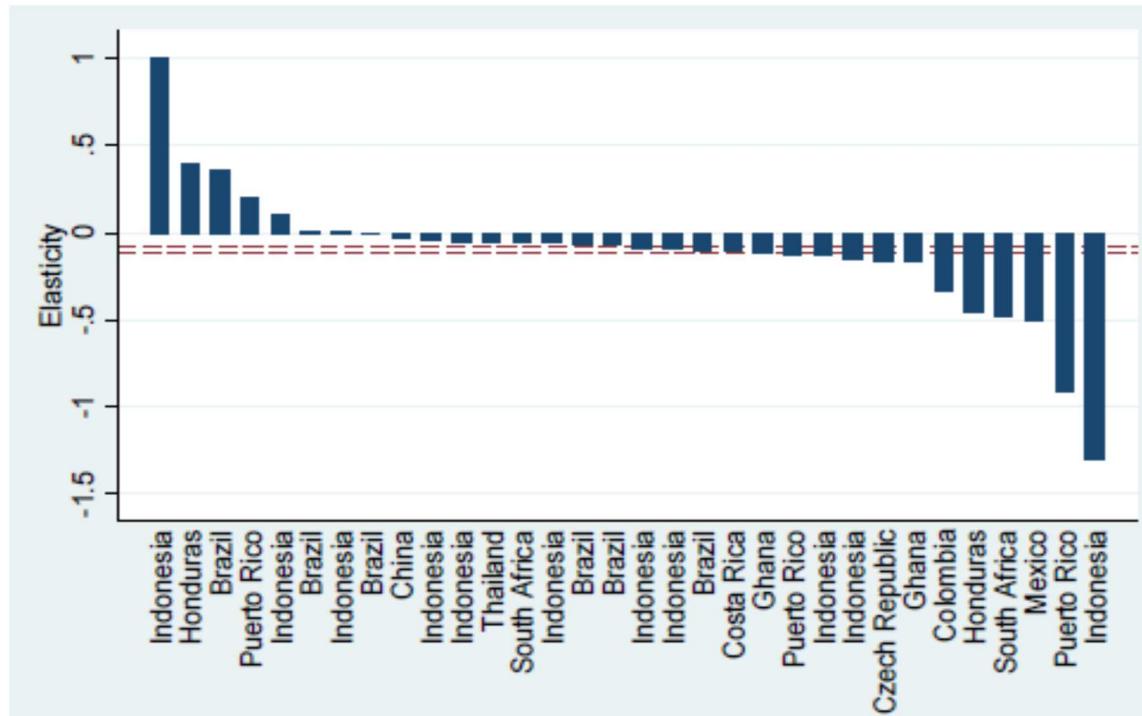
In another, very recent review of the literature, Bhorat and colleagues (2015) conclude that, “by and large, introducing and raising the minimum wage has a small negative impact or no measurable negative impact” (op. cit. p.28). These authors neatly summarize the results, after reviewing 115 research papers on minimum wages in developing countries,<sup>34</sup> and present the estimated minimum wage-employment elasticities for the countries studied (figure 5.2). In those cases where elasticities are calculated for different groups of workers, sectors of activity or regions, the country appears more than once. From the summary of data in figure 5.2 we can conclude that:

- (1) On average, the minimum wage has a negative but extremely low impact on employment of 0.08 (the upper dotted line in figure 5.2), meaning that a 10% increase in minimum wage will produce a reduction in employment of 0.8%.
- (2) There are significant variations between the countries of the sample, with wage-employment elasticities ranging from +1 to -1.3, although only in two countries, Puerto Rico and one of the Indonesian estimates, is the elasticity higher than -0.5. This result points to the importance of context specific factors that shape the employment effect of minimum wages, such as the value of the minimum wage relative to average earnings, the sector of activity, formal coverage of minimum wage rules, the rate of compliance, the timing and scale of the minimum wage increase, among other factors.

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<sup>34</sup> Including 98 papers reviewed by Neumark and Wascher (2008) and 17 more recent studies focused on developing countries.

Figure 5.2. Minimum wage-Employment elasticities ( $\varepsilon$ ) for low and middle income countries



Source: Bhorat et al. (2015 p.6).

From a different perspective, Belman and Wolfson (2016) focus on issues of methodology in minimum wage research in developing countries. Among other issues, the authors emphasize the importance of dealing with the effects of minimum wages on the informal sectors, both in terms of employment and wages, as well as the importance of further study of how the relative level of a minimum wage may help explain the results obtained. They conclude that, “until there is more careful research on developing countries, further meta-analysis of the effect of minimum wages on developing countries are not needed (...) What is needed is additional careful work to provide high quality estimates” (ibid. p. 24).

Table 5.2 reproduces the key features and results of 33 country studies of employment effects of minimum wages in Indonesia (12), Viet Nam (5), China (9) and South Africa (7). In general, these country studies confirm the results obtained from the meta-analysis reviewed above. For example, in Indonesia, although some studies, such as Hohberg and Lay (2010) or Del Carpio et al. (2012), estimate positive wage-employment elasticities for all or some groups of workers, most studies point to the existence of a negative employment effect, although of very little intensity. Another interesting result is the heterogeneity of the employment impact, with some sectors absorbing most of the employment impact. In this respect, for example, the minimum wage tends to have a higher negative employment impact in small firms (Rama 2001), for non- production workers<sup>35</sup>, (Del Carpio et al. 2012) or workers without primary education (Hallward-Driemeier et al. 2010). The story told by the five studies for Viet Nam is quite similar: overall, a small decrease in employment (with an elasticity of around -0.1) and differential effects by sector of employment, including a positive employment effect for foreign firms and negative for domestic-owned firms (Del Carpio et al. 2013). The nine studies on China also point to the possibility of positive employment effects and

<sup>35</sup> According to the *Indonesia industry survey* production workers are defined as : ‘workers who work directly in the production process, or activities connected with the production process, from the time materials enter the factory until the final products are sent out of the factory’, Del Carpio et al. (2012: 2). The authors speculate that the higher negative employment impact on non production workers might be the result of their wages being closer to their marginal productivity.

negative, but the negative effects are always at a low level of employment elasticity (around -0.1 again). These Chinese studies also identify regional differences of minimum wage. Among the studies reviewed in table 5.2 we would like to highlight the paper of Mayneris and colleagues (2014), which finds an association between the increase in minimum wages and higher productivity of survival firms. This positive impact on productivity allows survival firms to maintain both employment and profits. From this perspective, a minimum wage uplift can be expected to have a 'cleansing effect', pushing out of the market those firms that are inefficient.

The last country considered in table 5.2, South Africa, shows slightly different and contradictory results. For example, Bhorat et al. (2014) observe sizable decreases in working hours in their study of the retail, domestic work, forestry, security, and taxi sectors. However, their results for domestic workers are contradicted by the papers of Dinkelman and Ranchhold (2012), and Herz (2005). For workers in the agriculture sector, Conradie (2004) and Murray and Van Walbeek (2007) also present different conclusions for the specific cases of grape farmers in the Western Cape and the sugar production sector, respectively.

Summing up, the results obtained from the country studies and the survey of the literature on the impact of minimum wages on employment in developing countries point to:

- (a) a small to negligible negative impact of minimum wage on employment;
- (b) a positive impact on employment in some cases, especially when informal employment is taken into consideration;
- (c) employment effects that are quite heterogeneous in terms of the specific impact on groups of workers, sectors of activity and regions; and
- (d) relatively low wage-employment elasticity estimates, implying that the raising of a minimum wage will produce an overall increase in workers' earnings.

Table 5.2 Summary of empirical evidence of the employment effects of minimum wages in Indonesia, Viet Nam, China and South Africa

Country	Authors	Sector, region, year	Employment effects of minimum wage
Indonesia	Alatas and Cameron (2008)	Clothing, textile, leather (Greater Jakarta)	Negative employment impact of minimum wages on production workers in small firms, with an elasticity estimate in the range of -0.31 to -0.54, but not in large firms
	Comola and de Mello (2011)	1996-2004	An increase in the Kaitz ratio is associated with a net increase in employment: the rise in informal-sector employment more than compensates for job losses in the formal sector.
	Chun and Khor (2010)		Employment elasticity of -0.16 for the formal sector for low wage workers, no significant effects on overall employment. Increase in pay of low paid women in the informal sector.
	Del Carpio, Nguyen, Wang (2012)	Manufacturing firms 1993-2006	Heterogeneous effects of minimum-wage changes on employment: <ul style="list-style-type: none"> <li>- Production workers: -0.023.</li> <li>- Production workers large firms: +0.009.</li> <li>- Non production workers: -0.054.</li> <li>- Non production workers large firms: 0.065.</li> <li>- Male non production: -0.029.</li> <li>- Female non production: -0.069</li> </ul>
	Hallward-Driemeier et. al (2010)		Reduction of gender wage gaps for workers who completed junior high school, but that the gap worsens for workers who did not complete primary school.
	Harrison and Scorse (2010)		Elasticity estimate of - 0.012.
	Hohberg and Lay (2010)		No employment effect, no spillover effect on informal workers. Wage elasticity of formal workers to minimum wage increase up to 0.613 for formal sector workers with wages under minimum wage in the first wage. Average elasticity 0.178.
	Islam and Nazara (2000)		There is no convincing overall empirical evidence of a negative relationship between the level of minimum wage and the level of employment.
	Magruder (2011)		Formal employment increases and informal employment decreases in response to the minimum wage.
	Pratomo (2011)	1989-2003	No significant impact on total paid employment because of the non-compliance problem in Indonesia.
Viet Nam	Rama (2001)		Negative employment effect for small firms (< 20 workers) but a positive effect for medium-sized and large firms.
	Suryahadi et al (2003)		Elasticity of employment to minimum wage estimated at approximately -0.11.
Country	Authors	Sector, region, year	Employment effects of minimum wage
Viet Nam	Nguyen (2014)	2008-14	Small increase in wages and slight decrease in (mostly male) employment (elasticity - 0.1)

China	Del Carpio <i>et al.</i> (2013)		Heterogeneous impact: + in foreign firms, negative in domestic firms
	Sakellariou and Fang (2014)		Reduction in wage inequality in the private sector, little change in the state sector
	Hansen <i>et al.</i> (2014a)	2001-12	Moderate drop in firm's employment overtime
	Hansen <i>et al.</i> (2014b)		Minimum wage increase reduced earnings inequality by moving the wages at the lower end of the distribution closer to the median wage
	Ni <i>et al.</i> (2011)	2000-05	Overall no negative impact on employment. Positive impact on employment in the Central and Western Regions, while negative in Eastern China
	Wang and Gunderson (2011)		Negative effect in the employment to population index of immigrants in non-coastal zones and no effect in the fast growing Eastern regions.
	Mayneris, Poncet, and Zhang (2014)		At the firm-level, firm survival fell, wages rose and labor productivity significantly increased, allowing surviving firms to maintain their employment and profits. Key evidence of the 'cleansing effect' of minimum wages
	Luo and Han 罗燕, 韩冰(2013)	21 cities of Guangdong province	Significant positive effect on employment
	Fu 傅端香(2012)		Overall positive effect on migrant workers in Beijing. Different impacts by sector.
	Li and He 李晓春, 何平(2010)	7 cities of the Yangtze River Delta	Positive impact on migrants' employment
	Luo 罗小兰(2007)	Shanghai	Elasticity of employment + 0.08
	Zhou and Zhao 周培煌、赵履宽 (2010)	Construction sector	Elasticity of employment - 0.13
	Ma <i>et al.</i> 马双等(2012)		Elasticity of employment - 0.12
	Huang <i>et al.</i> (2014)	2800 counties	Elasticity of employment -0.10 for 2005-2007.

Country	Authors	Sector, region, year	Employment effects of minimum wage
South Africa	Bhorat (2000)		Minimum wage hikes in South Africa are associated with a decline in employment among low -paid Farm and Domestic worker
	Bhorat, Kanbur and Mayer (2013)	Retail, domestic work, forestry, security and taxi sectors	Real hourly wages increased in most of the minimum wage covered sectors analyzed, with larger increases occurring in district councils where workers were further below the introduced minimum. In some sector, eg. Taxi, the wage increase was accompanied by reduction in hours, yielding an overall insignificant effect on real monthly wages
	Bhorat, Kanbur and Stanwix (2014)	2000-07, Agriculture	Significant employment reduction in agriculture from the minimum wage (and particularly a noticeable move away from employment of part-time workers), an increase in wages on average, and a rise in non-wage benefits compliance.
	Conradie (2004)	190 grape farmers, Western Cape	Employment elasticity from -0.3 to -0.6
	Dinkelman and Ranchhold (2012)	Domestic workers, 2001-4	No significant change in employment
	Hertz (2005)	Domestic workers	Changes in employment experienced by domestic workers are no different to workers in other occupations
	Murray Van Walbeek (2007)	103 farmers, sugar industry	No large disemployment effects detected

## 5.2. Impact on wages and wage inequality

The slight reduction of employment associated with the increase in minimum wage is explained (under the general assumption of a negative sloped labour demand function) by an increase in wages. In this respect, the issue is not so much the impact of minimum wage on wages themselves, but which part of the distribution of wages is more affected by the increase (or establishment) of a minimum wage.

The impact of minimum wages on wage inequality depends on three factors. The first is the relative position of the minimum wage in the overall wage distribution. The higher the minimum wage in relation to median or average earnings, the higher would be the compression of wages. In this respect, as shown in section 2, because the Kaitz index in developing countries is generally higher than that found in high income countries, we can expect to find a higher degree of wage compression in developing economies. The second factor concerns whether the effect of a minimum wage is concentrated in the lower part of the wage distribution, leading to a compression of wages and a reduction of wage inequalities, or, alternatively, whether it is considered as a kind of numeraire that affects wage bargaining all the way up the wage distribution. In the latter scenario, a minimum wage uplift will produce an upward movement of the whole wage distribution, reducing the impact of the minimum wage on overall wage inequality. In the extreme case of full replication of a minimum wage increase along the income distribution (in relative terms), the impact would be null. The third important factor concerns the level of employer compliance with minimum wage rules. *Ceteris paribus*, the more compressed the wage distribution, the higher the compliance rates.

Summing up, for a given wage-employment elasticity, the higher the minimum wage in relation to the median wage, the higher the concentration of minimum wage impact on the lower part of the wage distribution and, therefore, the fewer numeraire effects; also, the higher the compliance rate, the higher the compression of the wage distribution associated with the minimum wage.

### **Empirical evidence**

Several empirical studies on the economic impact of minimum wages in developing economies conclude that the minimum wage has an equalizing impact on wage distribution, in terms of a compression of wages. For example, Chun and Khor's (2010) analysis for Indonesia concludes that low wage workers benefited more from the minimum wage than other workers, leading to a reduction of wage inequality. The same conclusion is obtained by Lemos (2004), a leading expert of the economics of minimum wage in Brazil. Lemos finds strong wage compression effects in both formal and informal sectors related to the minimum wage. She concludes that, "the minimum wage redistributes ... in favor of those in the very bottom of the distribution in the formal sector, while it redistributes more widely in favor of those in the bottom half of the distribution in the informal sector" (ibid. p.15). Bosch and Manacorda (2010) reach a similar conclusion after studying the impact of the reduction of the relative value of the minimum wage in relation to the median wage in Mexico; from 1989 to 2001 the Kaitz index fell by 50%. According to the authors, this erosion was responsible for the observed increase in inequality at the bottom of the wage distribution. In their study of Viet Nam, Hansen et al. (2014b) find that minimum wage increases lead to an overall reduction in earnings inequality through decreasing the ratio of the lowest wage percentiles to the median, especially in the lower part of the wage distribution. This result is explained by changes occurring in state and foreign-owned organisations.

The review of these cases and other evidence<sup>36</sup> allows Belser and Rani (2015) to conclude that, "higher minimum wage levels and improved compliance have tended to boost the relative position of low-paid earners and have contributed to the reduction in inequality" (ibid. p.137). The wage compression effect of minimum wages is also found in several studies addressing the Chinese case. For example, drawing on data for nine cities (including

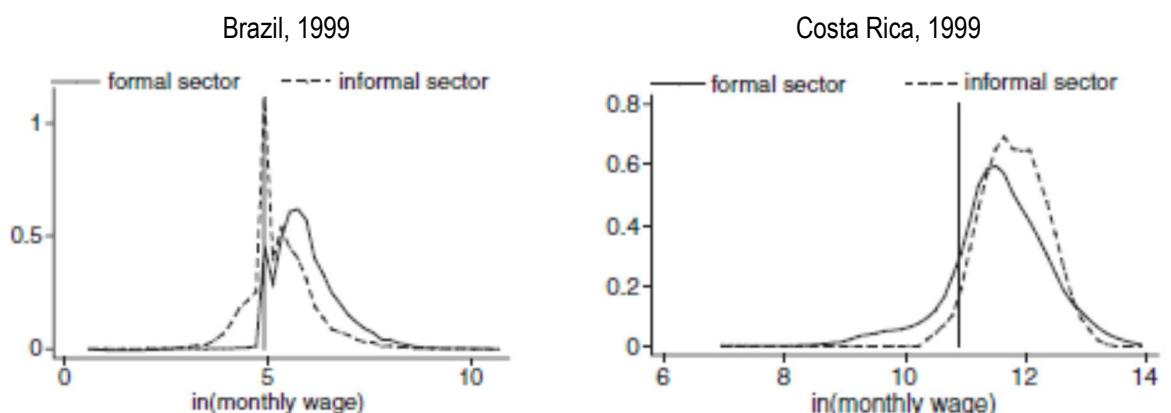
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<sup>36</sup> For example, Belser and Rani (2011) after conducting a simulation exercise to estimate the impact of making the national minimum wage floor compulsory in India conclude that the extension of the minimum wages , without the need of changing the level (under the assumption of full compliance), could reduce the Gini index of wage inequality from 0.499 to 0.41, a 20 % reduction in inequality. This reduction would be higher in agriculture and low productivity services (by more than 15 percentage points).

Beijing and Shanghai) for the period 1995-2006, Xiao and Xiang (2009) conclude that a rising minimum wage tends to narrow wage inequality.

The existence of a compression effect of minimum wage on the distribution of wages can be observed graphically by identifying whether there is a spike around the minimum wage in the wage distribution. Using this approach Rani et al. (2013) find significant spikes in earnings for the mid-2000s in Brazil, Costa Rica, India, Indonesia, the Philippines, South Africa and Turkey, although no wage spikes in the case of Viet Nam. Figure 5.3 reproduces the evidence of two cases, Brazil and Costa Rica, where the minimum wage has a different impact. In Brazil there is a clear spike around the minimum wage, in both the informal and formal sectors, while in the case of Costa Rica, the distribution appears to be unaffected by the minimum wage<sup>37</sup>.

Figure 5.3. Wage distribution (Kernel density plots) of Brazil and Costa Rica, 1999.\*



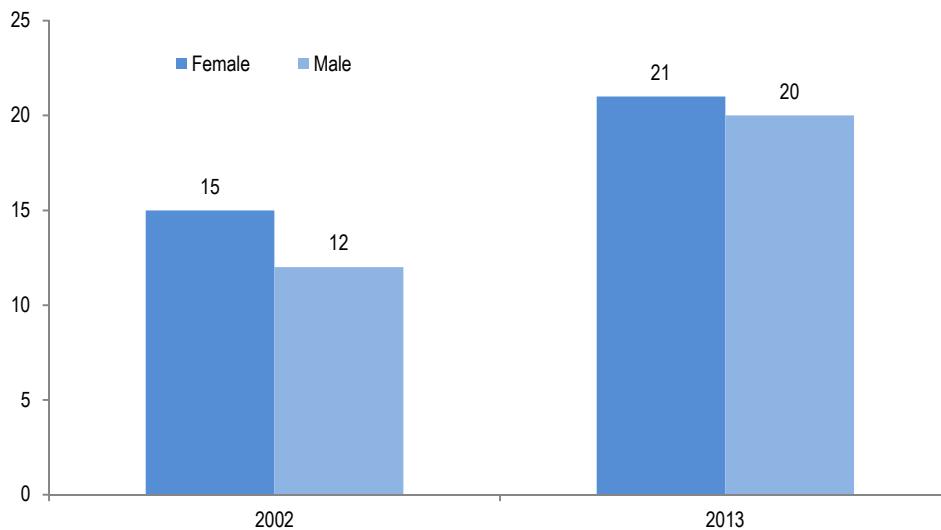
Notes: \* Vertical line = Minimum Wage.

Source: Cunningham (2007: 122).

An alternative, simpler way of gauging the impact of a minimum wage on wage inequality is by estimating the proportion of workers with earnings at or near the minimum wage, for example within the pay band defined by the levels of 95% to 105% of the minimum wage. Figure 5.4 uses this approach, developed by Dolado et al. (1996), for the case of Brazil, for the garment and textile industries in 2002 and 2012, by gender. It shows a significant rise in the share of workers, especially men, whose earnings are caught within this low-level pay band or 'wage contour'. The availability of detailed earnings data at the level of the industry, in the case of Brazil, enables studies to identify the wide variety of situations in terms of the impact of minimum wage on wage inequalities in the different sectors of the economy. For example, values range from: 30% of workers in the street sweepers sector with wages in the 95-105% pay band, to 0% in radioactive mining, and 6% in the automobile industry.

<sup>37</sup> This methodology has also been used to test the compliance with minimum wage in developing countries (Rani et al., 2013).

Figure 5.4. Workers in the garment and textile industry with earnings from 95% to 105% of the minimum wage by gender, Brazil 2002 and 2013



Source: Authors' analysis from Leite (2015): 33-35

### 5.3. Minimum wages and poverty

The impact of minimum wages on poverty in developing countries is not an entirely straightforward issue. Although from the evidence presented in previous sections we know the minimum wage has a positive impact on workers' earnings, this is not sufficient to conclude that a minimum wage has also an unequivocal effect on poverty. From a theoretical perspective the impact of a minimum wage on poverty will depend on the following factors<sup>38</sup>:

- the size of the population covered by a statutory minimum wage. As we have seen, a large majority of workers in developing economies are self-employed or are formally excluded from minimum wage regulations because of their sector, occupation, family work status, and so on. *A priori*, for this segment of the labour force, the minimum wage will have no impact unless indirectly through the existence of a 'lighthouse effect' (see section 3.3);
- the level of the minimum wage in relation to the poverty line;
- the level of compliance;
- the intensity of the disemployment effect and the location of the fired workers in the distribution of income; and
- the impact of the minimum wage at the household level (who is affected by it) and the degree of income sharing within the family.

