

# Wages and productivity in the garment sector in Asia and the Pacific and the Arab States



International  
Labour  
Organization

## Introduction<sup>1</sup>

The garment and footwear industry in Asia and the Pacific has reached a pivotal juncture.<sup>2</sup> Economic and demographic transition in China together with the rise of an affluent consumer class in emerging markets are shifting the competitive landscape. Meanwhile, recent industry tragedies such as the April 2013 collapse of Rana Plaza in Bangladesh have again highlighted social responsibility and legal compliance as fundamental considerations in apparel sourcing decisions.

In that dynamic context, this note presents economic trends for the region's apparel industry and examines the main factors that will shape the medium-term outlook for its growth. Referring to analysis of recent industry developments in terms of employment, wages, productivity and working time, this note contends that promoting better working conditions can help countries drive competitiveness by attracting a better qualified workforce and by enhancing workplace productivity.

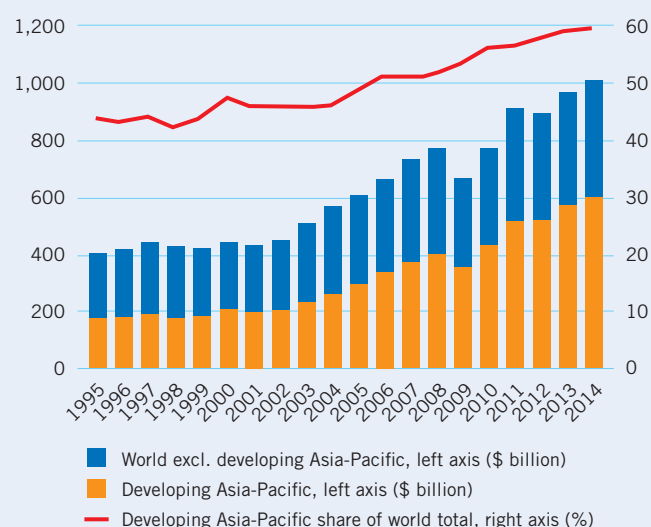
## Trends

### Robust growth in exports

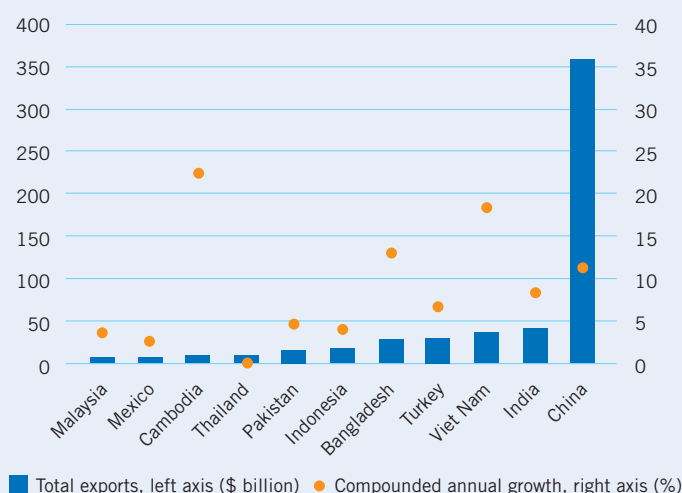
Asia and the Pacific has become the garment factory for the world. In 2014, the developing Asia-Pacific region (excluding Arab States) accounted for US\$601.1 billion (59.5 per cent) of global exports of garments, textiles and footwear (figure 1, panel A). This marks a remarkable rise from \$178.3 billion (43.8 per cent of global exports) in 1995. Asian economies encompass three of the world's top five garment exporters, and ten of the top 20. Annual compounded growth in apparel exports from the developing Asia-Pacific region averaged 6.6 per cent between 1995 and 2014, while the global average (excluding developing Asia and the Pacific) was only 3.1 per cent. The region's long-term growth achievements are even more remarkable, given the slowdown in clothing exports immediately following both the 1997–98 Asian financial crisis and the 2008 global economic crisis.

Figure 1. Global exports of garments, textiles and footwear

Panel A. Exports from developing Asia-Pacific (\$ billion) and share of world total (%), 1995–2014



Panel B. Exports from selected economies (\$ billion), 2014, and compounded annual growth (%), 1995–2014



Source: Estimates from UNCTAD: UNCTADstat Database.

