

Weak minimum wage compliance in Asia's garment industry

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Minimum wages can be an important part of the policy toolkit to meet the needs of workers and their families. However, minimum wages do not adequately fulfil this role if non-compliance is widespread. This research note shows that a large proportion of workers in the garment, footwear, and textiles sector¹ in seven garment-exporting countries in Asia are paid below the minimum wage.

Non-compliance rates in the sector range from 6.6% of workers in Viet Nam to 53.3% in the Philippines. In each of the countries, women are more likely than men to be paid below the minimum wage. Workers with lower levels of education are also more likely to receive a wage below the minimum. In several countries, deep non-compliance is widespread, with a significant proportion of garment workers being paid less than 80 per cent of the minimum wage.

1. The importance of compliance

Minimum wages are an important policy tool. More than 90 per cent of ILO member States have adopted some form of minimum wage.² Minimum wages are particularly important in the garment sector, a highly competitive, labour-intensive global industry in which collective bargaining over wages is relatively uncommon. The 20 largest apparel-exporting middle and low income countries in the world all have minimum wages that apply to garment workers.³

Minimum wages, by definition, set the minimum amount of remuneration that an employer can legally pay a worker. The fundamental purpose of minimum wages should be to protect wage earners from unduly low pay.⁴ Widespread non-compliance could suggest that the policy may not be adequately fulfilling this function, or that implementation is inadequate. If some employers do not comply with the minimum wage, this clearly has negative consequences for the living standards of workers and their families, but it can also negatively affect compliant employers. Non-compliance

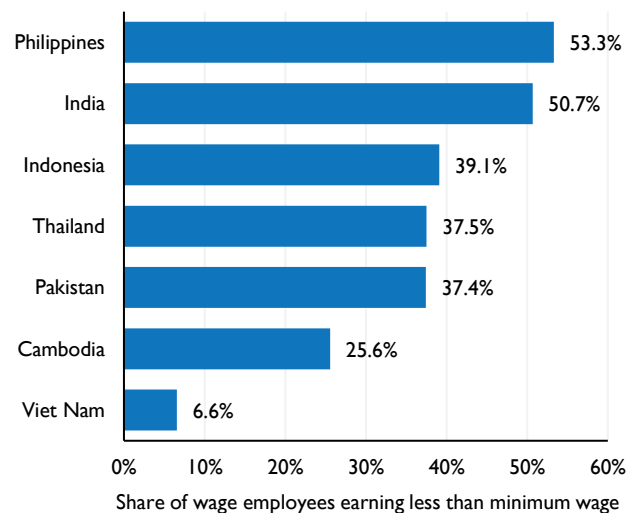
creates an uneven playing field, disadvantaging employers who observe the law.

This research note provides estimates of non-compliance with the minimum wage in the garment sector in Cambodia, India, Indonesia, Pakistan, the Philippines, Thailand, and Viet Nam.⁵ The latest available labour force survey in each country was used to measure the actual wages received by garment workers. Actual wage rates were compared to the minimum wage rates in force at the time the survey was conducted.⁶ A conservative approach was taken – where multiple minimum wage rates could potentially be applied, the lowest relevant rate was used. Alternative approaches are also explored.

2. Non-compliance with the minimum wage

Figure 1 shows the percentage of workers paid below the minimum wage in the garment sector in each of the seven countries.

Figure 1: Non-compliance rates with the minimum wage in the garment sector (%)



Note: These are 'lower bound' estimates. See Appendix B for further information on sources and methods. Note that these estimated non-compliance rates differ to those found by the Better Work/BFC Programme's monitoring activities.

Source: Authors' calculations based on national labour force surveys.

¹ The garment, footwear and textiles sector will be referred to as the 'garment sector' in this research note.

² ILO: [Minimum Wage Policy Guide, Section 1.2](#) (Geneva, 2016).

³ See M. Cowgill, M. Luebker and C. Xia: [Minimum wages in the global garment industry: Update for 2015](#), Research note (Bangkok, ILO, 2015).

⁴ See [Minimum Wage Fixing Recommendation](#), 1970 (No. 135).

⁵ Bangladesh and the Lao People's Democratic Republic were also examined. However, the survey sample size in both were insufficient to generate statistically reliable estimates of non-compliance rates in the garment sector, and therefore the results for both countries were not included in the analysis in this note.

⁶ See Appendix B for additional notes.