In section 3, we have seen how the countries of the sample have different levels of legal coverage and compliance rates. Country variety is also present in regard to the probability of avoiding poverty for workers earning minimum wages. In order to deal with this issue we have calculated the poverty thresholds for a standard family, with average household size ranging from a minimum of 3.1 members in China to 6.8 in Pakistan, using the US\$1.90 and US\$3.10 per person per day as absolute poverty lines used by the World Bank. These magnitudes have been

<sup>38</sup> For a formal model of minimum wage and poverty see Fields and Kanbur (2005) and Fields et al. (2007).

converted into local currency units (using the PPP provided by the World Bank) and compared with the minimum wage in each country (using the highest and lowest in the case of countries with multiple minimum wages as in section 2) under the assumption of one wage earner per family.

The results, reproduced in figure 5.5, reveal different patterns regarding the sufficiency of minimum wages as a means to avoid poverty. In most countries, with the exception of Bangladesh and India, for the average family the lowest minimum wage is barely sufficient to avoid extreme poverty (using the US\$1.90/person day poverty line). In Brazil and Pakistan, the lowest minimum wage is sufficiently high to exceed by a significant proportion the level of extreme poverty. The same is valid for the two countries, Cambodia and Turkey, with a single minimum wage. The situation changes when we choose the more demanding poverty line of US\$3.50 per day (all in PPP), in which case only in the country with the highest GDP per capita, Turkey, is the minimum wage high enough to clearly overtake the poverty threshold. In the rest, the lowest minimum wage (by industry or region) is clearly insufficient to avoid households falling into poverty, and the highest minimum wage is barely sufficient to meet the threshold<sup>39</sup>.

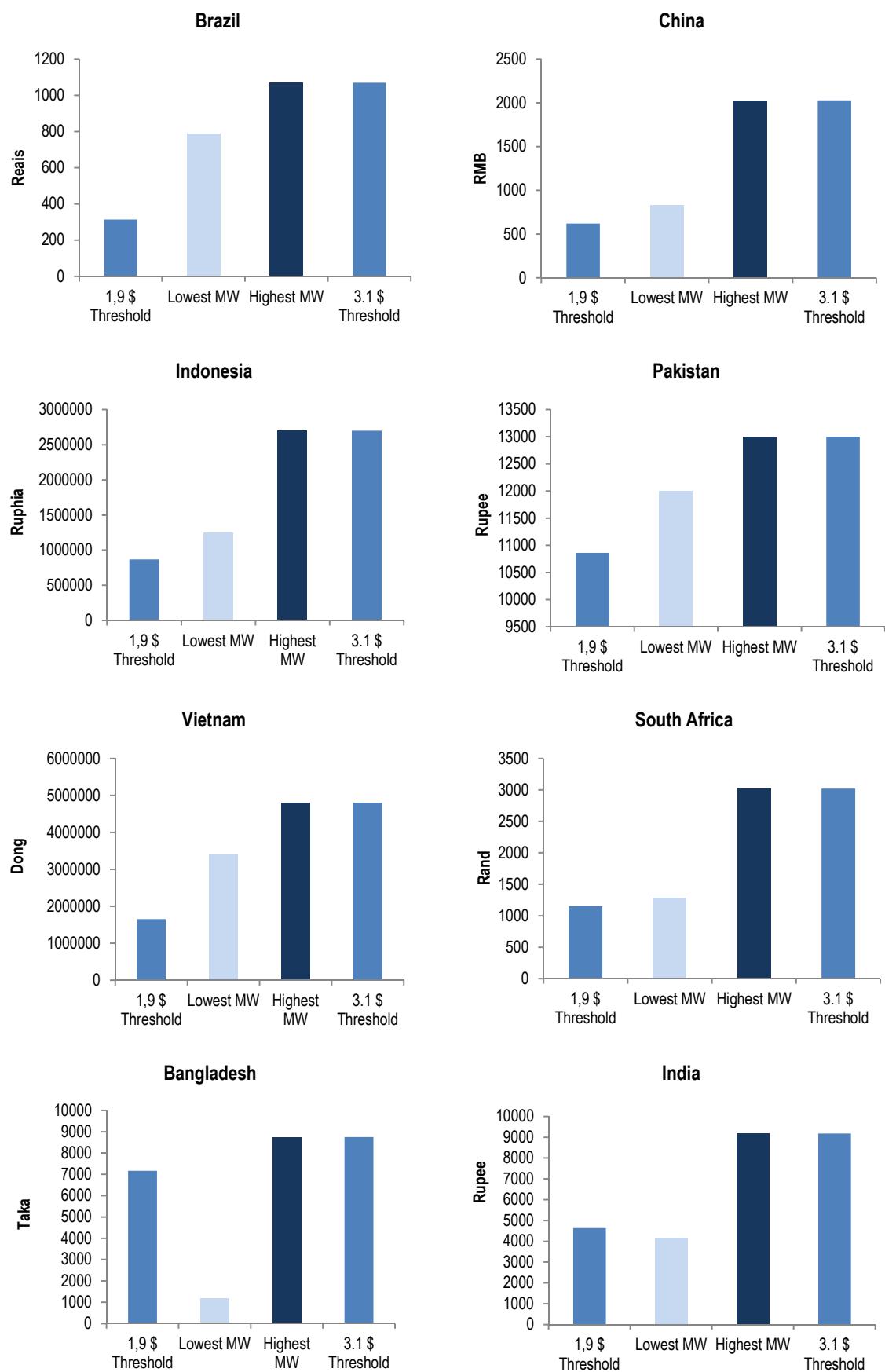
The sufficiency of the Turkish minimum wage to avoid all poverty risk is questioned when we use more stringent poverty risk thresholds, such as the standard EU poverty risk definition based on a relative definition of poverty: 60% of median equivalised income, (or the less demanding 40% of median equivalised income). When we use the last criteria, probably more relevant for a country negotiating its integration to the EU, the result shown in figure 5.6 is that Turkey's minimum wage is still far from sufficient to allow minimum wage workers to avoid relative poverty<sup>40</sup>.

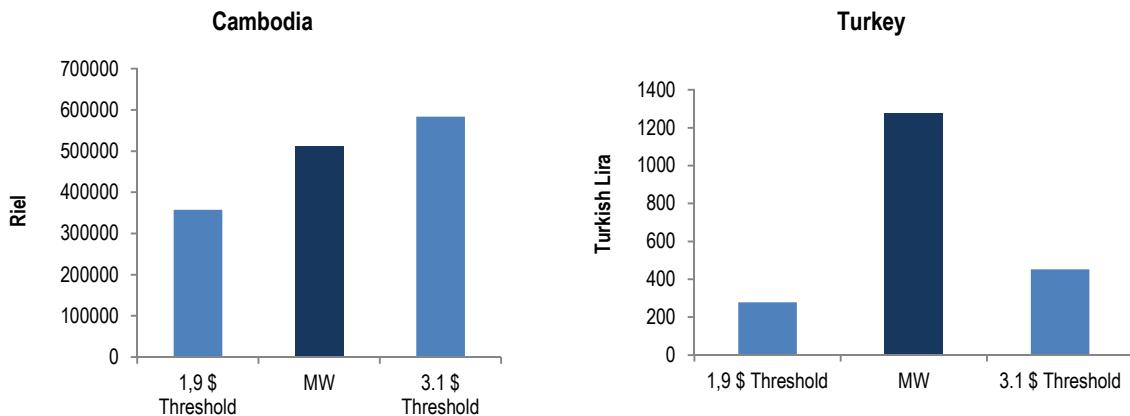
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<sup>39</sup> It is important to keep in mind that poverty rates are quite different among the countries of the sample, among other things due to the existence of important differences in economic development. In this respect, according to World Bank data (circa 2012) the US\$1.90 poverty rates range from very low in Turkey and Brazil, as well as Viet Nam (under 5%), medium in Cambodia, Pakistan and China (6%, 8% and 11%, respectively), medium to high in Indonesia, South Africa and India (16%, 17% and 21%, respectively) and very high in Bangladesh (44%).

<sup>40</sup> In any case, the role of the minimum wage, especially in the early 2000s, in the reduction of poverty rates is recognized by Şeker and Jenkins (2013).

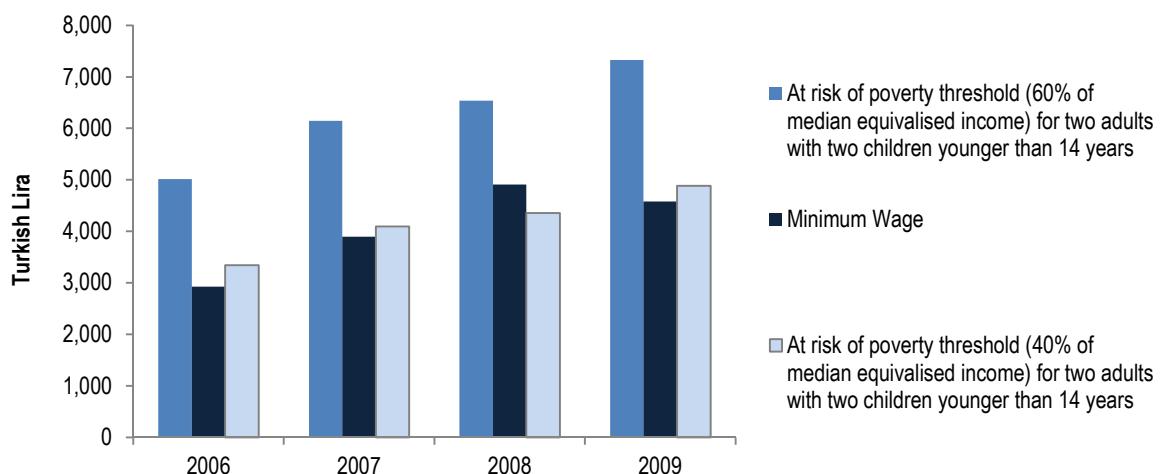
Figure 5.5. Poverty rates and minimum wages in ten countries





Source: Authors' analysis from national sources and World Bank data.

Figure 5.6 Minimum Wage and relative poverty risk thresholds in Turkey (2004-2009).



Source: Authors' analysis from Bakoglu and Ensari (2015:16) and Eurostat

### Empirical evidence

The multiplicity of factors affecting the impact of minimum wages on poverty, and the possibility of generating positive and negative impacts, depending on the above-mentioned items, mean a review of empirical evidence is essential for shedding further light on the issue. Starting from an aggregate perspective, Lusting and McLeod (1997) study the relation of changes in minimum wages and changes in poverty rates for a sample of 22 developing countries (mostly Asia and Latin America)<sup>41</sup>. According to their results, minimum wage increases are associated with falls in poverty rates (and vice versa). An increase in the minimum wage by 1% reduces poverty rates from 0.6% to 1%. The result is robust to changes in poverty lines, the poverty measure used, the moment of the economic cycle, the rural or urban environment and the region.

In contrast, the study of IPEA (2000), using Brazil microdata, finds no effects on poverty when the impact of minimum wage rises on unemployment is taken into account. For Mexico, Cunningham and Siga (2006) take the household as the unit of observation and estimate that the poorest households experience the highest wage gains

<sup>41</sup> The authors regress changes in poverty indicators for a group of 22 developing countries on changes of the minimum wage, changes in public spending, human capital investment and other variables traditionally associated with changes in poverty.

after an increase in minimum wage (3% increase in household income after a 10% increase in minimum wage). Arango and Pachon (2003), for Colombia, also find a positive impact of the minimum wage in terms of poverty reduction, for those at the poverty line and at half the poverty line, but a raised probability of being poor for the very poor (those at 1/3 of the poverty line). Moving continents, in a conclusion to their analysis of the impact of the minimum wage in 18 Chinese provinces and cities from 1995 to 2008, Luo (罗小兰, 2011) concludes that the minimum wage plays a significant role in China in reducing the rural poverty rates, although the relation is not linear; raising the minimum wage above a certain threshold or tipping point, in fact, produces an increase in poverty rates. The results are robust for different poverty lines and regions.

In Cambodia, Heintz (2007), using instrumental variable estimation techniques to properly account for selection bias, concludes that employment in the garment sector has “a consistent and statistically significant, positive impact on living standards indicators” (*ibid.* p.25), lowering poverty rates as measured by material deprivation indexes, such as dwellings with a dirt floor and lack of electricity or sanitation. The same conclusion is reached in the study of Yagamata (2006), from a more descriptive perspective, and by the analysis of Saget (2001) from an aggregate perspective using cross-section data.

In general, Cunningham (2007) provides a valuable summary in her review of the role of minimum wages in social policy in developing countries: “The minimum wage can be a tool for poverty and inequality reduction. Although the minimum wage falls below the poverty line in households with a single worker, it can serve to increase the incomes of the poorest workers” (*ibid* p.3). Nevertheless, in developing countries with a large proportion of workers outside the legal coverage of the minimum wage and faced with low compliance rates, the minimum wage must be treated as just one of the tools, and not necessarily the most important, to be used when addressing the question of poverty.

## PART 2 - Minimum wage practice in the textile and garment industry in seven countries

Now that we have set out the comparative context with a detailed critical analysis of institutions and labour market conditions at a national level, we are in a good position to understand the details of minimum wage policy and practice at the level of industry, specifically the textile and garment industry. Our aim in Part 2 of this report is, therefore, to switch focus and to draw much more closely on the detailed investigations of the textile and garment industry undertaken by the authors of the specially commissioned National Reports. Following a brief assessment of the economic and labour market role of the textile and garment industry in our sampled countries, this part of the report asks four key questions that follow logically from the analysis in part one:

- 1) How are minimum wage rules set and applied in the garment industry in each country?
- 2) What are the relative values of minimum wages (the so-called 'bite') and what are the effects on measures of pay equity especially gender pay equity?
- 3) What are the various forms of employer non-compliance?
- 4) What, if any, are the links with collective bargaining or any forms of social dialogue, including examples of collective resistance against unduly low pay and new initiatives to improve job quality?

The detailed analysis of employment conditions, pay practices and minimum wage rules for the industry draws heavily on the National Reports for seven countries: Bangladesh, Cambodia, China, Pakistan, South Africa, Turkey and Viet Nam. The data are both quantitative and qualitative, with mixed methods and research designs across the seven reports.

### 6. Introduction to the textile and garment industry

The textile and garment industries are paradigmatic examples of the impact of globalization on the structure and location of production. Until relatively recently (the 1980s), garment production (excluding haute couture) was fairly standardized and mass produced, with relatively few changes from one season to the next, and produced close to the final consumer market. The massive multiplication in the range of products and the speed of design changes, together with the widespread outsourcing of manufacturing to countries with lower production costs, led to a radical transformation of the industry. These changes were further accelerated by the phase-out of the Multi-Fibre Agreement (MFA) in 2005<sup>42</sup> and new processes of competition are now underway, as Asian countries sign up to TTIP and/or EU trade deals. The liberalization of the textile and garment trade has led to the massive offshoring of textile and garment production, especially the garment industry, to countries with much lower labour costs. The high labour intensity of garment production, the highest among manufacturing sectors (UNIDO 2013), combined with its relatively lower potential for technological change, explains the global shift of textile production to less developed countries with significantly lower labour costs and also the intensive country competition among developing countries for trade and investment deals.

This section provides a brief overview of the character of the garment industry, focusing on both its global organisation (global value chains and their associated international division of labour) and its specific economic

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<sup>42</sup> The MFA maintained a system of quota since 1974 that protected the domestic markets of developed economies, many of them with important textiles and garment industries.

role within each country. We set out its significance for manufacturing and for trade, and then consider its role in shaping employment, wages, productivity and overall working conditions.

### 6.1. The global organisation of the garment industry

It is the scale of wage differences between high-income countries and developing countries that largely explains the fast process of delocalization and offshoring of much of textile production from high-income countries. To give an idea of the size of the gap, if we benchmark average labour costs for the textile industry (US\$ per operator hour)<sup>43</sup> against data for the United States as 100, then the corresponding index for developing countries ranges from 31 for Turkey and 18 for Brazil, down to 6 for India and just 3.5 for Bangladesh and Viet Nam.

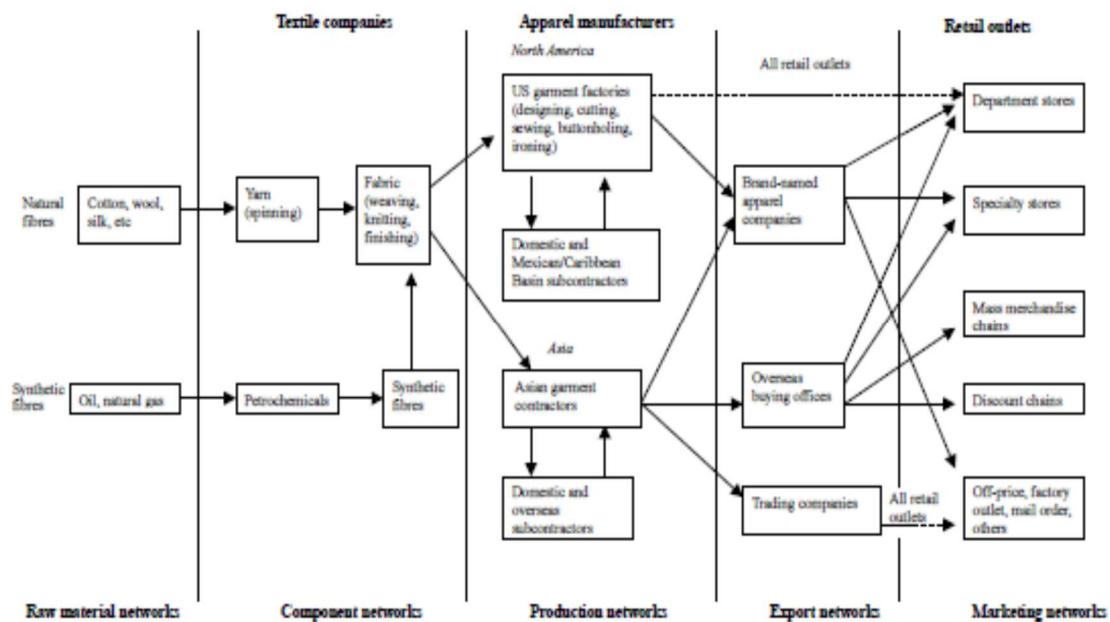
As a direct result of these changes, the value chain for the industry, (figure 6.1), is characterized by a global division of labour. The typical pattern is: a) the location of garment design by major brand-name apparel companies in high-income countries, such as Zara in Spain or H&M in Sweden; and b) manufacturing production in low-cost, developing countries, organised around short-notice production runs, and making extensive use of subcontractors that are diffused across formal and informal parts of the economy.

It is this global, high-income versus low-income character of the value chain that has motivated a significant pressure on branded retail firms to incorporate CSR in their purchasing requirements, and to some extent this has been occurring (see Barrientos 2012). At the same time, it needs to be recognised that developing countries, especially China but also South Africa, have witnessed the overtaking of their export market by the domestic retailers (for different reasons) and this seems to be associated with a diminished emphasis on labour standards of manufacturing suppliers.

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<sup>43</sup> According to the Werner International Labor Cost Comparison, which covers all primary textile industry sectors, consisting of spinning, weaving and dyeing & finishing. Cut and sewing operations are not included in the comparisons. The results are based on their own survey data (<http://www.werner-newtwist.com/en/news1-vol-011/index.htm>).

Figure 6.1. The textile and garment industry global value chain



Source: Appelbaum and Gereffi (1994: 46).

Within the general structure of global value chains, there are important differences among the actors in the importing and exporting countries. On the buying side there are three broad types of firms: retailers, branded marketers and branded manufacturers, (table 6.1), with increasingly blurred boundaries among them, as many branded marketers and manufacturers have developed their own retail chains, and retailers have developed their own brands.

Although the reliance on the outsourcing of production is different between the above mentioned types of firms, from total outsourcing in branded marketers such as Nike, with no production facilities, to lower outsourcing levels in the case of branded manufacturers, all three types of firms, in the words of Staritz (2011), have become “organizing buyers”. This means they focus more on design, branding, research and development, and retailing than on the organization of manufacturing production, which is mostly outsourced to distant producers.

Table 6.1. Types of firms on the buying side of the global value chain

<b>Retailers</b>	<b>General department stores:</b> Wal-mart, J.C. Penny, Carrefour, Kaufhof, etc. <b>Specialty:</b> Gap, Abercrombie & Fitch, H&M, C&A, local clothing stores, etc.
<b>Branded marketers</b>	Nike, Polo, Hugo Boss, Diesel, etc.
<b>Branded manufacturers</b>	Levi Strauss, Adidas, Nike Mango, Inditex (Zara)

Source: Gereffi and Frederick (2010).

The growing reliance on outsourcing, by retailers, brand marketers and manufacturers, hides different strategies in terms of the geographical location of the producers and sourcing alternatives. Table 6.2 reproduces different examples of sourcing strategies of retailers, specialty retailers and brand marketers and manufacturers.

On the selling side, we can also distinguish between different types of sellers according to the type of services provided. At the low end we have the so-called 'cut-make-trim', CMT, firms, which are paid a processing fee and use fabric sourced by the buyer<sup>44</sup>. In contrast, the so-called FOB firms ('free on board' firms), also called original equipped manufacturers, (OEM), take responsibility for a larger part of the production process according to the specification of the buyer, including finishing and packaging for delivering. At the higher end, the full package manufacturers, also called original design manufacturers, (ODM), assume control over the full production process from design and fabric sourcing to production and distribution.