<sup>1</sup> For the purposes of this note, 'Asia and the Pacific' refers to the region that includes 47 countries, plus the Occupied Palestinian Territory, across all income levels from East Asia, South-East Asia, South Asia, the Pacific Island countries and the Arab States of West Asia, unless explicitly stated otherwise.

<sup>2</sup> This note is based on M. Cowgill and P. Huynh: *Weak minimum wage compliance in Asia's garment industry*, Asia-Pacific Garment and Footwear Sector Research Note, Issue 5 (Bangkok, ILO, 2016); P. Huynh: *Gender pay gaps persist in Asia's garment and footwear sector*, Asia-Pacific Garment and Footwear Sector Research Note, Issue 4 (Bangkok, ILO, 2016); P. Huynh: *Strong export and job growth in Asia's garment and footwear sector*, Asia-Pacific Garment and Footwear Sector Research Note, Issue 1 (Bangkok, ILO, 2015).

Within the region, several economies are shaping the global landscape (figure 1, panel B). China has led international garment exports for decades. In 2014, it exported \$358 billion in textiles, apparel and footwear and dominated 52 per cent of the export market share among all developing economies. India and Viet Nam also ranked among the highest in global clothing exports, totalling \$42.7 billion and \$37 billion respectively. Annual export growth between 1995 and 2014 was robust, exceeding double digits in Bangladesh (13.1 per cent), Cambodia (22.5 per cent), China (11.5 per cent) and Viet Nam (18.4 per cent). These trends strongly indicate that the Asia-Pacific region's global dominance in garment, textile and footwear production will not diminish soon.

Within the respective national contexts, the garment and footwear industry serves as a crucial contributor to total exports for a number of Asia-Pacific countries. In Bangladesh, the sector accounted for 89.2 per cent of total merchandise exports in 2014, an increase of 12.6 percentage points since 1995.<sup>3</sup> The growth of the sector has been even more remarkable in Cambodia, with its share of merchandise exports spiking from 20.6 per cent in 1995 to 77.4 per cent in 2014.

In Jordan, the garment industry has seen robust expansion during the past few years, with exports increasing from \$500 million in 2007 to \$1.3 billion in 2015. The sector has become an important export earner for the country, with a registered export increase of 10 per cent per year, and it represents around 16 per cent of Jordan's total exports.

In Pakistan, by comparison, the sector's contribution to merchandise exports waned by 16.9 percentage points since 1995, but still stood at 58.7 per cent in 2014. This overall sector trend is attributed to the marked decline in textiles while garment and footwear exports remained steady. In Viet Nam, the garment, textile and footwear industry has accounted for around one-fourth of total merchandise exports since 1995.

On the other hand, several Asia-Pacific economies have become significantly less reliant on the apparel industry and have shifted into other higher-skilled manufacturing

sectors over the past couple of decades. In China, for example, garment exports as a percentage of total merchandise exports decreased between 1995 and 2014 by around 15 percentage points to 15.3 per cent. In Indonesia during that same period, dependence on apparel production also declined considerably, but the sector still contributed 9.8 per cent of merchandise exports in 2014.

## Emerging opportunities to create jobs

Given the labour-intensive nature of the industry, garment production has created millions of jobs. Across a sample of ten developing Asian economies, employment in the industry totalled more than 40 million (figure 2, panel A). China (6.7 million) and India (16.8 million) accounted for almost three-fifths of that total.<sup>4</sup> Employment in the sector also exceeded 3 million in Bangladesh (4.9 million), Indonesia (3.8 million) and Pakistan (3.6 million).

Moreover, where comparable data are available, trends indicate that jobs in the garment and textile industry have continued to expand in recent years, with the exception of Thailand.<sup>5</sup> Job growth was robust in India, increasing by 10.7 per cent on a compounded yearly basis between 2009–10 and 2011–12. In China, sector employment expanded by 8.1 per cent between 2010 and 2013. By comparison, annual employment increases during the same three-year period averaged 4.6 per cent in Pakistan, 3.4 per cent in the Philippines and 3.1 per cent in Viet Nam. In Indonesia, however, industry expansion in terms of employment amounted to only 1.4 per cent per annum between 2010 and 2014, with women accounting for less than 45 per cent of that growth.

Overall, most jobs in apparel production are occupied by women. The share of women workers in the garment, textile and footwear industry ranged from nearly three-fifths in Indonesia to about four-fifths in Cambodia. By contrast, in India and Pakistan the industry was driven by considerably more men than women workers, mirroring the wider challenge of low female participation in the overall economy.<sup>6</sup>

<sup>3</sup> All estimates of merchandise trade, including those of garment, textile and footwear, refer to UNCTAD: UNCTADstat Database.

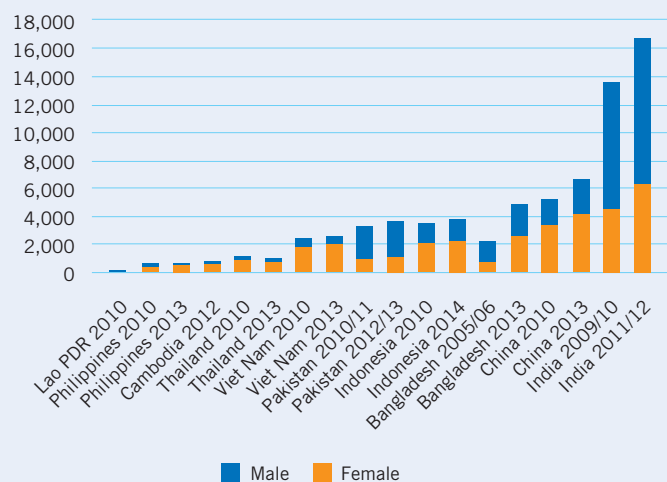
<sup>4</sup> The China figure includes only public urban units and therefore should be considered an underestimate.

<sup>5</sup> However, new advances in robotics and automation could alter this employment growth trajectory in the coming decades, particularly for less-skilled workers. For further discussion see ILO: *ASEAN in transformation: How technology is changing jobs and enterprises* (Bangkok, 2016).

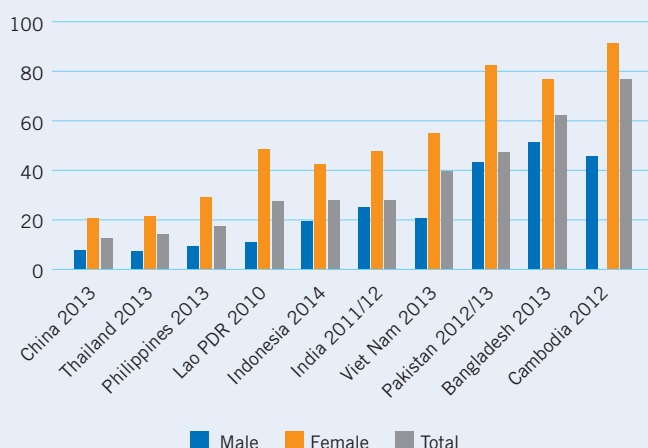
<sup>6</sup> For further discussion of low female labour force participation in South Asia, see R. Chaudhary and S. Verick: *Female labour force participation in India and beyond*, ILO Asia-Pacific Working Paper Series (Bangkok, ILO, 2014).

**Figure 2. Employment in garments, textiles and footwear, various years**

**Panel A.** Total employment by sex (thousands)



**Panel B.** Wage employment as share of total manufacturing wage employment by sex (%)



Note: Aged 15+; China figures include total employment in public urban units only.

Source: Estimates from official national labour force surveys (various years) and China National Bureau of Statistics and Ministry of Human Resources and Social Security: *China labour statistical yearbook* (Beijing, various years).

The garment, textile and footwear industry in developing Asia and the Pacific is also important, given the large extent to which jobs in that sector provide workers with regular wages. With a few exceptions, the bulk of employment in the industry was comprised of wage earners. Salaried employees, for example, accounted for around four in five industry jobs in Bangladesh, Cambodia, Indonesia and Viet Nam. Similarly in Pakistan, the Philippines and Thailand, the ratio was more than three in five. By contrast, garment, textile and footwear production in India and the Lao People's Democratic Republic was dominated by own-account and contributing family workers. Relative to other countries, the small share of wage employment (around one in three) reflects the predominantly informal nature of the industry in both countries, where most workers are home-based subcontractors typically paid on a piece-rate basis.