Table 6.2. Examples of sourcing strategies

Brand	Firm Sales*	Sourcing Strategy	Description and Known Countries
Mass Merchants: Sears	25.3	Direct Sourcing	60-70% direct sourcing via 8 sourcing and 4 quality assurance offices worldwide (2005)
Specialty Retailers: H&M	13.1	Direct Sourcing	20 offices (10 each in Europe & Asia); relationships with 750 factories: 60% Asia (incl. Bangladesh, Pakistan, Cambodia) and 40% Europe (2007).
Brand Marketers Nike	19.2	Direct Sourcing	Apparel from 38 countries. China (largest); others: Thailand, Indonesia, Malaysia, Viet Nam, Turkey, Sri Lanka, Cambodia, Taiwan, El Salvador, Mexico, India, Israel.
Brand Marketers & Manufacturers Inditex (Zara)	15.1	Direct Sourcing; Manufacturer	50% owned manufacturing (Spain, "fashion items"); 50% sourced with 40% from Asia (China, Bangladesh, "basics") and 10% Europe and Northern Africa (Morocco). 1990: Asia represented almost 0%.
Brand Marketers: Liz Claiborne	4.2	Intermediary: Li & Fung	

Note: \*Revenue for 2008 in \$US billions.

Source: Gereffi and Frederick (2010: 36-7).

Located between buyers and sellers, and playing the role of intermediation in the global value chain, we find powerful brokers responsible for linking buyers and sellers, coordinating production, organizing the logistics and,

<sup>44</sup> These low value added CMT firms are a majority in Cambodia and, according to different sources, account for between 60% and 87% of firms in the sector (Staritz 2011: 119).

often, designing the products. In those cases where the buyer does not outsource directly, these trading houses coordinate a triangular manufacturing network that involves the production of clothing in developing countries to be delivered and sold to final buyers in a developed country (Staritz 2011). For example, one of the pioneers and larger trading houses, Li & Fung Limited<sup>45</sup>, is the primary purchaser for the US retail giant Wal-Mart.

The generalization of outsourcing of clothing production, with the phase-out of the MFA and the changing competitive strategies of retailers, brand retailers and brand manufacturers, in a context of fast-changing collections ('fast fashion'), low inventories and improved social reputation, has lead to an increase in the demands placed on outsourced firms. In addition to the traditional requirements of low costs, quality and reliability, buyers are increasingly demanding lead times, production flexibility, compliance with labour and environmental standards, product development and design understanding, and inventory management, amongst other things (Staritz, 2011). These changing requirements imply transformations in the production landscape of the producing countries, especially in terms of the need for larger scale firms with improved capabilities, and a concentration on core suppliers. In any case, the proliferation of outsourcing and sub-outsourcing, which creates an almost endless chain of vertically inter-related firms, often makes it very difficult to trace the responsibilities of employers and contractors for the cloth and garments. This very much reduces the capacity of final purchasers to exert control over working conditions, even if, by heart or by interest, they wish to do so (see box 6.1).

The above-mentioned developments are not the only changes experienced by the global clothing market. After the phase-out of the MFA, the growth of textile production in developing economies came at the price of the near disappearance of production in many high-income countries<sup>46</sup>. Now, in a context of stagnant demand of overcapacity, the growth of textile production in new exporting countries comes at the cost of a decline in other, less developed countries. In this context, both workers and firms face considerable constraints on efforts to improve wages and working conditions.

Another important element shaping the structure of the world clothing market is the high level of concentration on the demand size (powerful retailers and brand retailers). For example, in the UK the five largest retailers account for 35% of the market, while in Germany the figure is 28%. This demand size oligopoly is even clearer from the perspective of many producing countries, where few buyers account for a very large share of total garment production. For example, it is estimated that in 2008 the brand retailer GAP accounted for one third of total Cambodian exports (Staritz, 2011).

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<sup>45</sup> According to Li&Fung's corporate website, the firm has around 25,000 colleagues working across some 300 offices and distribution centers in more than 40 different markets, with access to a sourcing network encompassing over 15,000 suppliers around the world.

<sup>46</sup> For example, in 1970, among the largest exporters to the US were: Japan, United Kingdom, Canada, Italy and France. Just four decades later, the US is now receiving most imports from major developing countries such as China, Cambodia, Pakistan, Mexico and Bangladesh (Stoltz and Kane 2015).

*Box 6.1. Who makes what?*

The recourse to subcontracting in the clothing industry makes it especially difficult to keep track of the final companies in charge of producing garments and to ensure proper monitoring of working conditions. A recent case of slave labor discovered in the Spanish textile sector offers a good example of the difficulty of knowing where garments are produced, even in developed countries with greater levels of resources for enforcement.

According to judicial investigations, part of the garments sold by Spanish fashion brands in 2009 were produced in sweatshops in an industrial area outside Barcelona (Mataró), where hundreds of Chinese workers toiled in conditions close to slavery: they worked seven days a week with working days of 15 hours (or more in peak season); they had to sleep in the basements of the workshops; they required the owner's permission to leave the premises - and all for just €25 per day. The workshops produced garments for more than 363 brands and wholesalers, among them Desigual, Punt, Roma and Cortefiel, as well as brands of the Spanish department store, Corte Ingles, and Inditex (Zara).

Interestingly enough, some of the brands carry social audits of the firms in their supply chain. But the control only reaches the first level of subcontracting and does not extend to the 'cascade subcontracting' commonly found in the sector and associated with retail pressures to meet tight deadlines. In one of the cases investigated, the Catalonian police found that Intexetis, a supplier to El Corte Ingles and Inditex, had subcontracted part of its production to another firm, Josmigmar, which in turn subcontracted (without giving notice to the contractors) to a Chinese-owned firm, Jiaem Wang. This third firm in the supply chain then distributed the production among the illegal workshops.

Source: García, J. (2015) 'Operación Wei: Talleres de la mafia china de Cataluña cosieron ropa de las grandes cadenas', *El País*, 12/12/2015.

## 6.2. The economic role of garment and textile production in the sample countries

In each of the countries selected for investigation in this research report, the textiles and garment industry plays an important role in overall manufacturing production, with the exception of South Africa and Brazil. As figure 6.2 shows, Cambodia stands out, with a manufacturing sector that almost entirely consists of textiles and clothing production. The other countries have a more diverse manufacturing sector, and textiles and clothing have a correspondingly lower share of total manufacturing output. In terms of contribution to GDP, the figures range from less than 1% in South Africa and Brazil up to 4% in Pakistan and almost 15% for Cambodia.

All countries, with the exception of Viet Nam, India and Bangladesh, have recently experienced a process of growth of the tertiary sector. This is associated with a decreasing contribution of manufacturing to GDP and diversification of manufacturing activity, which is reflected in the decreasing contribution of textiles and clothing industry to manufacturing output. The intensity of the process of structural change and decrease in the role of manufacturing in GDP is most apparent in South Africa and Brazil, where manufacturing output contribution to GDP dropped by almost a third between 2000 and 2010 (30% and 28%, respectively). On the other hand, manufacturing output increased by 43% in Viet Nam, which underlines the strong, ongoing process of industrialization in this country.

*Figure 6.2. Importance of textile and clothing in manufacturing, 2006*



Note: \*2000 data for Cambodia.

Source: Authors' analysis from World Bank, World Development Indicators.

### ***International trade***

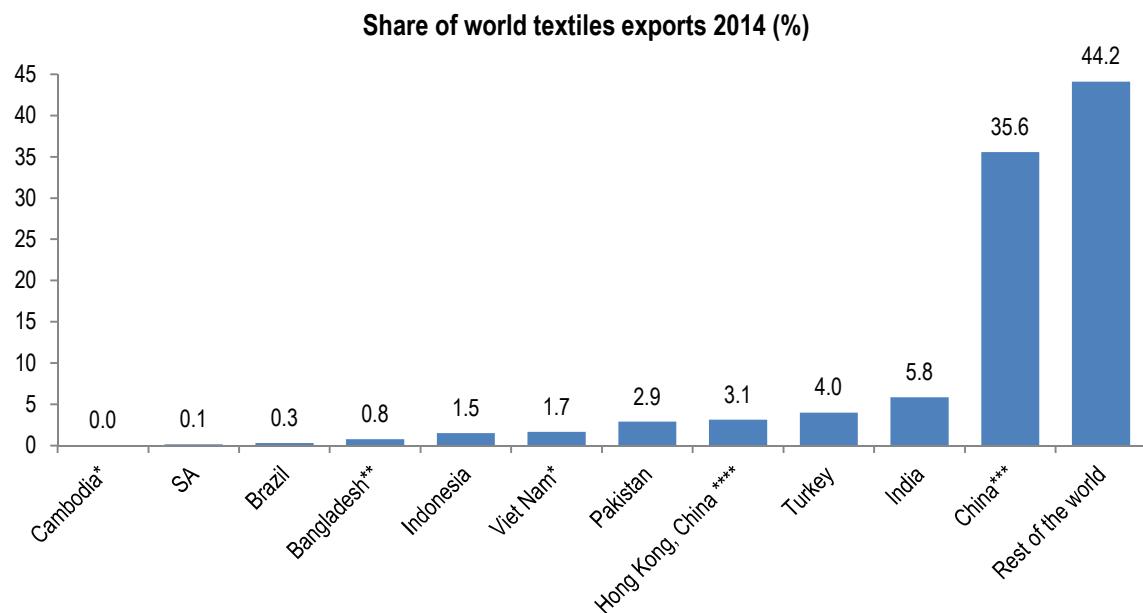
The selected countries are major players in the field of textiles exports. In 2014 they supplied more than half of total world exports of textiles and almost two thirds in the case of clothing (Figure 6.3)<sup>47</sup>. China has been the leader in global exports of garments for many years. In 2014, it exported US\$356 billion in textiles, apparel and footwear and dominated the market with a 36% share. Other leading countries include India (6%) and Turkey (4%).

If we now change the point of view and consider the role of garments in total exports of each country in our sample, we can see that for two countries, Bangladesh and Cambodia, clothing is their main export, accounting for more than half total exports (Figure 6.4). Moreover, both countries have seen a rise in the contribution of garment exports to total exports, especially Cambodia, where it increased from 21% in 1995 to 77% in 2014 (Huynh 2015). The other countries show a more diversified export structure, although clothing still plays an important role: 13% of exports in Viet Nam, 11% in Turkey and 8% in China. The low importance for Brazil is explained by the domestic orientation of its clothing industry. It is also interesting to consider the importance of the export market for the garment industry in each country. Over time, the domestic market in China has expanded significantly, outpacing

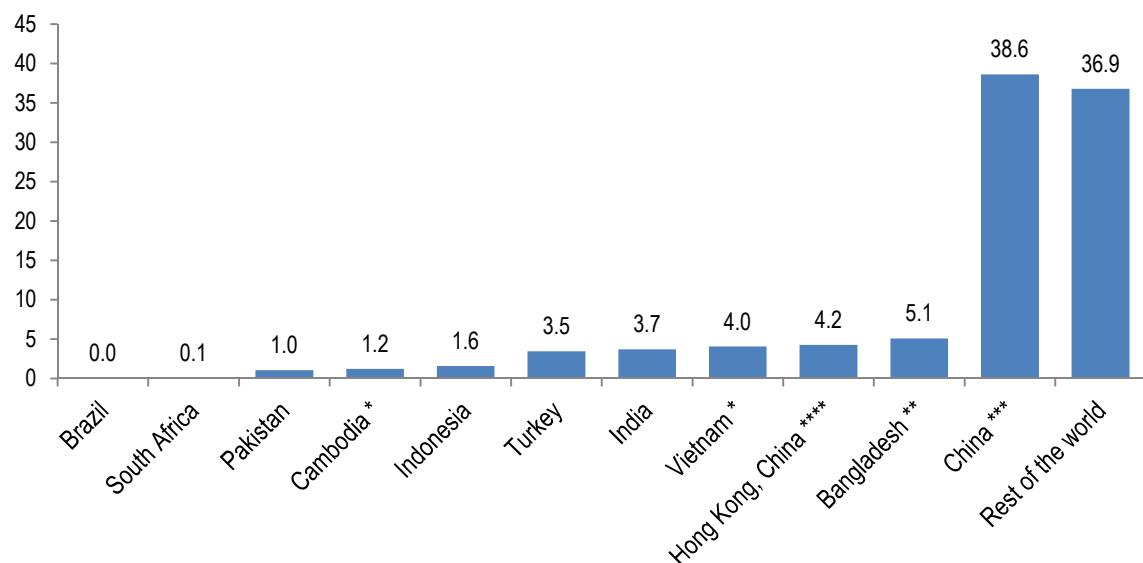
<sup>47</sup> The only other countries (or groupings) with shares of 1% or more are the EU with 26.2%, the United States, with 1.3%, and Sri Lanka and Mexico with 1%.

the massive rise in export volumes. In 2000, domestic sales were 42% of total revenues of large Chinese garment companies, but by 2013 domestic sales had grown to 74% (China National Report 2015).

Figure 6.3. *Country shares total world exports of textiles and clothing, 2014*

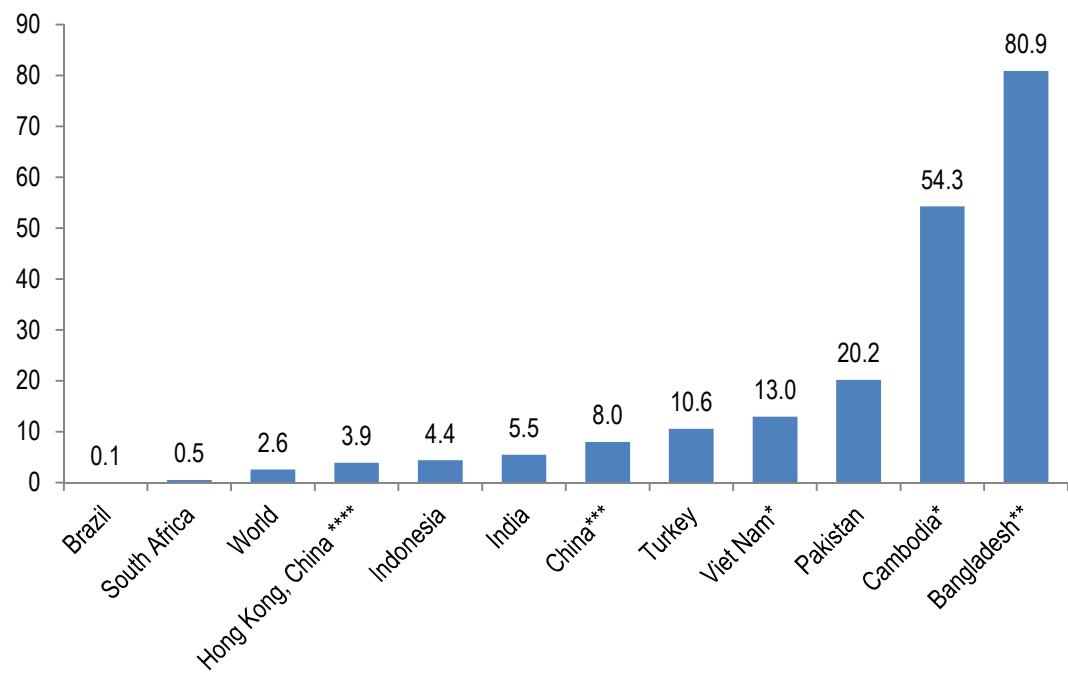


**Share of world clothing exports (%)**



Notes: \*includes WTO estimates; \*\*figures refer to fiscal year; \*\*\*includes exports from processing zones; \*\*\*\*mostly (99%) re-exports.  
Source: Source: Authors' analysis from WTO International Trade and Market Access Data.

Figure 6.4. Share of clothing exports of total merchandise exports (%)



Notes: \*includes WTO estimates; \*\*figures refer to fiscal year; \*\*\*includes significant exports from processing zones; \*\*\*\*mostly re-exports (99%).

Source: Authors' analysis from WTO International Trade Statistics 2015, Clothing exports of selected economies, 1990-2014

### 6.3. Employment, wages, productivity and working conditions in the industry

In terms of overall working conditions, the Rana Plaza tragedy exemplifies the extremely poor working conditions of textile and clothing industries in many of the producing countries<sup>48</sup>. Thanks to international publicity, it is well-known that on 24<sup>th</sup> April 2013, an eight-story complex of clothing factories called Rana Plaza collapsed, leaving a final toll of 1134 people killed, mostly young female workers. The factory supplied many global brand-name clothing companies, such as Primark, Carrefour and Benetton amongst others. This was the biggest single tragedy of a string of accidents related to the textile industry across the region, but unfortunately not the only. In the previous decade more than 800 people had died in factories in Bangladesh (mostly as the result of fires). Also, less than a month after the Rana Plaza tragedy, another factory collapsed in Cambodia leaving three casualties and six injured (Taplin, 2014). In 2012, 259 people died in Pakistan in a single fire in a textile factory in Karachi and 25 in a shoe factory fire in Lahore (Stoltz, 2014). In China, during the same year, 14 workers died in a garment factory in the city of Shantou. Moreover, due to the important role played by textile and clothing industry in many developing economies, whatever happens in this sector will have an impact on manufacturing as a whole.

Figure 6.5 presents data on the importance of employment in the textile and clothing manufacturing industries as a share of total employment in manufacturing. It demonstrates the importance of these sectors for employment in manufacturing, with more than half accounted for in Bangladesh and Pakistan. In all countries shown, except Pakistan, the garment manufacturing industry accounts for the majority of employment in the wider textiles and

<sup>48</sup> Accidents in textiles factories were also common in the days when textiles was a major industry in the now high income countries and health and safety standards were still to be developed. Two of the better known cases are the collapse of Pemberton Mill in Lawrence, Massachusetts in 1860 with around 100 casualties, mostly young women, and the Triangle Shirtwaist factory fire in New York in 1911 that killed 146 workers (Taplin, 2014).

apparels sector. Over recent years (2006-12), employment in these countries has tended to grow in the garment sector and decline in textiles. Taken together, the countries divide between those with aggregate expansion of employment in the textiles and clothing sectors, Brazil, China, India and especially Viet Nam (a rise from 700,000 to 1.1 million) – and those with jobs decline, Indonesia, South Africa and Turkey. Nevertheless, as a share of total manufacturing employment, all countries except Viet Nam have experienced a decline. For example, data for China show a rise in the number of workers in the textile and clothing industries from 18 million in 2004 to 20 million in 2013, yet a fall in the share of total manufacturing employment from 59% to 38% (China National Report 2015, table 7) (see also appendix 1).

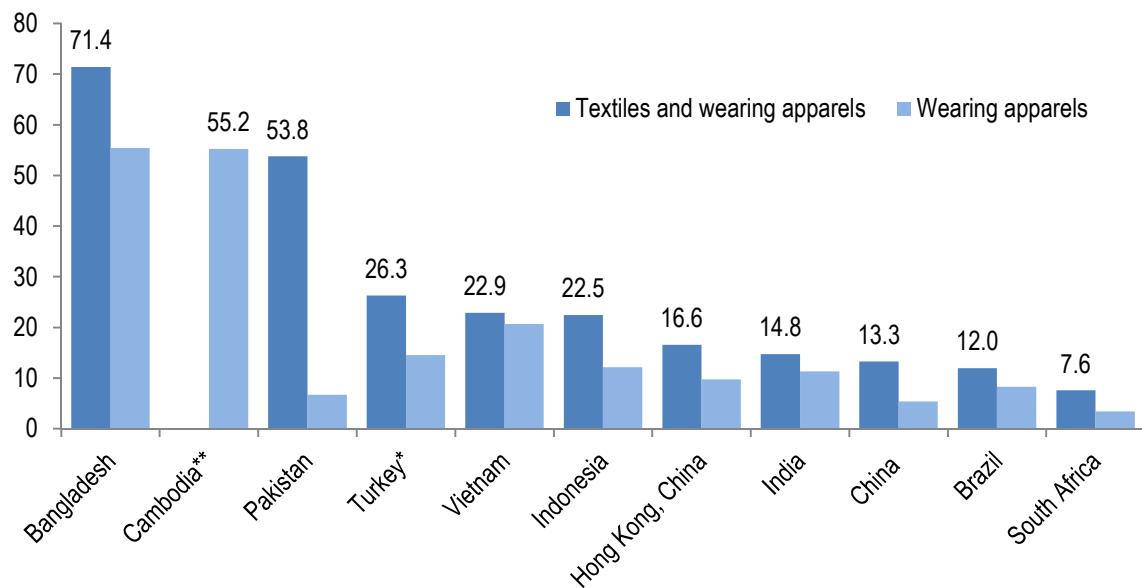
The industry is strongly female-dominated. According to the ILO (2014b), women account for more than two thirds (68%) of workers in the clothing industry and almost half (45%) in the textile industry (ILO, 2014). According to the country reports, the share of female employment in the textile sector is high in Bangladesh (68%) and in Colombia (69%) and lower in Turkey (40%), although compared to their overall share of employment in Turkey (below 15%) women are nevertheless strongly over-represented in the textiles industry. In Cambodia women account for over 80% of employment in the garment sector, compared to 50% of total employment (Heintz, 2007). The participation of female employment in the textiles industries is lower in Pakistan, around 20%, although in some areas of the industry, such as stitching units, women's share is as much as 75% of total employment (Akram and Kashmir, 2015). The presence of women is much higher in the home-working sector. In Pakistan, for example, it is estimated that nearly three in four (71%) home-workers are women. To a great extent, this extreme pattern of sex segmentation reflects the social and cultural norms of Pakistan, according to which it is not considered appropriate for women to participate in the public sphere (Haque, 2009), as well as inadequate transport infrastructure and under-developed institutional arrangements to support child and elderly care (Praxis Labs-ILO, 2015).

Migrant labour serves as an important source of supply in the garment industry in some countries. In China, 70% of the garment industry workforce is estimated to be rural migrant workers. In Bangladesh the rate of migration is high, and government and social partners respect the role of the minimum wage in protecting new labour market entrants from the countryside.<sup>49</sup> Also, in Turkey, the recent inflow of around 1.6 million refugees fleeing from the crisis in Syria is expected to have added to the already large numbers of unregistered workers in the garment industry (Bakoğlu and Ensari, 2015, p. 30).

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<sup>49</sup> Views and evidence presented at the ILO Bangkok workshop (November 2015).