The share of wage employment in garments, textiles and footwear relative to all manufacturing sectors further reveals the industry's importance for job creation. Cambodia, where the manufacturing base is considerably less diversified, accounted for the largest share, at 77 per cent overall and 91.4 per cent for female employees (figure 2, panel B). Likewise, in Bangladesh the garment industry accounted for 63 per cent of all manufacturing wage employment. In Viet Nam and Pakistan, the comparable percentages were 38.8 per cent (54.9 per cent for women) and 46.7 per cent (80.7 per cent for women), respectively. On the other hand, the contribution to manufacturing wage employment in both India and Indonesia was less than 30 per cent, echoing their longer-term aim to shift towards higher-end manufacturing. Similarly, the industry contributed around 17 per cent or less in China, the Philippines and Thailand.

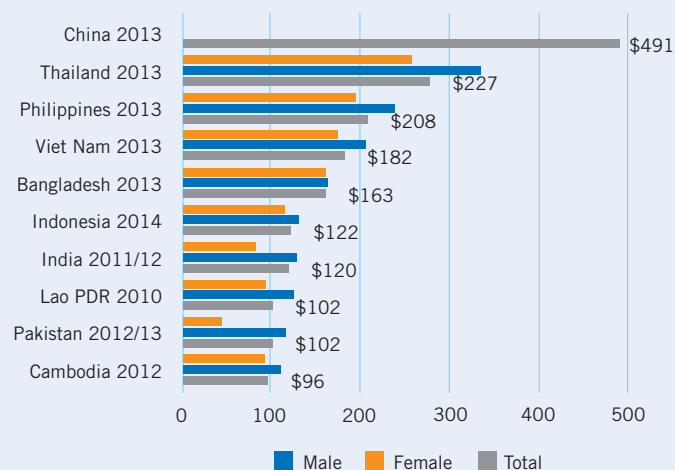
In Jordan, the garment industry provides jobs for both local and international migrant workers. Jordanians make up about one-quarter of the apparel industry workforce. The remainder consists of migrant workers, mainly women, from South and East Asian countries such as Bangladesh, China, India, Myanmar and Sri Lanka. The sector has recently undertaken efforts to increase the participation of Jordanian women in the industry. Other important industry initiatives include expanding labour-intensive programmes to create jobs for Syrian refugees.<sup>7</sup>

<sup>7</sup> The ILO is supporting expansion of labour-intensive programmes to create more immediate access to jobs for Syrian refugees. To this end, the ILO and the UNHCR have facilitated 2,000 work permits for Syrian refugees to work in the Jordan garment industry.

## Garment sector wages are low but rising

Competition among global garment buyers across the region is therefore motivated not just by the drive to expand export market share and economic growth but also by the potential to create jobs. The key, however, is to ensure that industry dynamism leads to better-quality jobs with decent wages. Despite some progress, industry wages remain low across the region. Average earnings were less than \$200 a month in most of the ten countries for which data were available (figure 3). The exceptions were China, Thailand and the Philippines where monthly wages were \$491, \$277 and \$208, respectively. At the low end, wages averaged about \$100 in Cambodia, the Lao People's Democratic Republic and Pakistan. Notably, wages for men were consistently higher than those for women, although the gap varied between countries.

**Figure 3. Average nominal monthly wages in garments, textiles and footwear by sex (\$), latest available year**



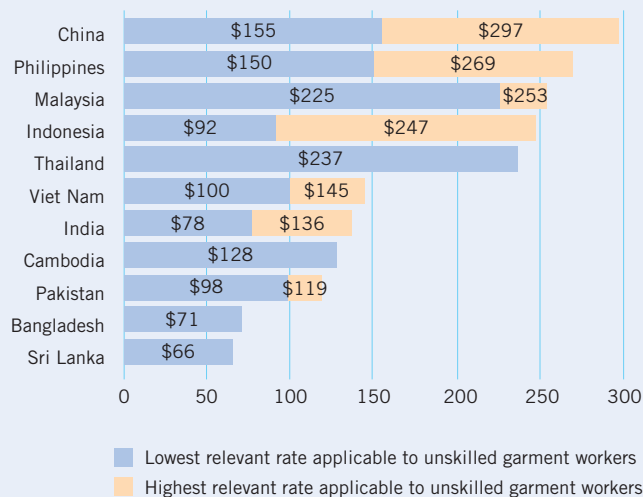
Note: Aged 15+; includes gross remuneration in cash and kind, except for the Lao People's Democratic Republic (excludes non-cash payments) and Thailand (excludes bonuses, overtime and non-cash payments); the China figure is applicable only to public urban units (excludes private urban units and individual employment).

Source: Estimates from official national labour force surveys (various years); China National Bureau of Statistics and Ministry of Human Resources and Social Security, op. cit.; and World Bank: *World Development Indicators* (Washington, DC, 2014).

In this context, minimum wage policies are critical to ensure adequate earnings, particularly for workers at the lower end of the wage ladder. Minimum wages often serve as an indicator for the prevailing wage in the Asia-Pacific garment industry, given the overall low-skilled composition of the workforce and prevailing weaknesses in the collective bargaining and merit-based wage systems. If properly formulated and implemented, they can help reduce working poverty and provide a minimum level of social protection for the most vulnerable wage workers.

Among the top apparel-exporting Asia-Pacific economies, monthly minimum wages are generally low throughout the region (figure 4). By far the lowest levels are in Bangladesh and Sri Lanka, where the respective statutory minimum wages of \$71 and \$66 are less than one-quarter of the highest applicable rate in China. In other competitor markets, for example Cambodia, India, Pakistan and Viet Nam, the highest applicable minimum wage varied from \$119 to \$145, or a range of two-fifths to one-half of China's highest level. By contrast, minimum wages at the highest relevant rate for the industry were significantly higher, ranging from \$237 to \$269, in Indonesia, Malaysia, the Philippines and Thailand.

**Figure 4. Monthly minimum wages in the garment industry (\$), as of 1 January 2015**

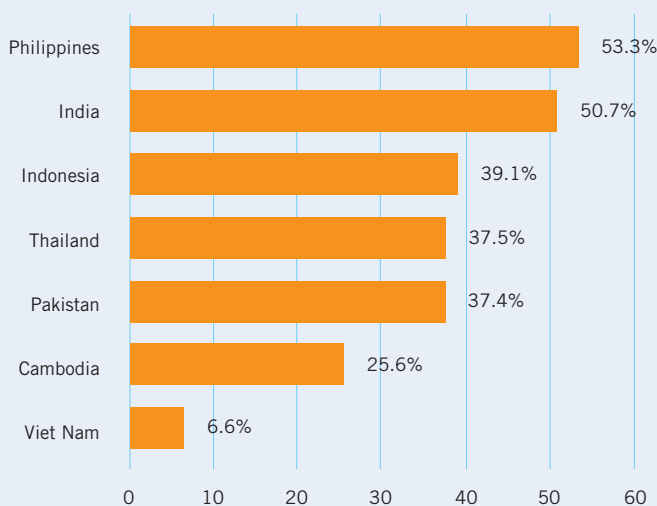


Note: All rates presented are effective as of 1 January 2015 and refer to the lowest skill grade for new entrants. For countries with decentralized minimum wage systems, figures reflect relevant rates in the main garment producing locations.

Source: ILO compilation from official national sources.

Despite generally low minimum wage levels across the region, non-compliance remains pervasive (figure 5). For example, more than an estimated half of garment wage earners in India and the Philippines are not paid the minimum wage. Likewise, in Indonesia, Pakistan and Thailand nearly two in five salaried workers earn less than the minimum level.