Figure 6.5. Employment in textiles and wearing apparels as a percentage share of total manufacturing employment, 2011/12



\* 2009, \*\* 2008

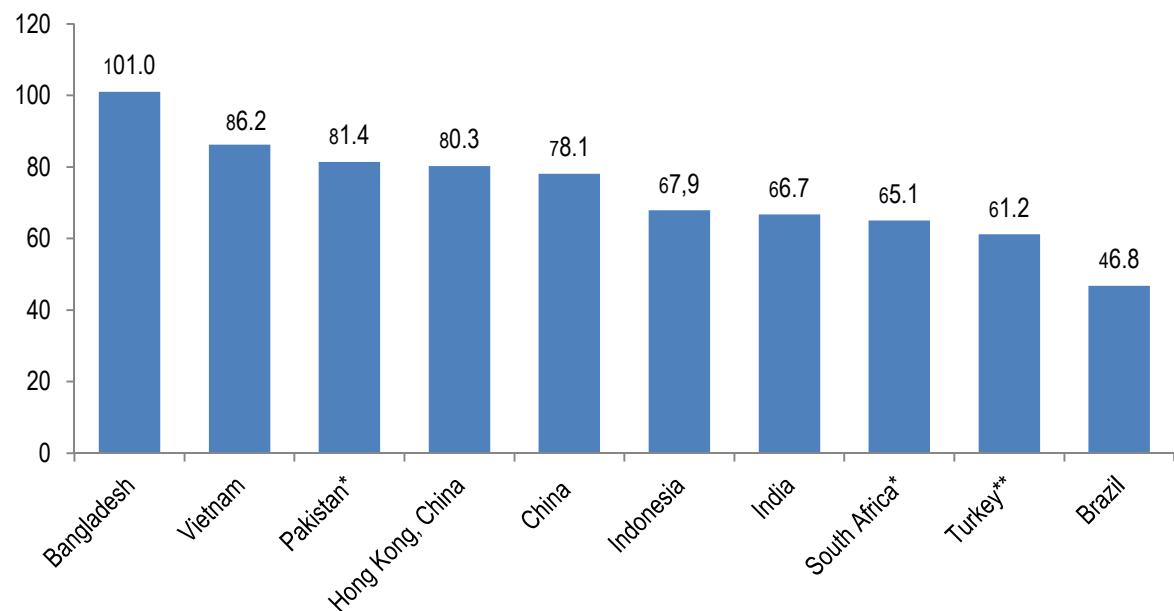
Source: Authors' analysis from UNIDO -Employment, Wages and Related Indicators by Industry, at current prices, for selected years and Dasgupta et al. (2011: 26) and National Institute Statistics (2010: 23) for Cambodia.

With the exception of Bangladesh, where manufacturing is dominated by textiles industries, wages in the garment sector are lower than the average for manufacturing. The average wage gap, or wage penalty, for the selected countries is 30%,<sup>50</sup> although with significant differences between the countries (see figure 6.6).<sup>51</sup> Lower average earnings in the sector are, in part, explained by the low level of capital intensity of garment industries, (and the highest level of labour intensity among 18 manufacturing sectors, according to UNIDO data) and the relatively low level of labour productivity, (in part the result of such low capital intensity). Figure 6.7 shows the relationship between average labour productivity and average wages for 18 manufacturing sectors drawing on pooled data for 63 countries. It reveals a clear positive relationship between the relative level of labour productivity and the relative wage. The textile and wearing apparel industries are located in the bottom-left hand corner of Figure 6.7, along with the sectors of furniture and wood products.

<sup>50</sup> In order to place in context the wage difference between garment and manufacturing sectors, it is important to notice that the position of garment industry employees improves notably when compared to the much lower labour income of informal workers. For example, according to the Asian Development Bank and Bangladesh Bureau of Statistics (2012), the wage gap between formal and informal employees in the nonagricultural sector is 26%, increasing to 42% when we compare nonagricultural formal employees with agricultural employees. For Indonesia the wage gap between self-employed workers (used here as a proxy for informal workers) and employees for 2013 was 38% (estimated from ILOSTAT data).

<sup>51</sup> See Appendix A.2 for more details.

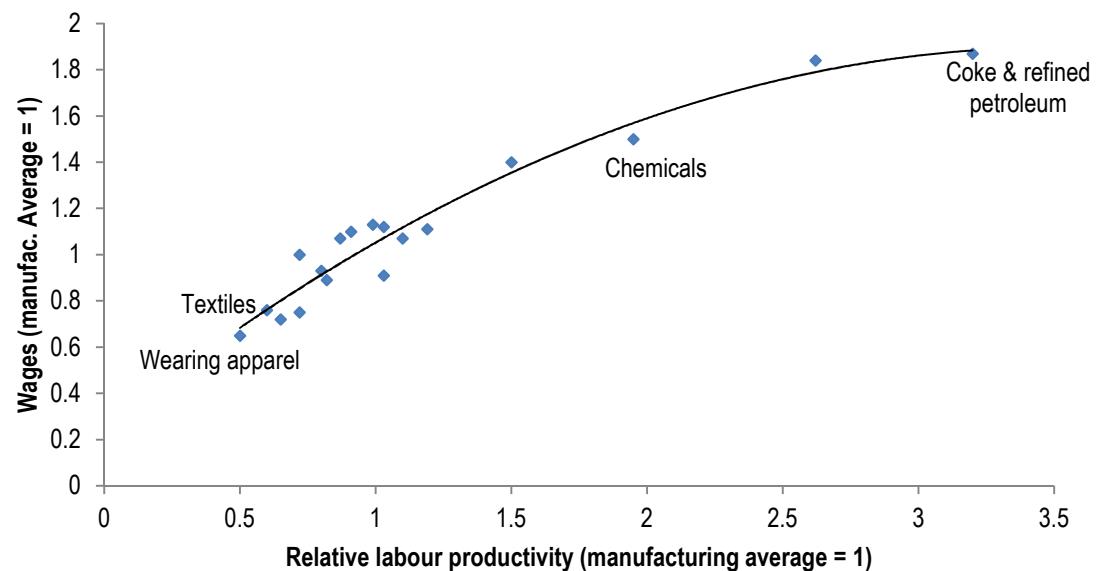
Figure 6.6. Average wage in the wearing apparel sector as a percentage of average manufacturing earnings, 2011



Notes: \*2005/6; \*\*2009.

Source: Authors' analysis from UNIDO 'Employment, Wages and Related Indicators by Industry', at current prices, for selected years.

Figure 6.7. Relative labour productivity and wages in 18 manufacturing sectors



Source: Authors' analysis from UNIDO (2013: 76).

Nevertheless, the situation ought not to be viewed as some sort of inevitable, static equilibrium. Higher wages can spur on productivity improvements and, conversely, appropriate employer investments to raise productivity can generate higher pay. Levels of pay remain very low in our sample countries – only a little over US\$100 per month on average in Cambodia, Pakistan, India and Indonesia (Hunyh, 2015, figure 3). China, however, has experienced significant rises in garment industry wages in many provinces. This is said to be incentivising companies both to

downsize (26 of surveyed companies) and to outsource (all 28 firms, including 24 conducting offshoring in 2015) (China National Report: tables 11 and 12).

Many studies demonstrate the generally poor state of working conditions in the industry. Long working hours are common. It is estimated that worldwide more than one fifth (22%) of the labour force work regularly more than 48 hours per week (Lee et al. 2007). The textile and clothing sector is no exception in this respect. Huynh (2015: Figure 6) reports shares of waged employees working more than 48 hours per week exceeding 40% in Pakistan, Viet Nam and, especially, Cambodia with a share of around 55% of workers in the sector. Also, in Bangladesh total weekly working time, including overtime, reached on average 61 hours and is even higher in small firms, up to 65 hours per week (Moazzem et al., 2015). These figures are slightly over the legal maximum of 48 hours plus 12 hours overtime.

Overtime working in the textile industries is both a) a strategy adopted by firms to adapt to fast-changing demands to meet short-term production requirements of powerful client businesses, and b) a possible need of workers to earn additional overtime earnings in order to ensure basic living standards (Vaughan-Whitehead 2011). It would appear, according to the ILO commissioned Bangladesh report, that there has been a reduction in the proportion of workers undertaking excessive overtime during the peak production season (Moazzem et al. 2015). In the past, overtime working in garment firms massively exceeded the legal maximum, reaching in some cases 200 or 250 hours per month, thus presenting a grave threat to workers' health and increasing the risk of factory accidents (Oxfam, 2004). Similarly, in China, data for the case studies conducted as part of the ILO commissioned report suggest reduction in hours worked; while four of six firms visited used to require all workers to work excessive hours during the peak season, this dropped to requiring 20-60% of workers by 2015 (China National Report 2015: table 13). However, in Bangladesh and China the recent reduction in working hours is not explained by stricter law enforcement, nor by Corporate Social Responsibility auditing. Rather, it appears to have been the result of a fall in domestic demand (Moazzem et al. 2015). As one corporate executive in Guangdong province interviewed for the ILO commissioned report put it,

*'The production orders for our company are stable. But it is not profitable for our company to produce ... The tricky situation for our company is that the more you produce, the more money you lose. Then, we have to downsize manufacturing'*, (cited in China National Report 2015 p.35).

The combination of low wages and poor working conditions has been an important catalyst for major strike activity in the sector in most of the producing countries (see, also, section 9 below). According to Chi and Torm (2015), in Vietnam the garment industry is the most strike prone sector of the country, accounting for one in three (34%) of all strikes reported in the period 1995-2014, in what can be considered a strategy of 'collective bargaining by riots'. In Cambodia, strikes increased significantly in the period 2010-2013, involving almost 1 million workers in 2013 and associated with around five casualties -although the intensity appears to have decreased since then by 40%<sup>52</sup>. Large-scale worker unrest in the textile sector is also present in Bangladesh, which saw widespread violence and temporary production halts in 2006 and 2010 and throughout much of 2013.<sup>53</sup>

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<sup>52</sup> "Garment Factories Report Major Drop in Strikes", *The Cambodian Daily*, (12-01-2015).

<sup>53</sup> "Bangladesh's Labor Strikes Foreshadow Political Violence", *Stratford Global Intelligence*, 25-09-2013.

## 7. The nature and influence of statutory minimum wages in the garment industry

This chapter turns to the real world practice of minimum wages in the garment industry. Our analysis considers four aspects of minimum wage practice: a comparison of minimum wage rules applied to the garment industry (statutory and via collective bargaining); an assessment of recent trends in actual *value* of minimum wages, the influence of the minimum wage on industry pay levels, especially the issue of minimum wage as ceiling rather than floor; and evidence of gender effects in this feminised industry. Because this part of the report relies almost entirely on data collected in national reports specially commissioned by the ILO, we must now limit the country sample to seven out of the ten countries examined up to this point. The country selection from here on is as follows: Bangladesh, Cambodia, China, Pakistan, South Africa, Turkey and Vietnam.

### 7.1. Comparing minimum wage rules for the garment industry

Garment industry workers in all seven countries are, in principle, protected by one or more statutory minimum wages, in accordance with the country minimum wage system described in section 2. In China and Viet Nam, the garment industry is covered by the generic all-industry minimum wage (with variation by region in both countries), but in Bangladesh and Pakistan garment industry workers are covered by a specific statutory minimum wage for the industry, set nationally in Bangladesh and at provincial level in Pakistan (table 7.1). In South Africa, garment industry workers are protected by a collectively bargained minimum wage, set centrally in three agreements and normally made legally binding via the extension across the entire industry.

Table 7.1. Type of minimum wage in the garment industry in seven selected countries

	MW type:		MW rate:		Multiple MW rates fixed for:			
	Statutory	Collective agreement	Generic	Industry-specific	Job grade	Region	EPZ	Details:
Bangladesh	✓			✓	✓		✓	-7 job grades specified -EPZ pay rates significantly lower
Cambodia	✓			✓				-single MW applies
China	✓		✓					-varies by province
Pakistan	✓		✓	(✓)		✓		-5 provincial MW Boards
South Africa		✓		✓		✓		-legally extended (usually) industry agreement for 3 regions
Turkey	✓		✓					-single MW applies
Viet Nam	✓		✓			✓		-4 regional rates

Source: ILO commissioned national reports.

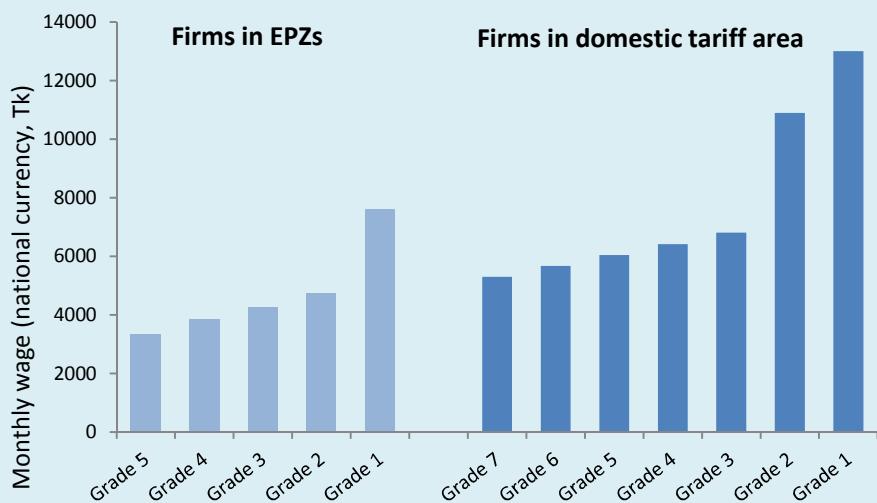
In each country, the minimum wage may have wider repercussions for the wage structure of the garment industry. In Pakistan, the legislation allows for each Minimum Wage Board to fix minimum rates for "all classes of worker in

any grade”, including wage rates covering remuneration for hours, piece-work, overtime and holidays (Praxis Labs-ILO, 2015, p. 29). In Bangladesh, statutory minimum wage protection differentiates between domestic-owned and foreign-owned companies, and is fixed for a range of job grades (see box 7.1). The benefits of this system are that, assuming strong compliance, it precludes employers using a single low-level minimum wage as the basic wage for the majority of its workforce. However, as we consider in section 10, it risks crowding out collective bargaining over pay, unless one considers the tripartite machinery of minimum wage fixing as a form of functional equivalent (see section 4).

*Box 7.1. Fixing statutory minimum wages for job grades: the case of Bangladesh*

In Bangladesh, the garment industry Minimum Wage Board classifies jobs into seven grades and fixes minimum wages for each grade. Grades 1 and 2 cover highly skilled job positions such as pattern master, mechanic and electrician and are set at significantly higher rates than those for grades 3-7, which cover jobs of sewing, cutting, ironing and packing among others. In 2013 the minimum wage rates were Tk5,300 for grade 7 jobs rising to Tk6,805 for grade 3, then Tk10,900 for grade 2 and Tk13,000 for grade 1 (although there is some debate as to whether these high grades are ‘worker’ job grades). This system applies to all woven and knitwear factories with a separate arrangement for job grading in sweater manufacturing (Moazzem et al. 2015: 33-35). Also, as described in section 2, minimum wages for firms in export-processing zones are considered separately: for the garment industry, five grades are recognised and minimum rates range from Tk3,350 (helper) and Tk3,855 (junior operator) to Tk7,600 for the highest skill job (figure 7.1)<sup>54</sup>. These rates are considerably lower than those set by law for firms operating outside of EPZs in the domestic tariff areas.

*Figure 7.1. Minimum wage rates for firms in Export Processing Zones and Domestic Tariff Areas, Bangladesh (2013 data)*



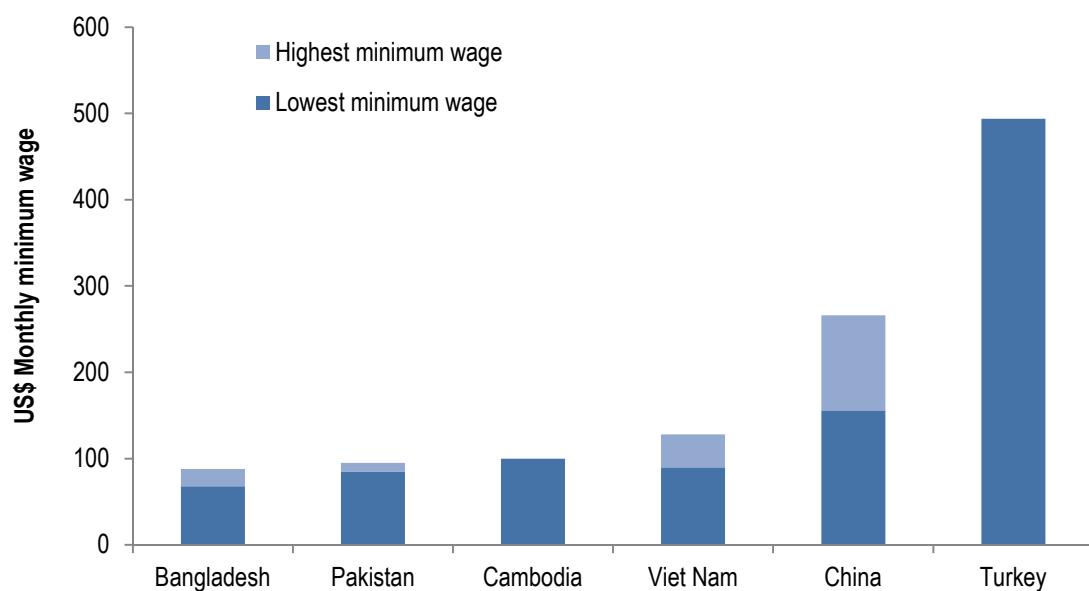
Source: Moazzem et al. (2015: tables 9, 25); authors’ compilation.

Broadly reflecting differences in relative wages among the sample of countries, the value of the statutory minimum wage spans a wide range, but is notably very low in several countries – less than US\$100 per month in Bangladesh (the lowest minimum wage rate) and Pakistan. Figure 7.2 translates monthly minimum wage values as of January 2014 into US\$, drawing on data provided in Luebker (2014). It includes lowest and highest minimum wage levels, where multiple rates are set, in an attempt to capture some of the diversity of minimum wage protection in each country. Thus for China, the lowest and highest values are for Fujian province (Class D) and Shanghai, for

<sup>54</sup> Separate rates are also set for apprentices both for firms in and outside of EPZs.

Bangladesh for Grade 7 jobs and Grade 1 jobs in the garment industry domestic tariff area, for Viet Nam for Region IV and Region I and Pakistan for Baluchistan province and the other three provinces, respectively. Turkey and Cambodia are the only countries where a single minimum wage applies. It is evident there is a wide range of values, from just US\$68 in Bangladesh up to almost US\$500 in Turkey. Also, while there is very limited low-high variation in minimum wage protection in Pakistan and Bangladesh, and to a lesser extent in Viet Nam, there is a significant and notable range in values in China. As we detail in section 10, there are three collectively bargained minimum wage rates in the South African garment industry, but no precise data on rates are available in the national report.

Figure 7.2. *Statutory minimum wages for the garment industry, US\$ January 2014*



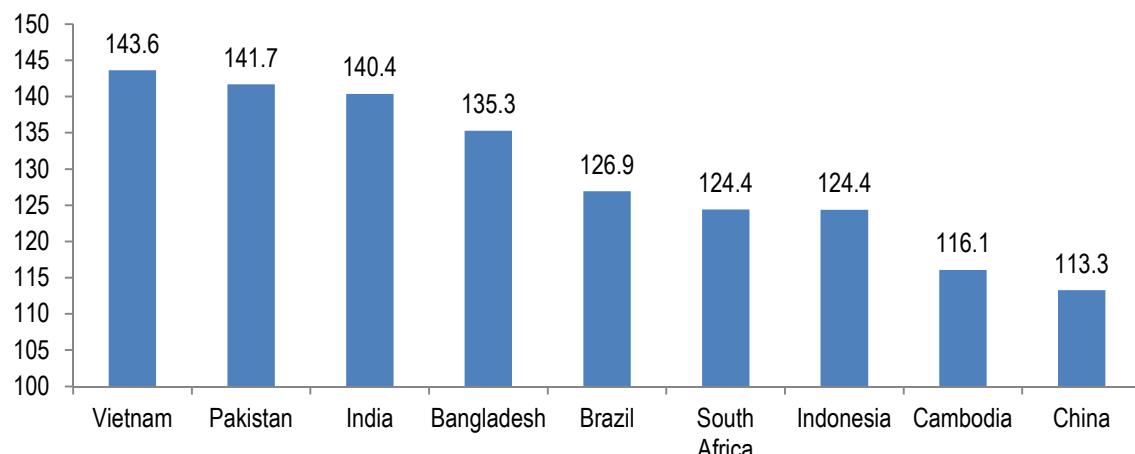
Source: data taken from Luebker (2014: table 1), checked against ILO commissioned national reports; for Bangladesh only MW rates for grades 7 to 3 are included since grades 1 and 2 cover very few workers (see below); authors' compilation; South Africa missing since no data provided for collectively agreed minima.

## 7.2. Uprating the minimum wage and trends in its value

Given that price inflation of goods and services, as well as rental and housing costs, is a persistent feature of most economies, it is surprising that many countries do not institutionalise a regular, annual uprating of their statutory minimum wage(s). Failure to do so increases the risk that workers' minimum earnings fall out of step with the price of a basic basket of goods and services, causing great difficulties and leading to disquiet and potential conflict. Moreover, long periods of no change in the statutory minimum wage are typically followed by short periods of rapid catch-up, in order to salvage the reputation of the minimum wage and re-establish its relevance in the labour market, but at the cost of too great an exogenous shock for employers to respond to and the risk that many may slip out of a habit of compliance with minimum wage rules. Moreover, the absence of an agreed system or timetable for minimum wage revision exposes minimum wage policy to political opportunism, regardless of the situation of the economy. In India, for example, Varkkey observes that, "when general elections approach, ruling governments invariably attempt to entice workers of specific groups by ... revisions to minimum wages" (Varkkey, 2015 p.124).