**Figure 5. Non-compliance rates with the minimum wage in the garment sector (%), latest available year**

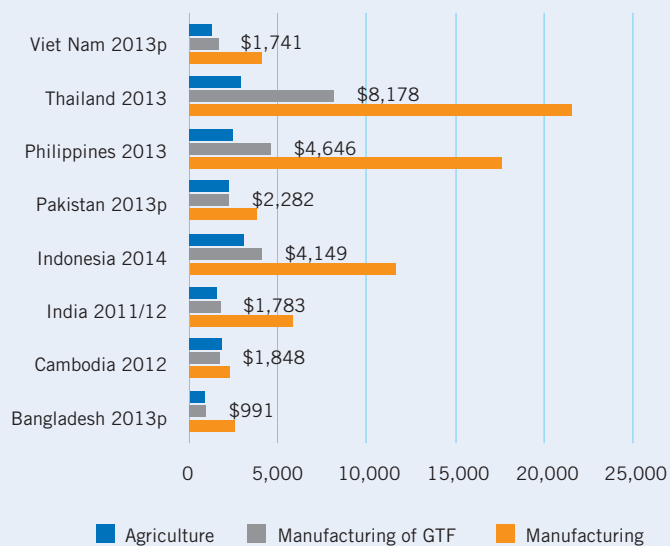


Source: Estimates from official national labour force surveys (various years).

## Boosting productivity through better working conditions

More and more, non-wage factors are driving purchasing and sourcing decisions among European and United States apparel companies. These determinants include capacity, product quality, workforce competency, production efficiency and labour compliance. In addition, industrial tragedies – for example the collapse of Rana Plaza in April 2013 and two fatal apparel factory fires in Pakistan in September 2012 – have heightened pressure on multi-national clothing retailers to rethink their sourcing strategies. This has led to global demands for social responsibility, ensuring workplace safety and labour compliance in the factories that supply the world’s apparel.

**Figure 6. Labour productivity in selected industries (current \$), latest available year**



Note: Labour productivity defined as gross value added in current prices per employed person, with official nominal exchange rates applied; ‘p’ = projections; GTF = garments, textiles and footwear.

Source: Estimates based on official data from national accounts and national labour force surveys (various years); World Bank, op. cit.

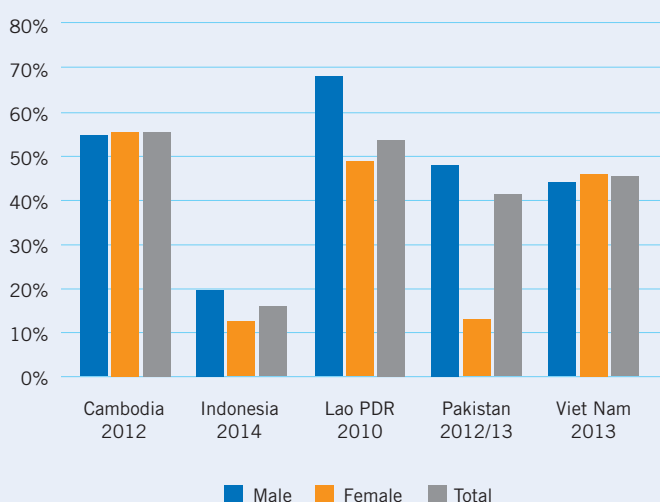
In this context, many suppliers are striving to address public concerns for decent working conditions while increasing productivity and remaining competitive. Across the region, productivity gaps remain considerable, reflecting the generally low-value nature of the industry (figure 6). In Bangladesh, garment sector productivity – defined here as gross value added in current prices per employed person – was less than \$1,000. In Cambodia, India, Pakistan and Viet Nam, productivity levels in garments, textiles and footwear ranged from \$1,700 to \$2,300. By contrast, in Thailand labour productivity exceeded \$8,000, and it was more than \$4,000 in Indonesia and the Philippines.<sup>8</sup>

<sup>8</sup> There are considerable challenges associated with cross-country productivity comparisons. These figures represent the product of just one methodological approach among others.

Inter-industry differences in labour productivity further underscore the productivity challenge in garment production. In all eight countries, productivity in the garment industry represented a fraction of that in manufacturing overall, ranging from around one-quarter in the Philippines to four-fifths in Cambodia. The higher ratio in Cambodia reflects its narrow manufacturing base in terms of product diversification and limited overall value addition. Furthermore, in cases such as Cambodia and Pakistan, labour productivity in garments ranked marginally lower than it did in agriculture. In Bangladesh and India, it was only about 10 per cent higher.

Improving productivity in the industry is paramount for competitiveness, but productivity gains should be driven by greater efficiency – not work intensity. Greater production volume, based on long hours and excessive overtime, can both compromise workplace safety and health and create disincentives to adopt such measures as technological and process innovations that can propel viable productivity improvements. Across the region, however, excessive working hours in the garment industry are common (figure 7).<sup>9</sup> In Cambodia and the Lao People’s Democratic Republic, more than one in two garment employees worked more than 48 hours per week. In Pakistan and Viet Nam, the comparable shares were slightly more than two in five, and in Indonesia the proportion was around one in six.

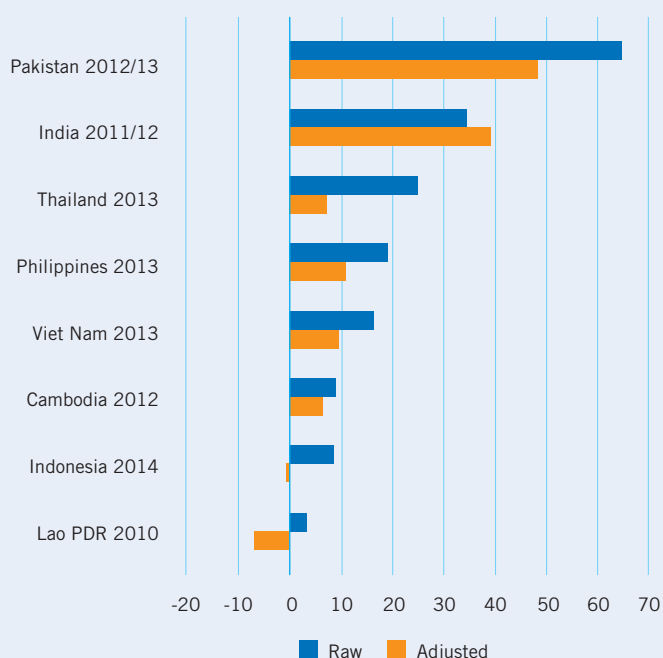
**Figure 7. Share of wage employees in garments, textiles and footwear working more than 48 hours per week (%), latest available year**



Note: Aged 15+; based on actual hours of work in the main occupation.  
Source: Estimates from official national labour force surveys (various years).

Boosting productivity through efficiency instead of intensity is critical to offset wage increases, ensure unit labour costs remain competitive, and keep overall price levels attractive. To increase productivity while maintaining high-quality standards, suppliers should focus on innovative business processes, invest in firm-level training and attract and retain a skilled workforce, particularly for middle and higher management positions. Over the medium- and long-term, this approach would allow suppliers to effectively move up the value chain within the garment industry, supply more sophisticated apparel products, and offer higher value-added services such as research and product design.

**Figure 8. Gender pay gap in garments, textiles and footwear (%), latest available year**



Note: The raw pay gap indicates the difference in estimated natural log of hourly wages of employees (aged 15+) while controlling only for sex, and the adjusted pay gap controls for differences in sex, age, marital status, education, geographic location, economic sector, and occupation. A positive pay gap value indicates higher earnings for men relative to women. India figures are based on the natural log of estimated daily earnings.

Source: Estimates from official national labour force surveys (various years).

<sup>9</sup> For further discussion of the concept and international standards for measuring excessive working hours, see ILO: *Decent work indicators: Concepts and definitions* (Geneva, 2012).

Compliance with minimum wage and overtime regulations should be viewed as only a first step in implementing this type of strategy. Promoting gender equality in the workplace offers an important means of increasing productivity and competitiveness. The Asia-Pacific garment industry workforce is dominated by women, yet their earnings commonly lag behind those of men (figure 8). The male-female difference in garment sector earnings was highest in Pakistan (64.5 per cent) and India (34.6 per cent). In comparison, the pay gap ranged around 17–25 per cent in the Philippines, Thailand and Viet Nam. When adjusting for demographic, educational, geographical, sub-industry and occupational variances between women and men, a wage disparity in favour of men still exists in six of the eight countries.

## Recent policy developments

A number of countries in Asia and the Pacific have introduced changes to wages policy in recent years that affect the garment and footwear sector. Myanmar recently became the latest country to introduce a minimum wage, set at 3,600 kyat per day, equivalent to around \$3 per day or \$78 per month at June 2016 exchange rates. Myanmar is an increasingly prominent source for garment, footwear and textile exports, although the minimum wage there falls towards the lower end of the range in the region.