As we can see in figure 7.3, with the exception of China and Cambodia, our sample of countries experienced a cumulative price increase over the 2000-14 period of more than 24%, resulting from an average annual rate of inflation of around 3-4% during this period; price increases were highest, as much as 40% or more, in India, Pakistan and Vietnam. In this context of relatively medium-level inflation (in all cases under two digits), price increases can, nevertheless, exact sizeable bites on the real value of a minimum wage if it is not regularly uprated. Turkey is excluded from figure 7.3 in order to allow a clearer comparison of inflation differences among the other countries. It is a paradigmatic example of the importance of having periodic revision of minimum wages in a context of high inflation. The equivalent indexed price level for Turkey in 2014 is a staggering 703.7 – the result of double-digit inflation during the first part of the 2000s (as much as 54% in 2001 and 45% the following year). Minimum wage rules provide a partial response by requiring a review of the minimum wage at least once every two years (Bakoğlu and Ensari, 2015 pp.9-10).

Figure 7.3. Price level in 2014 in sample countries (2000 = 100) plus India and Brazil



Source: Authors' analysis from Consumer price index, World Development Indicators, World Bank; missing data for Turkey.

A review of uprating performance for four countries for which the national reports provide data shows that Pakistan, Viet Nam and Cambodia have in recent years managed to implement regular annual upratings: in Pakistan, the five province minimum wage boards have increased rates each year since 2010/11; in Viet Nam the four regions have set uprated minima every year since 2005; and in Cambodia they have done so every year since 2013 (albeit following a long period of stagnation during 1997-2007 when only one uprating was implemented). Bangladesh provides a stark contrast. All 42 industries for which minimum wage boards assume the task of fixing minimum wages suffer from a severe problem of infrequent uprating. It is worth noting the issue in detail, given it can serve as a warning regarding incompetent minimum wage governance.

Since a first industry minimum wage was introduced in Bangladesh in 1985, it has only been uprated four times over a period of 30 years. While one may point to other countries where minimum wage upratings were infrequent during the 1980s and 1990s (Spain for example), in Bangladesh workers have not enjoyed the protection offered by alternative wage-setting institutions, such as collective bargaining, or trade union mobilisation and action against enterprises, to make up for their massive drop in real earnings (see section 9).<sup>55</sup> This appalling institutional arrangement was especially bad up to 2006, following two long periods of what is diplomatically referred to as

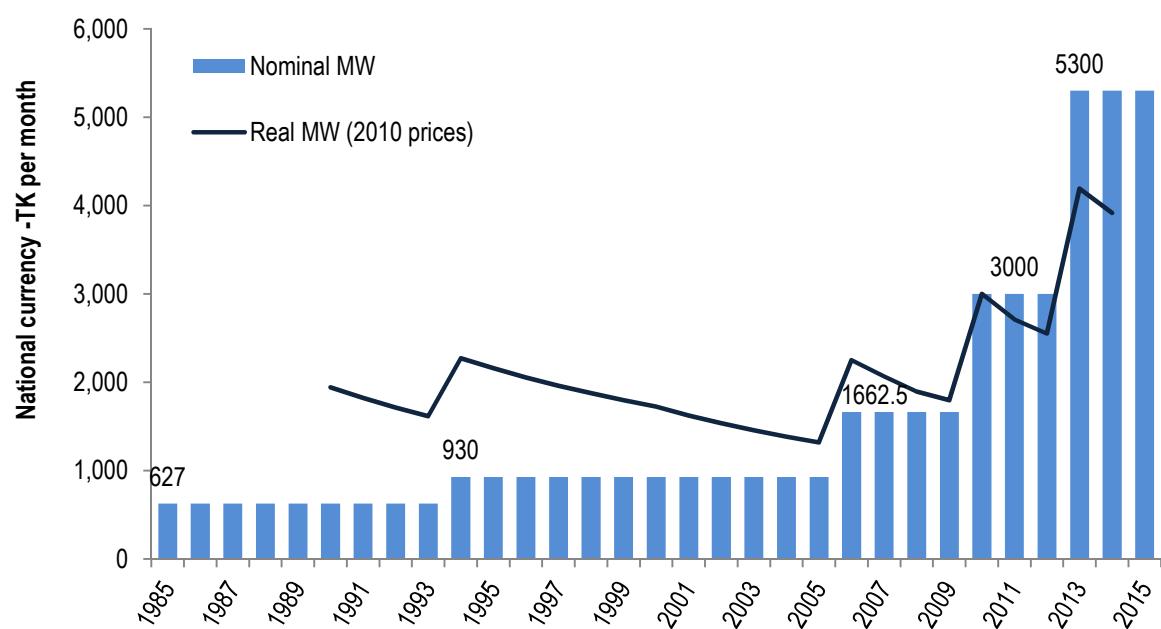
<sup>55</sup> Moazzem and colleagues state that, 'Part of this long hibernation in the [minimum] wage rate is due to a lack of operation of trade union related activities at the enterprise level and thereby a lack of operation of collective bargaining activities' (2015: 46).

'hibernation' in minimum wage fixing (Moazzem et al. 2015, p.33); the longest period was from 1994 to 2006 (the so-called '930 policy', named after the then monthly minimum wage rate for unskilled workers,) when inflation of around 5% per year on average cut into the real level of earnings, almost halving the real value of the minimum wage -- a 42% cut (World Bank CPI data -see figure 7.4). This hibernation period has, therefore, profoundly marked the last decade of wage developments in this and other industries in Bangladesh.

Since 2006, minimum wage upratings have been implemented more frequently, once in 2010 and again in 2013. The 2013 monthly rate for the lowest skilled grade 7 job of Tk5,300 is still far lower than the level of Tk8,200 called for by industry experts (Moazzem et al., 2015, p.40).

Matters are even worse for workers employed in firms in export-processing zones, which to some extent explains the negative pay differential observed in figure 7.1 above; minimum wages have only been uprated twice since the mid-1980s, in 1989 and 2010 (op. cit. p.19). Overall, in the case of Bangladesh, therefore, despite the significant upgrading in real value since 2006 and especially the 2013 uplift, there remains an urgent need to institutionalise regular and comprehensive annual upratings in this and other industries and to revisit cost of living measures.

*Figure 7.4. Trends in the real and nominal values of garment industry minimum wage (lowest grade 7 rate, non-EPZ) –Bangladesh 1985-2015*



Source: Moazzem et al. (2015: figure 9) and CPI data from the World Bank, <http://databank.worldbank.org/data/>; authors' compilation.

### 7.3. The influence of the minimum wage on industry wage rates: the minimum wage as a wage ceiling?

The process of fixing minimum wages, mostly involving a form of tripartite commission or board structure, can play a strong role in shaping pay trends in the garment industry, especially in countries where collective bargaining is weak and/or employer pay practices are underdeveloped, such that there is no differential reward for a worker's experience, skill or performance. One widely observed outcome is that employers will tend to 'mis-use' the statutory minimum wage as the basic rate of pay for most jobs and workers. Instead of treating it as a wage floor against

unduly low pay, it becomes a standard for the industry and displaces management (or joint worker-management) efforts at fixing pay according to the observed combination of skill, qualification, experience and responsibility required for the job and/or attributed to the individual. Even where compliance is weak (see section 8), minimum wage rates can still be significant in shaping conventions and norms about acceptable rates of pay (see also section 3.3 on the lighthouse effect).

In Viet Nam (where compliance is said to be relatively strong, owing in part to its relatively low level, although this has increased since 2010, see section 2), the statutory regional minimum wages are “widely used” and said to have “practically become the basic wage level paid to a majority of workers in the manufacturing industries” (Chi and Torm, 2015, p.36). In some garment companies, in an attempt to establish some kind of wage premium above the minimum wage, employers may top-up workers’ basic pay with supplements, including overtime pay. In others, where employers are unwilling to increase wages, workers have resorted to wildcat strikes; the demand for higher basic pay was the centrepiece of around one third of all strikes between 1995 and 2011 (op. cit.), although it is not clear how effective these strikes were – further research on this issue would be welcome.

In China, evidence from surveyed companies suggests employers do tend to construct pay differentials above the minimum wage floor, with the minimum wage used as an entry rate of pay. For example, packaging workers receive wages in the range of the minimum wage to twice the minimum and sewing workers earn from twice to three times the minimum wage (China National Report 2015, table 15). Further investigation is required to disentangle the determinants of wages but factors associated with experience, skill and performance are likely to play a role.

Where minimum wage fixing spans a range of job grades or skill levels, it can have an even more significant impact on pay, including on pay differentials. In Bangladesh, while the 2010 uprating applied a similar rise to all seven job grades in the garment industry (ranging from 72% to 81% in the nominal rate), in 2013 the Minimum Wage Board purposefully sought to improve pay equity. It applied a sliding scale of minimum wage rises, with a smaller rise for the more skilled job grades, ranging from a 77% rise for the lowest, grade 7, down to a 40% rise for the highest, grade 1 (Moazzem et al., 2015, table 25). The result was a significant compression in wages, from a differential between minimum and maximum grades of 3.1 to 2.5 over the 2006-13 period.

In South Africa, there are essentially three minimum wages for the garment industry, each set by the National Bargaining Council for the industry (described in more detail in section 9). Among compliant firms the minimum wage is sometimes used by employers as the ‘going rate’. In one case study, most workers were found to be paid the collectively agreed minimum wage even though the interviewed general manager acknowledged this level of pay was, “not enough – nobody can survive on them” (Godfrey et al., 2015, p.28). The collective agreement encourages individual employers to introduce incentive pay so that more workers can earn wage supplements, but most experiments with new merit payment schemes seem to have been ineffective (op. cit.). The case of South Africa shows that minimum wage systems that rely on collectively negotiated rates do not necessarily arrive at decent levels of minimum wages for workers at risk of exploitation. A further countervailing institutional arrangement is, therefore, likely to be needed so that the value of a minimum wage in protecting and improving a worker’s income can be continuously evaluated.

#### **7.4. The ‘minimum wage bite’ in the garment industry and problems of gender pay inequality**

A good indication of the degree of influence of the statutory or collectively agreed minimum wage on the industry wage structure is revealed by its value relative to average earnings in the industry, often referred to as the ‘minimum wage bite’. The lack of harmonised international earnings data means we need to refer to national sources, which unfortunately refer to differing definitions (average or median earnings) and sector definition (garment industry or only total manufacturing for example). But this method nevertheless enables us to be fairly precise in referencing the minimum wage, given the complexity of the multiple minima typically applied. As with the previous analysis, our discussion is constrained by the quality of data provided in the ILO commissioned reports made available to

us. Further detailed investigation is absolutely necessary, especially in light of the critical problems of gender pay inequality revealed in some countries below.

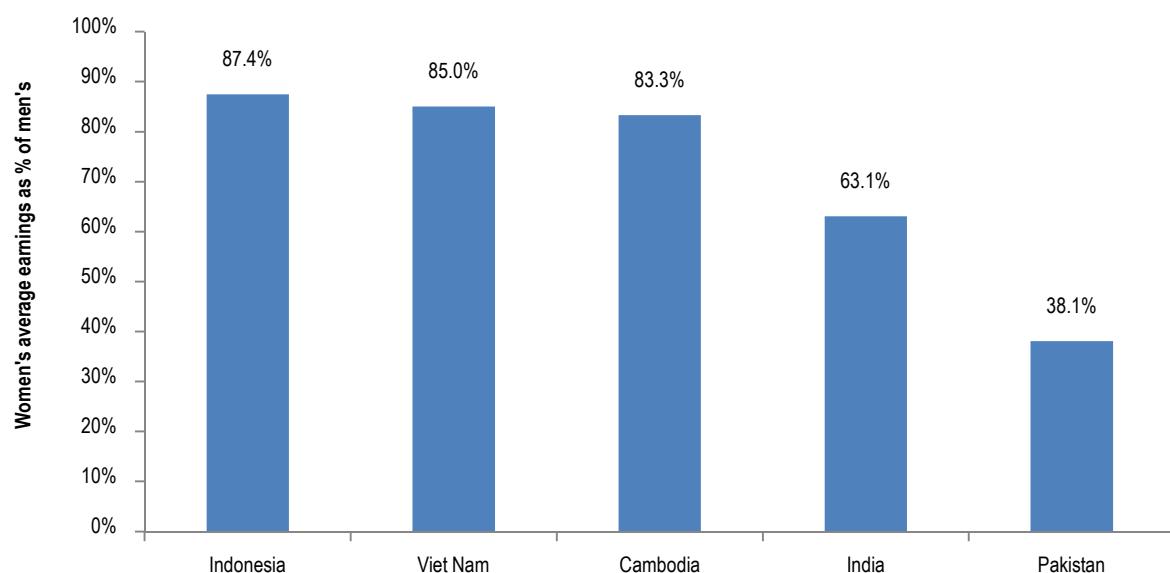
Table 7.2 presents a first set of headline results for three countries for which data were available. While the data are not comparable across countries it is, nevertheless, instructive to comment on general patterns. The minimum wage bite in Viet Nam seems to be extremely low. It must be noted, however, that the 38% figure refers to the lowest regional monthly minimum wage (fixed at 1.4 million VND in Region 4 in 2012); against the higher Region 1 rate the bite would be 54%. The major sites of garment production are Regions 1 and 2 (Chi and Torm, 2015, p.30). Nevertheless, the figures refer to median, not average, earnings (as for Bangladesh and Pakistan) so the figures would be even lower with comparable average earnings – and this despite the large upratings introduced since 2010 (see section 2.2). A far higher ‘bite’ is recorded for Bangladesh and Pakistan, albeit with very different earnings and industry definitions, of around 70% and 80% for men, respectively.

*Table 7.2. The minimum wage bite in the garment industry, national data sources (national currencies) for three countries*

MW	Average earnings:		Median earnings All workers	MW as % of earnings			Notes:
	Male	Female		Male	Female	All	
Bangladesh	3,000	4,488	3,329	66.8%	90.1%		The lowest Grade 7 MW rate
Pakistan	10,000	12,716	4,953	78.6%	201.9%		Manufacturing earnings
Viet Nam	1,400,000		3,725,000			37.6%	The lowest Region 4 MW rate

Source: ILO commissioned national reports; authors' compilation.

*Figure 7.5. Gender pay ratio among wage and salaried employment in the garment, textiles and footwear industry, five countries, 2012-14*



Notes: 2012 data for Cambodia, India, Pakistan, 2013 data for Viet Nam and 2014 Indonesia.

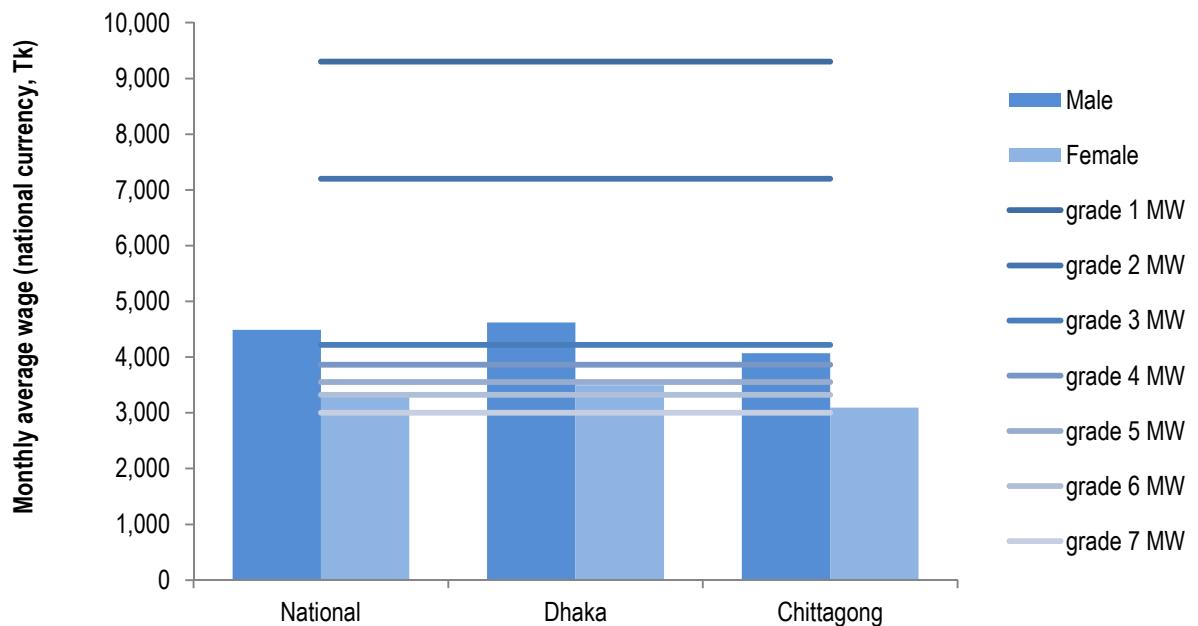
Source: Huynh (2015: annex table 1) –data based on national Labour Force Surveys; authors' compilation.

The data reveal a striking disparity of experience for women workers. In Bangladesh average female earnings in the garment industry are only marginally above the lowest minimum wage rate for Grade 7 jobs. *But in Pakistan, the situation is critical*; women's average earnings in the manufacturing sector in 2013/14, according to the data in the national report, were only half the level of the statutory minimum wage set at the level of 10,000 Rs that year by all five province boards. The data are confirmed by findings presented in Huynh (2015) that show Pakistan has by far the largest gender pay gap in garments, textiles and footwear industries -- around 65% (2012/13), compared to approximately 35% in India, 15% in Viet Nam and less than 10% in Cambodia and Indonesia (see figure 7.5).

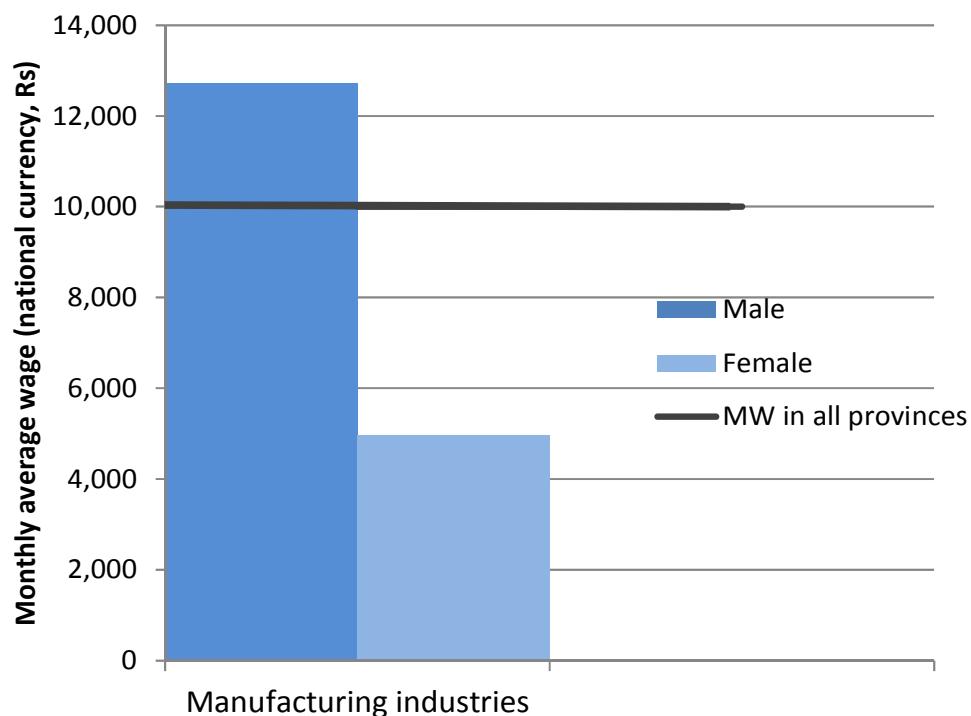
We consider the more detailed patterns of minimum wages and garment workers' earnings for Bangladesh, Pakistan and Viet Nam in Figure 7.6, again drawing on available data from the commissioned national reports.

Figure 7.6. Minimum wages relative to average industry earnings

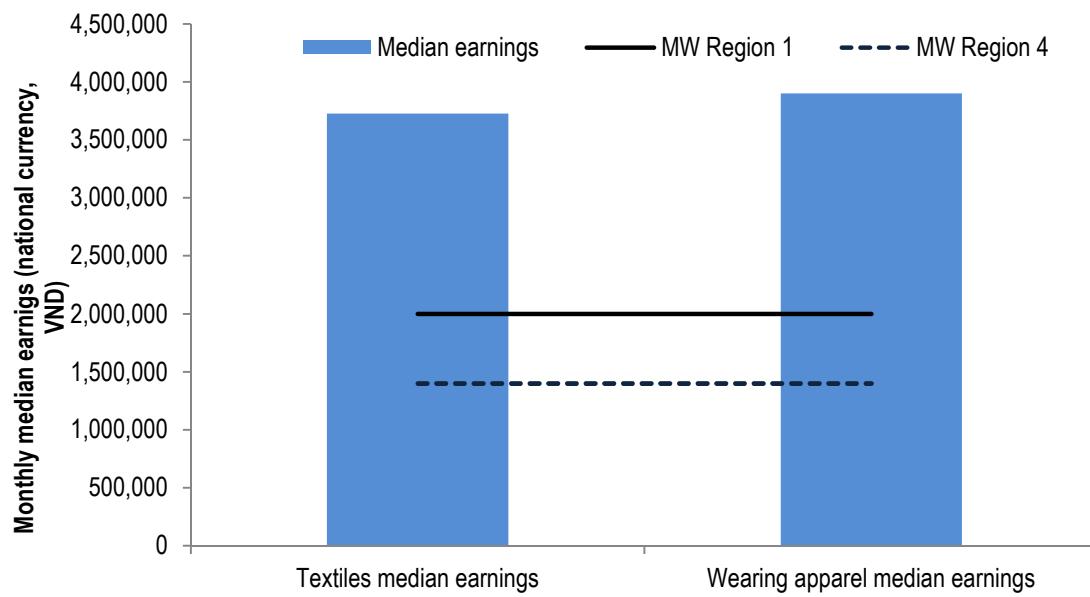
a) Bangladesh –relative to garment industry earnings



b) Pakistan –relative to all manufacturing industry earnings, 2013-14



c) Viet Nam –relative to industry median earnings



Sources: a) Bangladesh Bureau of statistics Wage Rate and Earnings of Non-Farm Workers (presented in Moazzem et al. 2015: table 22);  
b) Labour Force Survey, Government of Pakistan (2013/14: table 30), from 1/7/13 to 30/6/14, <http://www.pbs.gov.pk>; authors' compilation;  
c) VES earnings data 2012 presented in Chi and Torm (table 16) and minimum wage data (table 1) – authors' compilation.