Cambodia has reinvigorated its minimum wage-setting system in recent years. Since 2014, Cambodia has undertaken annual reviews of its minimum wage through the tripartite Labour Advisory Committee. These reviews have involved evidence-based negotiations around agreed social and economic criteria, and have resulted in the monthly minimum wage increasing to \$128 in January 2015 and then again to \$140 in January 2016. Cambodia's minimum wage applies only to the garment, footwear and textile sector.

In 2015, the Government of Indonesia introduced a new regulation that amends the way in which minimum wages are set. A formula based mainly on GDP growth plus inflation will now be used to adjust minimum wages, rather than the previous system, which involved deliberations by provincial wage councils. The new system has not been welcomed by all constituents in Indonesia – some unions in particular have expressed concern at what they see as inadequate consultation regarding the changes, and lack of tripartite engagement in the wage-fixing itself.

Recent changes in wages policy in Malaysia are also relevant to the garment and footwear sector. This is not only because Malaysia is the eighth-largest exporter of garments among all developing and middle-income countries, but also because of Malaysia's influence within the region. Malaysia ratified the Minimum Wage Fixing Convention, 1970 (No. 131) on 7 June 2016, with the Convention due to come into force in Malaysia in June 2017. Convention No. 131 is an important international labour standard that sets out the social and economic criteria that should be taken into account when setting minimum wages, as well as aspects of the process that should be followed in establishing and implementing a minimum wage system. Strong emphasis falls on the involvement of the social partners in wage setting. The Convention is clear that there should be full consultation with representatives of employers and workers regarding the “establishment, operation and modification” of a minimum wage system.

Convention No. 131 is not overly prescriptive regarding the institutions and processes that should be established, and a broad range of wage-setting systems are consistent with the Convention. It is encouraging to see Malaysia commit through its ratification to upholding the principles of the Convention. Malaysia is the 53rd member State of the ILO to ratify Convention No. 131, the fifth in Asia, and the first member of the Association of Southeast Asian Nations (ASEAN) to have ratified the Convention. The four other Asian countries to have ratified Convention No. 131 are Japan, the Republic of Korea, Nepal and Sri Lanka. In the Arab States, Iraq, Lebanon, Syrian Arab Republic and Yemen have all ratified the Convention.

## Recommendations

Garment production in developing Asia and the Pacific is unrivalled in the world in terms of exports and jobs. But major industrial tragedies have heightened global awareness about factory conditions. Asia and the Pacific's apparel and footwear industry can sustain its progress, but boosting competitiveness, wages and productivity is paramount. To this end, a number of priorities can be effective:

- Introducing a minimum wage adjustment process that reflects Convention No. 131 can help both workers and employers in the garment sector, an industry that is highly reliant on minimum wages. The principles of Convention No. 131 emphasize the need for involvement of workers' and employers'

representatives in the minimum wage adjustment process, the desirability of taking into account a broad range of social and economic factors, and the use of empirical evidence as the basis for wage adjustments.

- Investing in labour inspection systems would help to ensure compliance with minimum wage laws. Such efforts are particularly critical to protect garment workers at the lower end of the pay scale. The success of programmes such as Better Work, a unique partnership between the ILO and the International Finance Corporation, provides a useful demonstration of strengthening compliance in this regard.
- Developing enhanced compensation schemes that better reward skills, experience and education and that are free of discrimination could help to attract and retain a workforce with the competencies and creativity to drive productivity growth. In a context where skilled labour shortages are reportedly pervasive, a refocus on improved remuneration schemes could provide an effective strategy. This would also require measures that foster gender equality in the industry and promote fair career progression and wages for all workers.
- Adapting more efficient processes and new technologies is integral to boosting productivity. Such efforts could reduce excessive working hours and help the industry upgrade functionally, eventually promoting the shift to higher-value garment production. Innovative technologies could also help make factories safer, particularly for garment workers involved in riskier stages of production.
- Strengthening industrial relations is essential. Better and genuine dialogue between workers and employers could help improve wage-setting mechanisms and efforts to drive productivity. This measure needs the support of rigorous evidence-based research and current statistical information.

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