In Bangladesh, the minimum wage effect is complicated by the multiple minimum wage rates set for the garment industry (for job grades 7 to 1, in order of skill required). At the national level, 2010 data show that average garment industry earnings were Tk4,488 for men and Tk3,329 for women. Compared against 2010 minimum wage rates for the industry, men's average earnings exceeded minimum wage rates set for the lower grade 3-7 jobs (although not in the region of Chittagong), reflecting either higher actual wages for these job grades or opportunities to earn higher pay in grades 1 and 2, which would have pulled up the overall average. For women, the situation is very much inferior to that of men; women earned on average just 74% of men's earnings in 2010. Nationally, women employed in the garment industry earned just Tk3,329 in 2010, which was around the level of the minimum wage set for the second lowest job grade, grade 6, at Tk3,322. One reason for the greater concentration of women in the lowest job grades is likely to be practices of sex segregation that crowd women into the low paid jobs. Another reason may be women's greater vulnerability to management manipulation of job grades, an issue we consider in section 8. It would be very instructive to update the picture to capture the gender effect of the significant 2013 uprating. One might expect a compression of the gender pay gap, especially given the bottom-weighting of minimum wage rises across the seven job grades.

As noted, women workers suffer even more extreme gender pay inequality in Pakistan. Data for the garment industry are not available, but average earnings for all manufacturing industries reveal a massive gender pay gap: in 2013-14 men earned on average 12,716 Rs and women just 4,953 Rs per month, which is only 39% of men's average earnings. Even more remarkably, while male earnings slightly exceeded the monthly minimum wage of 10,000 Rs, women's earnings were only half the statutory level of pay (figure 7.6b). A major factor that explains women's very low and illegal earnings is their concentration in informal enterprises and among home-workers (Praxis Labs-ILO, 2015, p.42). Indeed, aside from the agriculture sector, manufacturing is the lowest paid sector for women workers in Pakistan (compared to average earnings in all industries of 8,228 Rs), while for men it ranks around the average of all industries.

## 8. Actual pay practices and problems of compliance

While employers are obliged to adapt to the statutory duties imposed by minimum wage regulations, they are free to design the particular form of payment practices. In a low-wage industry like garment manufacturing, the uprating and enforcement of minimum wage rules will undoubtedly influence the type of payment practice and the mode of application. For example, employers may adapt their pay practices in order to compensate for the additional labour costs imposed by a minimum wage, especially in response to a large uprating. On the other hand, however, perhaps under pressure from workers or their trade unions, or the need to recruit and retain, employers may seek to supplement earnings where a minimum wage is deemed too low, whether from an equality or labour market allocation perspective. This section draws on the empirical evidence from the ILO commissioned national reports for seven countries. Two common practices that we highlight in the first part are overtime pay and piece rate pay. The second part of our analysis concerns evidence of non-compliance.

### 8.1. Overtime and piece rate pay practices

Judging by the empirical case-study evidence, all seven selected countries, to a greater or lesser extent, make use of overtime and piece rate payment practices (table 8.1). The clearest case of a bundling of payment practices is in China, where the evidence suggests garment companies tend to use a hybrid payment system comprised of basic pay, piece rate pay and overtime pay, roughly in a 30-30-30 ratio, with the residual made up of food subsidies and seniority pay (China National Report, 2015, table 14).

Table 8.1 Pay practices and non-compliance in the garment industry in seven countries

	Time rates	Piece rates	Overtime pay	Unpaid conditions?
<b>Bangladesh</b>			1.5 x basic rate (statutory)	Extensive -unpaid holidays and overtime -no mechanism to match job grade with worker's skill and rate of pay
<b>Cambodia</b>	✓	✓	✓	-excessive overtime demanded (legal maximum of 2 hours per day)
<b>China</b>	✓	✓		No available information
<b>Pakistan</b>		✓		Extensive -endemic underpayment linked to piece rate pay and home-based work of women
<b>South Africa</b>	✓	✓		Medium -union resistance is sometimes effective
<b>Turkey</b>	✓		1.5 x basic rate (statutory)	Common - miscalculation of overtime wages - double book-keeping of wages means large part of wage bill is unregistered
<b>Viet Nam</b>		✓		--

Source: as revealed by fieldwork in each country (ILO commissioned national reports) and Lally (2005) for Turkey.

Because long working hours and low pay are endemic in the textile and garment industries in the sample countries, overtime pay often constitutes a critical supplementary payment for workers. The rate of overtime pay may be stipulated in legislation (as in Bangladesh for example) or in collective agreements, or simply follow norms/conventions of the enterprise. As with minimum wage rules, however, the force of a statutory overtime pay premium does not guarantee employer compliance. In Bangladesh, despite its statutory underpinning, employers are known to withhold overtime payments in a perverse attempt to discourage workers from switching to other factories (Moazzem et al., 2015, p.30).

Piece rates present a major challenge to workers' wage justice in the garment industry, since they can easily be redesigned by employers to balance out the additional costs of minimum wage regulation. A business strategy to pay workers by the piece may make rational sense from the point of view of matching worker productivity with a share of the revenue earned per unit product. However, it absolutely conflicts with the accepted labour standard of designing payment practices to meet a worker's social needs combined with their economic contribution.

In many factories, the ILO-commissioned empirical research uncovered a variety of employer strategies for coping with the gap between business-led piece rate pay and compliance with minimum wage rules. In South Africa, the collective agreement (for non-Metropolitan areas) does not prohibit piece rate pay, but the trade union (SACTWU) does oppose its introduction on a factory-by-factory basis and has had some success in persuading employers to revert to time-based payment practices (Godfrey et al., 2015, p.36). The problem with piece rate pay is the question of what to do when 40 hours of output do not generate a minimum wage for the week. The hard-nosed, opportunistic employer strategy is to sack these ostensibly under-performing workers. In Viet Nam, for example, the empirical evidence found the following:

"In case the workers cannot achieve the minimum wage level, the company will compensate their monthly salary to the minimum wage level. Yet, the common practice is that such compensation will only last for at most three months. If after three months the workers still cannot reach the target, s/he will have to resign." (Chi and Torm, 2015, p.30).

In Cambodia by contrast, the case studies found that employers would routinely top up a worker's weekly wage where the level of output paid per piece fell below the minimum wage. Moreover, one firm recognised that certain

types of garments were unsuited to piecework and had shifted the workers onto regular time-based wages (Reeve and Hwang, 2015, p.36).

Other pay practices may also be used to top-up workers' incomes, although data on usage is lacking. In Turkey, workers covered by a collective agreement were entitled to a monthly bonus (equivalent to ten days salary), as well as a travel allowance, marriage payment and, especially important, a contribution towards heating expenses (Bakoğlu and Ensari, 2015, pp. 40-1). Also, in Viet Nam, garment industry employers are said to routinely provide various forms of supplementary income (Chi and Torm, 2015, p.32), although again this must be interpreted in light of the country's low minimum wage. Seniority and attendance payments offered by some garment industry employers are reckoned to amount to around 6% of the statutory minimum for the highest paying Region 1 where most garment firms are found. The national report authors claim that free lunches are commonly provided, as is an annual bonus for the national Tet (New Year) festival, which approximately amounts to a 13<sup>th</sup> month wage (op. cit.). We have not had chance to corroborate these views against those of either workers or unions and await further research on the issue.

## 8.2. Non-compliant payment practices

The industry research documented in the National Reports suggests that the nature of the problem of non-compliance with minimum wage rules varies by country quite significantly. Issues include:

- straightforward underpayment;
- the undervaluation of a worker's job grade or skill level;
- formal actions to institutionalise underpayment;
- purchaser pressures down the supply chain; and
- outsourced homeworking.

It is worth noting at the outset that the scale of the problem also varies. It would appear less of an issue, for example, in Viet Nam. Among all manufacturing, employers' non-compliance is estimated to vary from 15% (in the wood industry) to less than 1% (tobacco products), with around 10% for the textiles industry and 9% for wearing apparel (Chi and Torm 2015 Table 5). As we saw in section 3, these low rates reflect international evidence showing Viet Nam has relatively high compliance with minimum wage rules. A key factor to bear in mind again, however, is the low value of the minimum wage in Viet Nam, at just 38% of median earnings in the garment industry (see section 7).

Evidence of underpayment is clearly documented in the report for Pakistan. The research evidence suggests that poor compliance with the statutory minimum wage is, in some cases, underpinned and defended by employers, despite such practice being obviously illegal. Interviews with employers in Pakistan revealed the outlandish perception that "the fact that some workers are willing to accept wages below the statutory minimum was evidence that the wage was adequate" (Praxis Labs-ILO, 2015, p.42). Discussions with managers at five large-sized, export-oriented garment factories in the Punjab province revealed a consistent practice of paying workers in cash on a piece-rate system. Again, non-compliance was openly acknowledged:

"Some [managers] admitted that on the lower end of the scale, workers were paid around 10,000 Rs per month (2,000 Rs less than the current minimum wage). Others insisted that even for workers whose productivity did not reach the amount required to earn the monthly minimum, the factories 'topped up' their pay to ensure that they are paid at the statutory minimum level." (Praxis Labs-ILO, 2015, p.43).

In Bangladesh, because of the extended influence of minimum wage setting, stretching up to seven job grades in the domestic tariff industry (see box 7.1 above), many employers seek to avoid paying the higher minimum wages. The empirical research uncovers two forms of non-compliant behaviour (Moazzem et al., 2015, p.39). First, employers classify workers into informal A, B and C categories, ostensibly to match with probation/training periods, but in practice used as a means of deferring proper payment of the minimum rate for the job grade for as long as possible. Such categories are not stipulated in the formal collective agreement; they tend to be agreed orally with individual workers and fall entirely under the prerogative of the individual employer. Secondly, the employer falsely manipulates the matching of job types with job grades and therefore avoids paying workers the appropriate higher minimum for their job grade. Box 8.1 provides real-world examples from workers at the case-study factories in Bangladesh. Each case shows a failure of workers to sustain their skill value by moving from one place of work to another; workers have ID cards but the job reference is generic rather than stating the specific job grade. This underscores a real lack of wage bargaining power on the part of workers, which entirely reflects the absence of collective bargaining and union presence in these workplaces (Moazzem et al., 2015, p. 40).

*Box 8.1. Employer practices of non-compliance: worker experiences of underpayment in Bangladesh*

Empirical research conducted by the authors of the Bangladesh National Report uncovered evidence of grade manipulation and underpayment at garment factories. Among 12 workers interviewed, 7 said their written contract downgraded what had been agreed orally at the point of hiring. The following individual examples are illustrative.

Worker 1 has five years' work experience and has been with the current factory four months. In her previous job she worked as a 'junior swing operator' and earned a Grade 5 wage. When hired at the current factory, she was assured orally she would be paid as a 'junior swing operator'. However, her written contract subsequently defined her job as the lower, grade 6 'normal swing operator' and paid 5,600 Taka per month. The statutory minimum wages are 5,678 Taka for grade 6 and 6,042 Taka for grade 5 jobs. So in fact she is doubly penalised: paid less than the minimum wage for the defined job grade and classed in a job grade below the one orally agreed at the point of hiring.

Worker 2 has seven years' work experience and has worked at the current factory two years. He previously worked as a 'senior swing operator' (grade 3) and was told on hiring (further confirmed in a written contract) he would be paid as a senior swing operator in the current factory. However, the employer has informally categorised this worker as Grade B (on a scale of A to C) and uses this to justify the payment of just 5,800 Taka per month, far lower than the statutory minimum wage for grade 3 of 6,805 Taka.

Worker 3 has five years' previous experience and joined the current factory with the oral assurance of being paid as a 'junior swing operator' (grade 5). However, she has been paid at only a grade 7 level, 5,500 Taka per month; statutory minima for grades 5 and 7 are 6,042 and 5,300 Taka respectively.

Source: Moazzem et al. (2015 table 27).

In South Africa, the problem of non-compliance has developed into a quasi-institutional problem. Some of the complexity of the issue is detailed in box 8.2. Many foreign-owned garment employers have openly defied the collectively agreed, binding minimum wages, dismissed a legal challenge and won a compromise wage agreement that formally facilitated the payment of sub-minimum wages. It is notable (and worrying) that these non-compliant firms were fully registered members of the local employers' organisation (Godfrey et al., 2015, pp. 30-32).

The revised agreement confuses the landscape of compliance with minimum wage rules. The allowance of temporary, sub-minimum wage payments described in Box 8.2 has not been policed and has resulted in a loss of public awareness, even among the main stakeholders as Godfrey et al. (2015) found in his research:

"As one manufacturer noted, if you had to ask the NBCCI [wage bargaining council], SACTWO [trade union] and the Apparel Manufacturers of South Africa [the main employers' body] what the minimum wage currently was you would get three different answers. ... In one case, a manufacturer had given the actual wage increase determined at NBCCI negotiations for the last two years but off a base of 70% [of the minimum wage]" (Godfrey et al., 2015, p.33).

In Turkey, minimum wage non-compliance appears to be a known employer practice, referred to as 'double book-keeping'. Employers formally register part of a worker's wage, or part of the employed workforce, meaning an unknown fraction of the wage costs are unregistered. Bakoğlu and Ensari (2015, p.38) claim this practice is 'quite common' in the west regions of Turkey and less so in other regions, thereby creating conflicts among employers in the industry. The scale of the problem is captured by estimates of the size of the unregistered workforce in the Turkish garment industry, which varies between 1 and 2 million, compared to a total number of around 940,000 registered workers (idem. p.30).

#### *Box 8.2. Legitimising employer non-compliance? The case of South Africa*

During the 1980s and 1990s, Chinese and Taiwanese garment producers were encouraged to locate in the KwaZulu-Natal region of South Africa. They benefited from low wages in the region at the time, as well as government subsidies designed to support the geographically dispersed location of industry.

However, the 'decentralisation subsidies' ended in the late 1990s and, from 2003, a high level binding minimum wage was fixed by the bargaining council (NBCCI for non-Metropolitan areas). Evidence of growing non-compliance among these firms built up to the point in 2010 when the bargaining council took legal action against 385 alleged non-compliant firms, covering approximately 20-25,000 workers.

But the employers responded en masse to this attempt at legal enforcement. In Newcastle, over 100 non-compliant firms, organised by the Chinese Chamber of Commerce in Newcastle, locked out and temporarily laid off around 7,000 workers.

Despite trade union (SACTWU) opposition to a compromise agreement, the Chinese and Taiwanese companies won a new deal that allowed firms to pay less than the collectively agreed minimum wage to be uprated to full compliance over time -70% at first, then 90%, then 100% over a period of 16 months.

Source: summarised from Godfrey et al. (2015 pp.30-32).

The case studies in some of the National Reports also highlight the ambivalent role of retail and intermediary organisations, which are responsible for the purchase of garment products from our sample countries. In South Africa, one of the case studies made clear the position of indifference adopted by many of the large retail purchasers towards compliance with the law. The manufacturer said there was no possibility of price negotiation; 70-80% of the price goes towards wage costs and the profit varies from 0 to 5%. This particular clothing manufacturer was unionised and yet non-compliant with the collectively bargained minimum wage. Godfrey et al. reports the manager's views as follows:

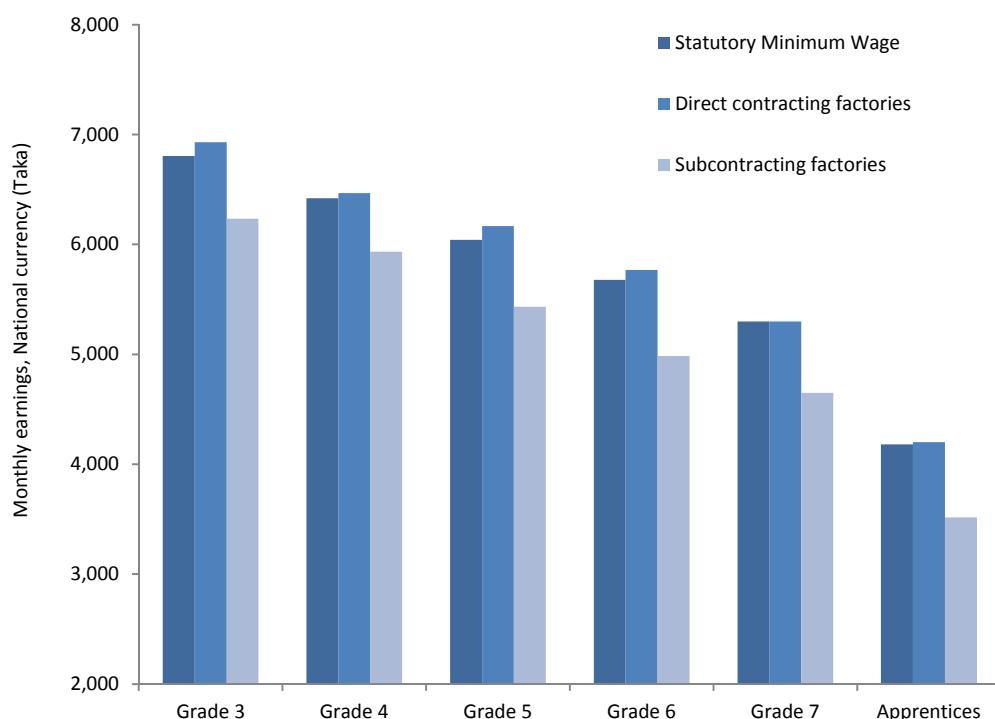
"he says he hears about increases in the wage rates from the design houses – but [the design houses] are not concerned about whether he is compliant. In any event they should be aware that the prices they are quoting him could only be met by a manufacturer who is paying less than the prescribed minimum wage" (Godfrey et al., 2015, p.37).

Subcontracting and use of homeworkers is a final management practice associated with non-compliance with minimum wage rules. It raises considerable challenges for enforcement. First, it must be recognised that where

subcontracting involves family business units, labour law in many developing countries is unlikely to apply, thereby removing significant numbers of garment workers from any statutory protection for the minimum wage and other conditions. In those countries, such as China, where the state seeks to pursue a policy of a rising minimum wage to address household poverty, it is clear that one reform must be to labour law (China National Report, 2015, pp. 4-5).

All the empirical evidence produced for this research project supports the claim that the further down the supply chain one looks, the worse the terms and conditions of employment. In Bangladesh, for example, estimates of wage rates for formally recognised job grades in garment factories uncover a major discrepancy between subcontracted and direct contracting garment firms (Moazzem et al., 2015, Table 28). Figure 8.1 reproduces the findings. Non-compliance seems endemic among these subcontracting factories, with underpayment exceeding 10% among the lower grades 5, 6, 7 and apprenticeship.

Figure 8.1. Estimated wages at subcontracting and direct contracting garment factories, Bangladesh

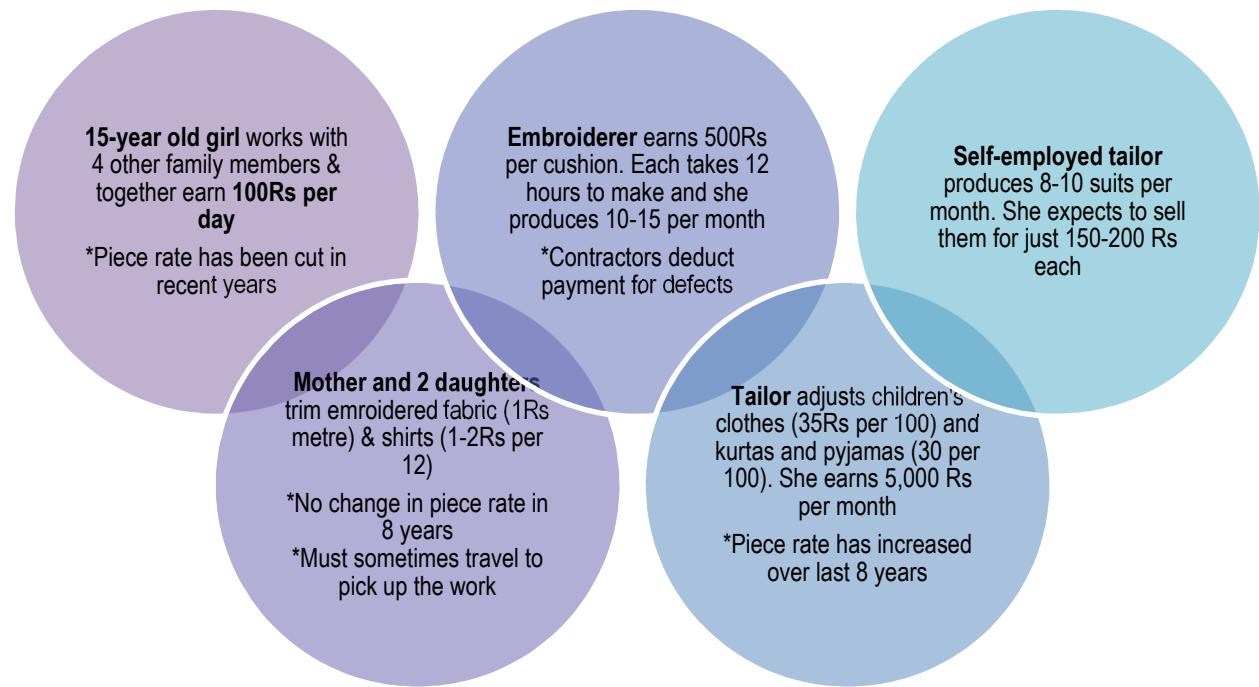


Source: adapted from Moazzem et al. (2015: Table 28).

Fieldwork conducted for the Pakistan report went further than in the other commissioned national reports in a welcome effort to reveal exploitative practices among the furthest reaches of the garment supply chain -- among homeworkers. In a series of visits to workers' homes by the research team in the Karachi area of Pakistan, it was found that all home-based workers were paid on a piece rate basis and *all were remunerated at a level far below the statutory minimum wage*. Figure 8.2 presents pen portraits of individual cases of worker underpayment. In addition to this blatant underpayment, each told a story of further humiliation. In one case, a 15-year old girl reported a reduction in the piece rate in recent years – from 30-35Rs per dozen of beading on cuffs and collars to 20-25Rs. In another, a woman revealed contractors would sometimes find defects in her work and make deductions from the payment. All five women interviewed lacked any form of social security protection; they did not have national identity cards, and therefore were unable to access alternative employment and training schemes, and

could not register for the Benazir Income Support Programme or other government social security schemes (Praxis Labs-ILO, 2015, pp. 51-55).

*Figure 8.2. The underpayment of women in Pakistan's home-based garment industry*



Source: Praxis Labs-ILO (2015 p. 53-54); authors' compilation.

The 'middlemen' – the contractors who provide work to homeworkers – exercise significant power, through prohibiting work with other contractors (exclusivity condition), fostering competition among homeworkers for work and imposing penalties or withdrawing work if a homeworker complains.

"Women in the same geographic area are likely to source work from the same contractors, and contractors sometimes foster competition among the women to lower wage rates. Several home-based workers (HBWs) reported that contractors engaged in retaliatory behaviour, and would suspend distribution of work if they tried to negotiate wages. ... Contractors sometimes make unilateral deductions in pay for defects in work, often without informing the HBW or giving her a chance to rectify the defect. ... The power imbalance between individual HBWs, who need work, and contractors who distribute work means that HBWs will sometimes tolerate exploitative and abusive behaviour in order to maintain their ongoing livelihoods." (Praxis Labs-ILO, 2015, pp. 56-57).

Nevertheless, there are hopeful signs that homeworkers in Pakistan are collectivising and seeking to improve their working arrangements, an issue we explore in the next section.

## 9. The role of unions and collective bargaining

The seven countries divide according to the dynamics of their industrial relations. In Viet Nam, Cambodia and Bangladesh, despite seemingly weak organisation of trade unions and lack of formal institutionalisation of collective voice (bargaining presence in workplaces or industry level, etc.), industrial relations are a major expression of worker frustration with the status quo, particularly against the poor working conditions. In Viet Nam, the significance of strike action as the tool to improve wages is described as 'collective bargaining by riots' (Chi and Torm 2015 p.36). Garment industry strikes and collective stoppages in Viet Nam occur more than in other industries; one estimate suggests the industry accounted for almost half (40-45%) of all nationwide strikes (Cam 2014, cited in Chi and Torm 2015 p.3), and another that it accounted for more than one third (37%) of reported strikes during the two decades from 1995.<sup>56</sup> In Cambodia, garment industry workers and their unions participated in many demonstrations and nearly 300 wildcat strikes in the last two years, largely organised around the goal of improving the minimum wage, but also to tackle employer non-compliance (Reeve and Hwang 2015 p.31). In Bangladesh, the garment industry has been at the centre of waves of strikes and worker protests, as well as employer revenge tactics of harassment, redundancies and discrimination against protesting workers.

The high intensity of strikes and protests is directly connected with low wages, poor working conditions, tiers of unmonitored subcontracting and a range of illegal pay and employment practices, and which is driven by the global pressures of cost competition and the marketing of a fast-fashion culture that fuels short-term production runs. Nevertheless, there are significant differences in the current willingness of country stakeholders to address the issue and to seek new institutional mechanisms to build both industrial relations peace and improved working conditions. So in this section we consider a very significant institutional experiment underway in Viet Nam in the form of a pilot collective agreement for the garment industry, and we also examine an alternative collective organisation that represents homeworkers in Karachi, Pakistan.

The overall aim of this section is to document the presence and role of trade unions in the garment industry in the seven selected countries, describe the weak mechanisms for collective bargaining and consider the effectiveness and reach of tripartite mechanisms of minimum wage fixing. We also consider alternative institutional responses to problems of conflict and poor working conditions in the garment industry.

### 9.1. Trade unions, collective bargaining and conflict

Among the sample of countries, trade unions and collective bargaining over wages play a varying role in the garment industry – from a negligible formal presence in Bangladesh and Pakistan to a strong role in South Africa and Viet Nam (Table 9.1).

In Bangladesh, there is a limited presence of trade unions within garment industry establishments; unions cover only 2% of factories in the ready-made garment sector and 14% in the other factories. While union leaders record a relatively large number of trade unions for the industry -- up to 300 unions in one estimate -- for many reasons their real presence and effectiveness is greatly diminished. Reasons include: employers prohibiting their presence and activity in the factory, accounting for the displacement of an estimated 144 unions; the closing down of unions; and the invalidation of around one in five unions for being initiated by the factory owner (so-called 'yellow unions'). As such, only around one in ten registered trade unions can be said to be active and effective in directly influencing wages the industry (Moazzem et al., 2015, p.42).

In South Africa, the clothing sector benefits from one, very well organised trade union (SACTWU), which emerged out of a legacy of regional trade unions and regional collective bargaining structures developed over the 1970s and 1980s (Godfrey et al. 2015). Also, in Viet Nam, national union density is relatively strong – around one third of

<sup>56</sup> According to analysis of the VGCL 'Internal Strike Report', cited in Chi and Torm (2015: 26).

workers (32%) and two fifths (42%) of enterprises are unionised (2011 data), amounting to some 8.5 million workers in 2014 – and unions are said to have a strong ambition to increase membership levels (Chi and Torm 2015). However, in the garment industry the share of enterprises with recognised unions is very low: just 346 member companies of the employer body VITAS were unionised in 2013 and 6% of all registered textile companies (op. cit. p. 27).

Table 9.1. Data on unions and collective bargaining in the garment industry, selected countries

	Number of unions	% of factories unionised	Collective bargaining at industry or enterprise level
<b>Bangladesh</b>	10 unions in RMG factories 29 unions in non-RMG factories	2.2% (10/447 RMG) 14% (29/206 non-RMG)	enterprise level <i>Negligible</i>
<b>Cambodia</b>	2,900 (2013 data)	Approx. 3 in 5 workers	enterprise level <i>Negligible</i>
<b>China</b>	--	--	examples of sub-province multi-employer agreements
<b>Pakistan</b>	--	--	enterprise level <i>Negligible</i> <sup>1</sup>
<b>South Africa</b>	1 union, very well organised	--	legally extended industry agreement with three regional areas –Metropolitan, Non-Metropolitan & country areas in Western Cape
<b>Turkey</b>	5 unions with more than 1,000 members (plus 11 small unions)	Approx. 10% union density (of registered workforce)	enterprise level (plus significant 'group level' agreements, the largest with Teksif union covers approx. 15,000 workers)
<b>Viet Nam</b>	--	6% of all registered textile enterprises	enterprise level (plus pilot industry agreement covering 140,000 workers) <i>Low coverage</i>

Note: RMG=ready-made garments. 1. There is no central registration of collective agreements in Pakistan.

Source: ILO commissioned national reports; authors' compilation.

In Bangladesh, enterprise collective bargaining is underdeveloped. The first formal efforts at undertaking enterprise bargaining in the garment industry only began in 2011. Nevertheless, the authors of the ILO-commissioned National Report purposefully interviewed a sample of workers with experience of union-related activities in garment factories in order to build an impression of real-life practice. The picture is one of inertia and non-constructive dialogue. In Pakistan, while few collective agreements exist, the empirical evidence suggests that those employers who do sign an enterprise agreement are more likely to comply with minimum wage rules and to build on the wage floor to set higher wage rates for the various job grades (Praxis Labs-ILO, 2015, p.37).

South Africa presents a starkly contrasting picture, with the effective consolidation of previously regional collective agreements organised around a National Bargaining Council that sets agreements for three regional areas (Table 9.1). Moreover, all three agreements have usually been fully extended by government, ensuring full coverage. However, the legal basis for extension to employees in the KwaZulu-Natal province was successfully challenged in recent years and this follows an emerging pattern of employer opposition in other industries (Godfrey et al. 2015 p.32). There is, moreover, a difference between *de jure* and *de facto* coverage of the collective agreements. 2009 data collected by the National Bargaining Council for the clothing industry suggests more than half of firms (covering around one in four employees) are non-compliant with the agreement's terms and conditions (53% and 26%, respectively). A key reason relates to the sudden abolition of location ('decentralist') subsidies and repeal of

past sectoral wage determination, which made the payment of the new extended industry rates difficult and the option of operating 'under the radar of the bargaining council' a pragmatic option (Godfrey et al., 2015 pp., 11-13).

In Viet Nam, aside from the ongoing collective agreement being piloted for the garment industry (see section 9.3), enterprise bargaining is quite rare, and where it is present the quality of agreement is low. The government reckons around half of unionised garment companies have a collective agreement, but does not collect data for the industry as a whole (Chi and Torm, 2015, p.28). A similar situation prevails in Cambodia, where, to date, some 425 collective agreements have been registered across the garment industry (2003-14), but many do no more than replicate minimum standards set out in the legislation; only a small number include a wider base of entitlements, including bonuses, working hours, health and safety and overtime (Prake 2015, cited in Reeve and Hwang, 2015, p.27).

The absence -- or weak presence -- of formally recognised trade unions and processes of social dialogue through collective bargaining provokes a high risk of conflict, as workers seek alternative expression for their collective voice. We see this situation most clearly in Bangladesh, where the social dialogue vacuum has had serious, cumulative repercussions for both the capacity of workers to sustain and improve their standard of living and for industrial relations stability. In the absence of adequate arrangements for dialogue between workers and employers, the Bangladeshi garment industry has witnessed many, many instances of industrial relations conflict. Employers have retaliated with reported instances of harassment, intimidation, excessive workloads, threats and compulsory redundancies directed against workers involved (Moazzem et al., 2015, p. 44). The case of Bangladesh points to the difficulties of building new, positive wage-setting institutions after years of repression of trade unions:

"An effective collective bargaining agreement [for the garment industry] is likely to have a positive impact on minimum wages at all levels, which could ensure pay equity. The current experience indicates that it is not so easy to establish an effective and functional collective bargaining agreement at the enterprise level unless appropriate measures have been taken to address the challenges and risks to be involved in trade union related activities. This is not so easy to mitigate under the existing situation where workers' voice and demands regarding their rights and entitlements are often interpreted differently. ... The lack of collective bargaining processes perhaps has the worst adverse impact on [employer] irregularities among the lower grades mainly through a lack of initiative to improve workers' awareness regarding their rights and responsibilities" (ibid. p.47).

## 9.2. Social dialogue and conflict in minimum wage fixing

One might make the argument that the tripartite negotiation of minimum wages to some extent acts as a functional equivalent to the kind of social dialogue, conflict and negotiation that might otherwise occur through collective bargaining. This may be especially persuasive in countries where minimum wage fixing focuses on specific industries and extends beyond the single rate to fix multiple minimum rates for different job grades.

However, in our sample of countries this argument has no weight. In Bangladesh there are questions about the neutrality of the tripartite membership of the Minimum Wage Board for the garment industry, particularly regarding worker representatives (from formal and/or informal trade unions) who may feel pressured to reach a consensus decision with the employer and government representatives (ibid. p.40). The Board is said to be "mainly guided and determined by the government" (ibid. p.46). For example, despite three rounds of discussions leading to uprating of the minimum wage rates for the industry (in 2006, 2010 and 2013), the rates were "ultimately recommended as per the intention of the government" (ibid. p.46).

In Pakistan, problems centre around the process of appointing representatives to the regional Minimum Wage Boards. Surprisingly, the national report found that neither the trade union federations (Pakistan Workers' Federation and National Trade Union Federation) nor the employers' federation (Employers' Federation of Pakistan) had ever been consulted by a provincial government in relation to appointment to a Minimum Wage

Board (Praxis Labs-ILO, 2015, p.40). The apparent result is a board biased towards the prevailing government view.

“Although there are slight variations of composition of the Minimum Wage Boards (MWBs) between provinces under the legislation, government representatives and sympathetic members tend to outweigh representatives of employers or employees. In Punjab, three out of five permanent members of the MWB are essentially representatives of the government: the Chairman, the Director of Labour Welfare, and the independent member. In ICT, Balochistan, KP and Sindh, two out of four permanent members are government leaning, including the Chairman. ... The MWB lacks credibility in its appointments, particularly in relation to its appointments for employers’ representatives. Without being able to galvanise broad-based support among their respective tripartite constituencies, the members of the MWB do not sufficiently represent their constituents’ interests. **Without strong support from tripartite constituents, the MWB recommendations risk being irrelevant.**” (Praxis Labs-ILO 2015 p. 40; emphasis added).

In Viet Nam, enterprise unions are passive and collective bargaining under-developed except in those factories covered by the pilot industry agreement. But Chi and Torm (2015 p. 33) argue that the union confederation (VGCL) is “increasingly active in negotiating for the annual increase of minimum wages,” following the switch to a tripartite National Wage Council in 2013 to set the rates, said to consist of a “real bargaining process” (op. cit.). Like other countries, minimum wage negotiations are very significant for Viet Nam’s garment industry workers, due to the widespread use of the statutory minimum wage as the basic wage. In light of its significance, and the importance of the industry for the country’s economy, the industry employer body (VITAS) has a permanent seat on the Council and the garment industry trade union is a member of the union confederation’s negotiating team (op. cit.).

### **9.3. Building new institutions for social dialogue and collective bargaining**

While all six countries have experienced major industrial relations strife in the garment industry, the country responses vary from passive to innovative and active in institution building. Illustrative of the former is Bangladesh and of the latter are Viet Nam and Pakistan, and to some extent Cambodia and China.

The response of government and employers in Bangladesh to worker and trade union demands has to date been relatively passive. There is some attention to the alternative mechanism for social dialogue at enterprise level in the form of ‘participation committees’. Most garment factories have such committees, estimated to be present in around four in five factories (Moazzem et al., 2015, table 29). However, these are widely perceived by trade unions in the industry as stooges introduced by employers to dilute the power and voice of unions:

“It is frequently seen that the employer is trying to replace the trade union by the participation committee in many factories and reducing the collective bargaining mark-up of trade unions” (ibid. p.42).

More active interventionary and collectivist responses are visible in Viet Nam and Pakistan. Commencing in 2010, Viet Nam is currently in a third phase of a pilot programme to establish a new collective agreement for the garment industry in an explicit response to years of conflictual industrial relations. The pilot agreement currently counts around 100 enterprise members and covers 140,000 workers, approximately 6% of the garment industry workforce. If successful it will represent the first industry collective agreement in Viet Nam (see box 9.1). In their assessment, Chi and Torm (op.cit. p.32) observe that the industry benefits in principle from well organised trade unions and employer bodies, each committed to improving workers’ earnings incrementally while securing jobs and improving general working conditions. At the same time, the social partners are new to the experience of collective bargaining and must contend with the strong external influence of statutory minimum wages, which sets the pace for negotiations.

*Box 9.1. Institution building in Viet Nam: a new collective agreement for the garment industry*

In an attempt to address the industrial relations conflicts in the garment industry, in 2010, the Vietnamese government in cooperation with key industry stakeholders introduced a new pilot collective agreement for the industry. The first agreement lasted for one year, the second for three years and the third agreement, signed in 2014, was initially expected to run for three years. It is still only a pilot agreement and therefore covers a small share of the industry, estimated at around 6% of the workforce.

A key objective of the pilot agreement appears to be to raise minimum wage standards. Eight of the 16 articles of the agreement related to wages and income conditions. The collectively agreed minimum wages for the 2014-17 agreement range from 2.4 million to 3.2 million VND per month for the four regions, representing a fixed amount of 0.5 million VND higher than the statutory minimum wage for each region. Because statutory minimum wages vary significantly across regions, the fixed additional amount translated in 2014 into a significant bottom-weighting of minimum wages in the lowest paying region, of around 26% compared to 19% in Region 1 (table 9.2). To date, the evidence suggests that covered employers have benefited from a fall in the number of industrial relations disputes and reduced staff turnover.

*Table 9.2. Comparing the statutory and collectively agreed minimum wage rates*

	Statutory MW		Pilot textile agreement MW		% premium	
	2014	2015	2014	2015 proposed	2014	2015
Region 1	2.7 million	3.1 million	3.15 million	3.5 million	18.5%	12.9%
Region 2	2.4 million	2.75 million	2.85 million	3.15 million	20.8%	14.5%
Region 3	2.1 million	2.4 million	2.6 million	2.75 million	23.8%	14.6%
Region 4	1.9 million	2.15 million	2.4 million	2.6 million	26.3%	20.9%

A major challenge facing the pilot agreement is the seemingly unanticipated need to adapt quickly to annual increases in the statutory minimum wage that risk overtaking collectively agreed minima for the industry. Already in 2015, the three-year minimum rates negotiated in 2014 were nearly overtaken by the uprated statutory minimum wages; industry wage premiums fell to 100,000 VND per month in Region 1 for example, a gap of just 3%. In response, industry stakeholders are (at the time of writing during late 2015) revisiting the agreed minima in order to re-establish a suitable premium over statutory minima. Table 9.2 shows that if the proposed new minima are accepted then the premium over the statutory minimum wage will be re-instated but it is nevertheless significantly lower than the 2014 range, reduced from 19-26% to 13-21% by 2015. New statutory minimum wage rates in 2016 will again call for a quick response from social partners.

There is also an element of flexibility within the pilot agreement. Within the industry agreement there is one local agreement, established in the form of a two-tier structure. It was initially signed in 2011 with nine enterprises and again in 2014 with 16 enterprises.

Source: Chi and Torm (op.cit. pp. 30-32) and presentation at the ILO Bangkok workshop (Nov. 2015).

In Pakistan, in an effort to draw attention to, and reduce, the scale and scope of exploitative practices waged against homeworkers, estimated to number between 8 and 12 million and mostly women, the Home-Based Women Workers' Federation was founded in Karachi. It operates as an advocacy, support and campaigning group to improve employment conditions for homeworkers in the garment industry and has had some modest successes. Key to its success appears its capacity to organise homeworkers into locally based cooperatives so that contractors are compelled to manage the delivery of work via the cooperative on agreed terms, although the final decision rests with each individual homeworker. It also claims to have improved the efficiency of the supply chain from the

point of view of contractors since it is better placed to manage the distribution of work among member homeworkers (Praxis Labs-ILO, 2015, p.57).

"When the Home Based Women Workers' Federation is approached with work by contractors or employers, the trade committees of each cooperative - comprised of four to eight women - discuss the terms and conditions with the contractors. The committee decides whether the wage rate and conditions are acceptable. However, if the wage rate seems low, yet women need the work, lower pay rates may still be tolerated. Occasionally larger meetings with members are convened in order to decide whether a particularly low-paying order should be accepted. The work will only be accepted if all the members agree. Sometimes, the homeworkers will refuse an order if their demands for wages are not met" (Praxis Labs-ILO 2015 p.57).

In Cambodia, the National Report draws attention to a significant institutional effort at re-establishing industrial relations on a stronger footing through the 2011-14 Memorandum of Understanding, renewed in 2013 and currently under review (Reeve and Hwang, 2015, pp. 28-30). The industry employer body together with several of the main union federations for the garment industry (six initially, then eight) agreed a range of issues with the aim of promoting more peaceful and productive industrial relations. It is said to have encouraged a reduction in the number of strikes (just 34 during 2011, the lowest figure on record) and an increase in the proportion of binding awards issued by the Arbitration Council. While the Memorandum represents a positive development at industry level, there is still a long way to go in advancing industrial relations mechanisms and activities at enterprise level. Nevertheless, the National Report authors are cautiously optimistic:

"The making of the Memorandum, the discussions that have taken place during its term and those leading to renewal or the possibility of the same, reflect a growing maturity in industrial relations toward the use of dialogue, rather than more reactive means, to reach agreement on important issues. The real strength of the Memorandum lies in its parties intending that it will have effect. While it has been suggested that compliance may have been negatively affected by a lack of knowledge and engagement at the enterprise level, the commitment shown at the representative level remains a significant development in Cambodian industrial relations and one upon which further progress can be built" (Reeve and Hwang 2015 p.30).

A further issue emphasized in the National Report for Cambodia concerns the potentially positive role played by powerful retail and brand companies through implementing ethical practices in their supply chain of manufacturing companies. As we argued in section 6, employment relations and the shaping of wage and working conditions in the global garment industry are constituted by not only the traditional employer bodies and trade unions, but also new players in the form of 'hub' purchasing organisations. A clear example of the new, potentially progressive role played by these new players is the letter sent by several leading retail companies (including C&A, H&M, Inditex and Primark) to the Permanent Deputy Prime Minister of the Cambodian government in September 2014, calling for a higher minimum wage and the development of a stable system of collective bargaining<sup>57</sup>. Despite the letter's prominence, it is notable that many signatories were missing: among others we can mention Walmart, Adidas, Gap, Levi's and Puma. Moreover, the government prevaricated for more than a year over raising the minimum wage, with several episodes of labour unrest before it increased the minimum wage to US\$150, still below the demanded US\$160.

In China, while the notion of 'collective agreement' takes on a distinctive form from that in other countries, it is notable that many hundreds of multi-employer collective agreements have been established at sub-province level across the country. One such agreement has been set up in an industrial district of woolen sweater manufacturers

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<sup>57</sup> 'We further expect the installation of an annual industry collective bargaining process for wages that is fair and takes into account the ILO technical expertise. We will support the installation of this process by working closely to promote mature industrial relations through capacity building with our suppliers, their factories and the labour representatives, optimally via the BFC platform', available at <https://www.inditex.com/sustainability/suppliers/support-negotiations-in-cambodia>.

in the locality of Wenking, in Zhejiang province. It was initiated in 2003 with 113 private manufacturers covering 12,000 workers. Both employers and unions are said to have recognized the need to respond to various challenges, including low pay, lack of social dialogue, strikes, a shortage of skilled workers in the high seasons and high staff turnover. The agreement was supported by local government and, once it was established, the local trade unions merged to facilitate negotiations. In recent years, the parties to the agreement have set regular annual wage adjustments, ranging from 5% to 15% over 2011-15. The content includes a minimum base rate, along with rates for 72 defined job grades. Another example includes the collective agreement for 101 garment enterprises in Huzhuong town, covering around 4,000 workers. The agreement has been negotiated since 2008. Again, the content of the agreement is relatively extensive, covering minimum wage rates, overtime premiums, welfare conditions and annual adjustments.<sup>58</sup>

## 10. Conclusions: Summary of key issues and recommendations for policy and practice

This report had two broad aims for investigation. First, it sought to compare the alternative national minimum wage systems in ten developing countries, selected for their major role in the global garment industry. Part One of the report presented a multi-dimensional, cross-country comparison by highlighting differences in minimum wage values among countries, the diverse approaches towards monitoring and enforcement, external effects on the informal sector, and the variety of intersections with collective bargaining institutions. Second, the report explored the reality of minimum wage practices in the garment industry in a smaller sample of seven countries, drawing on original empirical research conducted by the authors of ILO commissioned National Reports. Part Two set out the key economic challenges facing the industry at national and global levels, investigated how minimum wages are set for the garment industry in each country, compared the relative values of minimum wages, documented the multiple forms of employer non-compliance, and identified interesting examples of collective resistance against exploitation and new institutional and organisational initiatives for improved job quality. The garment industry is a major source of employment for women workers and the report highlighted the causes and characteristics of their disadvantaged position throughout.

In its policy analysis and constructive critique, it is hoped that the report can enhance ILO capacity for policy advice to support constituents in developing a more inclusive wage and collective bargaining policy. The ILO undertakes valuable work with stakeholders to build and sustain effective minimum wage institutions, in a manner that is both tailored to a country's specific institutions and economic conditions and also aligned with its Convention 131 (Minimum Wage Fixing Convention). The evidence provided in this report can further these aims and support coherent policy development in the area of wage setting with a view to improving wages and working conditions for workers in the global textile and garment industry.

A number of inter-related issues emerge from the empirical evidence presented in this report. A first issue concerns what we mean by the 'effectiveness' of a country's minimum wage system. Our review in Part One suggests six key factors, namely:

- i) sustained commitment from government, employers and trade unions
- ii) formal, institutionalised mechanisms for active and respectful dialogue between, government, employers and trade unions
- iii) regular upratings of the minimum wage (at least to keep up with price inflation)
- iv) maximum extension of workforce coverage under statutory rules
- v) well-resourced enforcement institutions to root out employer non-compliance in the formal sector, and

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<sup>58</sup> Evidence presented at the ILO Bangkok workshop (Nov. 2015).

- vi) awareness-raising campaigns to diffuse minimum wage practices to organisations, including in the informal sectors of the economy.

There is no 'one best way' to design a fully effective country minimum wage system; as Sengenberger cautions, *universality* of minimum wage principles ought not to be confused with *uniformity* of country application (Sengenberger, 2006, p.167). Moreover, each country investigated in this report suffers from varying (and multiple) weaknesses across the six factors. The analysis raised particular concerns about the stop-go approach to uprating in some countries (especially Bangladesh), which means the minimum wage value is not sustained for any length of time as a reliable and accepted standard for subsistence wage income or decent pay. Also, governments vary in their commitment to resourcing a policy of factory inspections, with most in need of substantial investment in systems and staffing; Pakistan for example has just 337 inspectors, an estimated one per 25,000 workers (Praxis Labs-ILO, 2015, p.51). There is also an urgent need to adapt enforcement approaches to the employer business strategy of subcontracting, that pushes non-compliant behaviour into less visible organisations located further down the supply chain.

The research also raises questions about the 'effectiveness' of collective bargaining, although in most of our sample countries such institutions were barely present. To be effective, collective bargaining must strive for maximum workforce coverage similar to the coverage institutionalised under minimum wage rules and practice. Our analysis raises additional concerns regarding the substance of agreements. Agreements may do no more than repeat what is required by law. Moreover, as we saw in the case of Viet Nam, employers may initiate a collective agreement as part of a 'box-ticking' exercise to meet its corporate social responsibility goals rather than satisfy trade union (and worker) demands. And in several countries, there is a worrying trend of employers encouraging their own brand of worker organisation, usually referred to as 'yellow unions', which do not provide a robust, independent form of representation for workers.

A second issue concerns the linkages between a country's minimum wage system and its arrangements for collective bargaining and trade union organisation. Building on recent studies of European countries (Gautié 2010; Grimshaw 2013; Vaughan-Whitehead 2010), the report explored the potential for 'conflictual' and 'complementary' relationships between the two wage-setting institutions and proposed a three-fold typology of intersections (section 4). Some countries can be characterised as having a 'weakly positive complementarity' between their minimum wage and collective bargaining arrangements, where there is strong legal coverage of minimum wage rules and a sizeable presence of collective bargaining (relative to other developing countries). Other countries fit to a type labelled as 'anti-collective government policy,' where there is practically no collective bargaining, massive hostility towards trade unions, major gaps in legal minimum wage coverage; government support for a statutory minimum wage under this type of regime must, therefore, be evaluated against the wider industrial relations environment and the curtailment of worker freedoms and rights, as enshrined in ILO Conventions. A third group of countries are classed as having 'relatively autonomous institutions' such that both minimum wage and collective bargaining institutions prevail, but act largely in separate spheres at a distance from each other.

The interaction with collective bargaining is extremely significant, not only because it responds to the universal right to freedom of association, but also because it helps explain many of the deficiencies in the effectiveness of a country's minimum wage system. Without a voice in factories and in home-workplaces, workers in many low paid industries face a high risk of unduly low pay. Protection by, and participation in, a collectively bargained wage agreement provides the necessary double-layered protection for workers, complementing the statutory minimum wage. It also works in favour of employers through its role as a 'beneficial constraint' (Streeck, 1997), by encouraging social peace and by providing a more encompassing set of standards on wage rates for different job grades, overtime conditions, holiday pay and so on, thereby protecting decent employing organisations from those with few scruples.

The appropriate level at which collective bargaining ought to take place is contingent upon country circumstances; once again there is no 'one best way'. For example, there may be positive opportunities in some countries to

advance stronger social dialogue and improved conditions for garment industry workers at regional or province levels. In Pakistan, significant developments are underway in Sindh province, where the majority of the garment industry is based in and around Karachi. The evidence suggests that efforts at this regional level may be more likely to gain the trust, and to secure the long-term commitment, of social partners, as well as to sidestep some of the more intractable tensions experienced at national level.

A third issue arising from this investigation concerns which organisations ought to be party to wage negotiations for garment industry workers, given it is a highly globalised industry characterised by multiple tiers of subcontracting and (often) powerful purchaser organisations. This issue was not part of the remit for this research but it did arise in one of the commissioned National Reports. In his research on South Africa, Godfrey et al. (2015, p.39) argue that the days of a traditional industry wage bargain between employers and workers are gone and call instead for a shift of focus to the value chain. This, Godfrey and colleagues argue, “would seek to bring those with the economic power in value chains (e.g. retailers) to the bargaining table where they can be part of the negotiations with those with little or no power (e.g. manufacturers and workers).” (*ibid.*)

It is a radically different approach but fits with developments in many industries in different parts of the world where ‘triangular bargaining’ is the new call to action. Brown and Wright (2014) have called for ‘framework agreements’ to join up the core workers of an industry with the relevant client/purchaser organisations. Others (e.g. Marchington et al. 2005; Weil, 2009) have similarly made the case for legal regulations and collective bargaining to span ‘networks of employers’ so as to bind together the powerful ‘hub’ employers with organisations and their workforces at what might be called the ‘wrong end’ of the value chain. The change of approach to bargaining will no doubt be difficult. Conditions are likely to include, on the one hand, new mechanisms to develop and sustain solidarity among workers along the value chain (e.g. to bind the interests of retail workers with clothing manufacturer workers) and, on the other, mechanisms for bargaining over profit shares across country borders. Nevertheless, there are many examples of progress. In 2014, the ILO negotiated a deal between the Swedish global retailer H&M and respective trade unions to improve labour standards in its global supply chain, specifically industrial relations in the garment industry.<sup>59</sup> Also, the UNI Global Union has negotiated around 50 global framework agreements with various global corporations, such as the France-based Carrefour (first signed in 2001, the agreement ensures workers' freedom of association and collective-bargaining in all suppliers' and franchisees' premises) and ShopRite, the largest food retailer in Africa, (Luce, 2013).

This kind of global, triangular bargaining, involving purchaser organisations, garment manufacturers and trade unions, must incorporate not only the retailers but also the increasingly powerful intermediary organisations, such as the global sourcing and logistics company Li and Fung, since, all too often, from the perspective of the garment company, the end retailer has become anonymous. Overall, it is very important to bring the brands and their intermediary agents together to discuss how to improve the lives of workers in the garment industry, including those employed in the tiers of subcontractors. Given the obvious power of the global brands, as well as domestic retail chains, there is new interest in the formation of a global alliance of garment industry companies, perhaps organised at a regional level – the Americas, Africa and Asia for example. The aim would be to prevent retailers from pursuing a social dumping strategy, (which encourages countries to compete on wages through a race to the bottom) and to develop, instead, more sustainable profit margins, which in some countries have dropped to very low levels. Further research on progress made through triangular bargaining in the garment industry would be valuable.

Finally, this report has illuminated many examples of poor working conditions that persist in the 21<sup>st</sup> century global garment industry. Renewed action on international, universal standards is needed to bring employers, national governments and retail purchasing companies into line. Our report documents evidence of various types of non-

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<sup>59</sup> Cambodia Daily 14/06/2014, <https://www.cambodiadaily.com/archives/hm-ilo-form-new-industrial-relations-initiative-61424/>.

compliance with statutory and collectively bargained minimum wage rules. Employers are found guilty of explicit underpayment in the knowledge that workers are unlikely to assert their rights for fear of losing their job. Other employers routinely manipulate workers' job grades or skill levels in order to pay less than the fair rate for the job or level of worker experience. In most cases such actions occur 'undercover', but in some there are proactive efforts by employers to institutionalise illegal payment practices, such as we found for the informally employed power loom workers in Pakistan or the successful legal action taken by Chinese and Taiwanese garment companies in South Africa so that they were able to pay below the agreed minimum wage. Even in cases where employers are compliant, workers may bear the costs in other ways, such as being at the brunt of a hard-nosed piece-rate payment regime that ensures workers either meet the performance level required to comply with minimum wage rules or lose their job (as evidenced in Chi and Torm, 2015). Migrant workers are likely to be especially vulnerable to exploitative practices, either because they enjoy fewer employment protections or because they are less aware of their statutory rights, and further research on their working experiences is required.

Purchaser organisations (and contractors in home-based systems) are also guilty of exerting downward price pressures, which generate downward wage actions by employers. While there are many laudable campaigns and actions for purchaser organisations to ensure better job quality among supply chain companies, the empirical evidence reviewed in this report revealed persistent retail-led pressures on unit costs that translated into poor pay and working conditions for garment industry workers. The most extreme instances of exploitation appear to be among the less visible tiers of the many millions of women working in home-based production. Pakistan's estimated 10 million or so home-based workers are mostly women and many are young and uneducated. They lack nearly all the very basic employment protections and are routinely at the mercy of an unregulated band of contractors; this relationship is described as '*extremely unequal in power*', with women having to accept lower piece-rates for the benefits of continuity of business, as well as delayed payments and under-payments (Praxis Labs-ILO, 2015, pp. 55-56). Further country investigations of home-based working and the roles of 'middle-men', building on the highly informative empirical investigation conducted by the authors of the Pakistan National Report, are recommended.

Building on the detailed analysis presented in this report, we conclude with a selective list of ten key recommendations for policy and practice, with a view to improving the actions of the varied policy bodies, national and provincial governments, representative organisations and commercial companies involved. Our recommendations cover the arenas of minimum wage policy, collective bargaining, enforcement and supply-chain governance. They are to:

- i. develop and sustain active social dialogue among employers, unions and governments in minimum wage policy;
- ii. legislate to ensure maximum coverage of minimum wage rules and regular uprating of its real value to keep up (at least) with annual price inflation (using a measure accepted by all parties);
- iii. improve the quality of wage data to generate more reliable indicators of the minimum wage value relative to median and average earnings;
- iv. promote collective bargaining by, for example, piloting multi-employer agreements at province level;
- v. strengthen legal rights for trade unions and encourage a stronger presence of union representatives in workplaces, with the aims of promoting social peace and decent work;
- vi. invest in an effective system for enforcing worker rights (including more inspectors, tough financial penalties, freedom to make random inspections and a responsive complaints system) and recognize the role of trade unions as a complementary inspection role in holding employers to account;
- vii. acknowledge the critical role of purchasing organisations (retail firms and intermediary firms) in determining the financial constraints of garment manufacturing companies and involve them in wage negotiations so as to make more visible the reputational/brand effects;
- viii. undertake independent, regular monitoring of retail firms' own 'corporate codes of conduct' to ensure labour standards are complied with among supplier companies;
- ix. actively develop, support and finance organisations that provide a collective voice to women in vulnerable home-based work, so as to effect a more just bargain with middle-men contractors; and

- x. promote international cooperation, especially among governments and trade unions, to prevent social dumping actions by multinational garment companies seeking ever lower wage costs.

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## Appendix 1

### Comparing national data sources of real minimum wage values

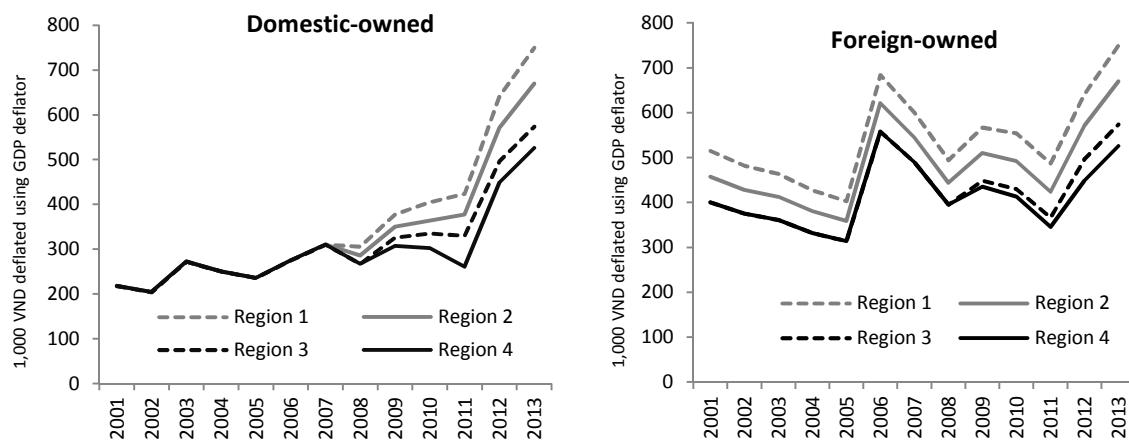
Alternative national sources of data are a necessary check of the analysis of harmonised earnings data presented in section 2 and arguably represent a more precise picture of recent trends. The following analysis presents data for the different minimum wage levels in two countries drawing on original analysis presented in the ILO commissioned national reports.

#### Viet Nam

In Viet Nam the picture for domestic-owned organisations divides between the period up to 2007, when there was a single national rate, and the period after with three regional rates (in 2008) and four regional rates (from 2009). The first period began with irregular uprating, every two or three years, but annual uprating has been regularly applied since 2006, sparked by major strikes involving more than 200,000 workers demanding higher pay (Chi and Torm 2015 p.9). The shift to regional differentiation damaged real wage prospects in Region 4 initially (2009-2011) but all four regions have benefited from a substantial real boost thanks to uplifts in 2012 and 2013 (see figure 2.4). Regional rates have been applied throughout the entire period to foreign-owned firms and display far higher rates at the beginning of the period, dramatic fluctuations and then convergence with minimum wage rates for domestic employers from 2012 when the policy of applying a premium was abandoned. This policy reform in 2012 contributed to the very significant boost to real minimum wages applied to domestic employers: 51% in Regions 1, 2 and 3 and 72% in Region 4.

These national data, in fact, contrast markedly with the international ILOSTAT data presented in figure 2.3a and suggest that Viet Nam joins China and Bangladesh in enjoying a substantial uplift in the real value of its minimum wages. From 2006 to 2013, national data suggest a real gain of the minimum wage of 91% (using rates set for the lowest level Region 4), while the above ILOSTAT data suggest little more than 9%. *Further clarification of these alternative sources is therefore called for.*

Figure 2.4. Viet Nam -trends in real monthly minimum wages using national data in domestic and foreign-owned organisations, 2001-13



Source: Chi and Torm (2015: table 1); authors' compilation.

### ***China***

Analysis presented in the national report considers change in the minimum wage in 31 cities over the 2006-10 period, adjusted for CPI estimated for each city. All cities bar one (Shenyang where inflation was estimated at 57%, far higher than other cities for reasons not made clear) experienced a rise in the real value of the province minimum wage. The rises ranged from 4% in Chongqing to 73% in Wuhan. Further analysis of these 31 city rates shows that there is limited correlation between the 2006 minimum wage level and the growth in its real value. Moreover, inequality of real minimum wage values between cities was stable: in 2006 monthly minimum wages varied from 430-780 RMB (a high-low range of 81%) and in 2010, after adjusting for prices, minimum wage values varied from 569-1027 RMB (or 80%) (China national report: table 2).

Overall, these nationally collected data lend support to the ILO data. Across the 31 cities the average increase in real minimum wage value during 2006-10 was 36%, while ILOSTAT country-level data suggest 24%.

## Appendix tables

**Table A.1. Employment in textiles and wearing apparel industries.**

		Employees		% Manufacturing	
		2005/6	2011/12	2005/6	2011/12
	<b>17 - Textiles</b>	1,140,938	792,341	34.21	15.95
Bangladesh	<b>18 - Wearing apparel...</b>	...	2,753,551		55.44
	<b>D - Total manufacturing</b>	3,335,144	4,966,620	100.00	100.00
	<b>17 - Textiles</b>	303,375	293,502	4.88	3.68
Brazil	<b>18 - Wearing apparel...</b>	484,851	662,336	7.79	8.31
	<b>D - Total manufacturing</b>	6,222,477	7,969,422	100.00	100.00
	<b>17 - Textiles</b>	6,251,100	6,700,000	9.97	7.98
China	<b>18 - Wearing apparel...</b>	4,789,000	4,501,100	7.64	5.36
	<b>D - Total manufacturing</b>	62,670,300	83,914,600	100.00	100.00
	<b>17 - Textiles</b>	471,022	443,775	5.39	3.46
India	<b>18 - Wearing apparel...</b>	1,322,926	1,448,490	15.14	11.31
	<b>D - Total manufacturing</b>	8,736,589	12,809,570	100.00	100.00
	<b>17 - Textiles</b>	567,042	477,387	13.42	10.31
Indonesia	<b>18 - Wearing apparel...</b>	451,975	561,908	10.69	12.14
	<b>D - Total manufacturing</b>	4,226,572	4,629,369	100.00	100.00
	<b>17 - Textiles</b>	438,657	...	47.10	...
Pakistan	<b>18 - Wearing apparel...</b>	62,388	...	6.70	...
	<b>D - Total manufacturing</b>	931,262	...	100.00	...
	<b>17 - Textiles</b>	77,087	48,212	6.52	4.16
South Africa	<b>18 - Wearing apparel...</b>	52,333	39,732	4.43	3.43
	<b>D - Total manufacturing</b>	1,182,057	1,158,256	100.00	100.00
	<b>17 - Textiles</b>	384,923	265,957	16.98	11.75
Turkey*	<b>18 - Wearing apparel...</b>	337,86	329,584	14.91	14.56
	<b>D - Total manufacturing</b>	2,266,496	2,264,238	100.00	100.00
	<b>17 - Textiles</b>	188,365	109,298	6.08	2.22
Viet Nam	<b>18 - Wearing apparel...</b>	511,278	1,014,612	16.50	20.65
	<b>D - Total manufacturing</b>	3,099,386	4,913,000	100.00	100.00

Note: \* 2009

Source: UNIDO, Employment, Wages and related Indicators by Industry, at current prices, for selected years.

**Table A.2. Wages in textiles and wearing apparel industries.**

	Wages per employee US\$		Wages/ Value Added %	
	2005/6	2011/12	2005/6	2011/12
<b>17 - Textiles</b>	584	1,311	36.82	35.05
<b>18 - Wearing apparel...</b>	...	1,419	...	52.12
<b>D - Total manufacturing</b>	704	1,405	22.53	33.11
<b>17 - Textiles</b>	4,480	9,676	31.88	35.47
<b>18 - Wearing apparel...</b>	2,780	6,528	46.57	38.22
<b>D - Total manufacturing</b>	6,599	13,957	21.40	25.71
<b>17 - Textiles</b>	1,432	4,402	21.58	...
<b>18 - Wearing apparel...</b>	1,575	4,337	29.57	...
<b>D - Total manufacturing</b>	1,915	5,551	16.29	...
<b>17 - Textiles</b>	4,672	6,238	21.54	25.59
<b>18 - Wearing apparel...</b>	2,976	5,282	20.19	23.62
<b>D - Total manufacturing</b>	5,145	6,581	11.20	9.49
<b>17 - Textiles</b>	4,672	6,238	21.54	25.59
<b>18 - Wearing apparel...</b>	2,976	5,282	20.19	23.62
<b>D - Total manufacturing</b>	5,145	6,581	11.20	9.49
<b>17 - Textiles</b>	475	844	17.63	17.02
<b>18 - Wearing apparel...</b>	1,280	2,205	31.46	35.22
<b>D - Total manufacturing</b>	1,794	3,305	19.33	21.61
<b>17 - Textiles</b>	977	2,674	20.49	23.60
<b>18 - Wearing apparel...</b>	1,012	2,361	37.59	36.27
<b>D - Total manufacturing</b>	1,417	3,476	14.66	13.86
<b>17 - Textiles</b>	1,861	...	22.00	...
<b>18 - Wearing apparel...</b>	1,901	...	22.38	...
<b>D - Total manufacturing</b>	2,335	...	14.37	
<b>17 - Textiles</b>	6,342	...	66.15	...
<b>18 - Wearing apparel...</b>	8,415	...	73.69	...
<b>D - Total manufacturing</b>	12,935	...	37.53	...
<b>17 - Textiles</b>	6,362	7,362	47.95	42.05
<b>18 - Wearing apparel...</b>	5,292	6,256	59.54	56.50
<b>D - Total manufacturing</b>	8,336	10,229	42.14	42.37
<b>17 - Textiles</b>	...	2,901	...	28.55
<b>18 - Wearing apparel...</b>	...	2,287	...	124.03
<b>D - Total manufacturing</b>	...	2,653	...	32.21

\* 2009

Source: UNIDO, Employment, Wages and related Indicators by Industry, at current prices, for selected years.