As shown in Figure 1, non-compliance with the minimum wage in the garment sector varies widely across countries. Both India and the Philippines have strikingly high rates of non-compliance, with more than half of garment workers receiving less than the minimum wage. More than a third of garment sector workers in Indonesia, Thailand and Pakistan are paid below the minimum, while around one in four Cambodian garment sector workers is paid below the minimum. Viet Nam stands out, with a non-compliance rate in the single digits.

It should be noted that, in factories that are inspected by the ILO-IFC Better Work Programme, compliance with the minimum wage is generally found to be significantly higher than is found in this research note. For example, the latest synthesis report by Better Factories Cambodia finds that only 1.1% of factories do not pay regular workers at least minimum wage for ordinary hours of work.⁷ While this is not directly comparable with the non-compliance estimates in this note (which pertain to workers, rather than factories), it nevertheless suggests a much lower rate of non-compliance than is found using labour force survey data. One possible explanation for this difference could be that the labour force survey data pertains to all workers in the sector, whereas BFC's monitoring activities focus primarily on exporting factories. Non-compliance rates may be higher in non-exporting and sub-contracting factories.

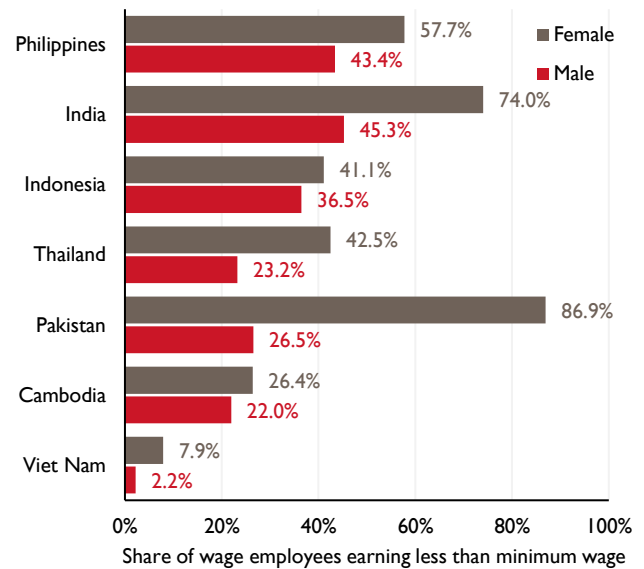
3. Non-compliance and gender

Women are more likely than men to be paid below the minimum wage in the garment sector in each of the countries included in this brief (see figures 2 and 3). This gender gap in compliance rates varies considerably between countries.

The largest male-female compliance gap is found in Pakistan. 86.9 per cent of women in the garment sector are paid less than the minimum wage in Pakistan, while the figure for men is 26.5 per cent, meaning there is a gender gap of 60.4 percentage points in compliance rates. India, the Philippines, and Thailand also have double-digit gender compliance gaps, but these are much smaller than Pakistan's disparity.

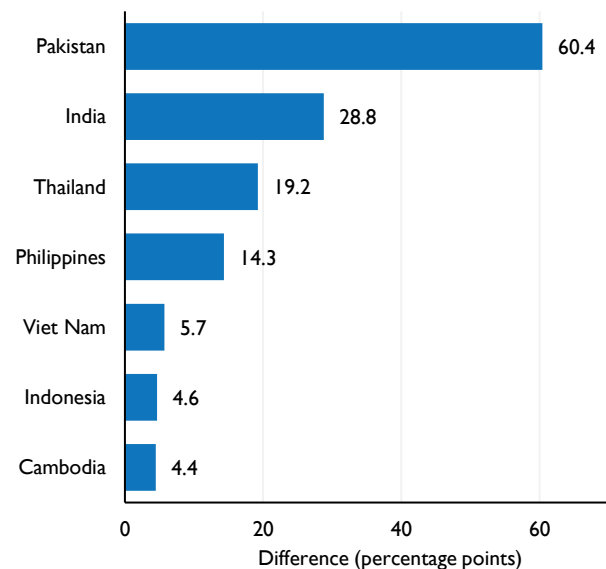
By contrast, in Cambodia, Indonesia, and Viet Nam, the difference between non-compliance rates for men and women is relatively small. Cambodia's non-compliance rate for women is four percentage points higher than the rate for men, while the male-female compliance gaps in Indonesia and Viet Nam are five and six percentage points, respectively.

Figure 2: Non-compliance rates with the minimum wage in the garment sector by gender, lower bound estimates (%)



Source: Authors' calculations based on national labour force surveys.

Figure 3: Male-female difference in non-compliance rates with the minimum wage in the garment sector (percentage points)



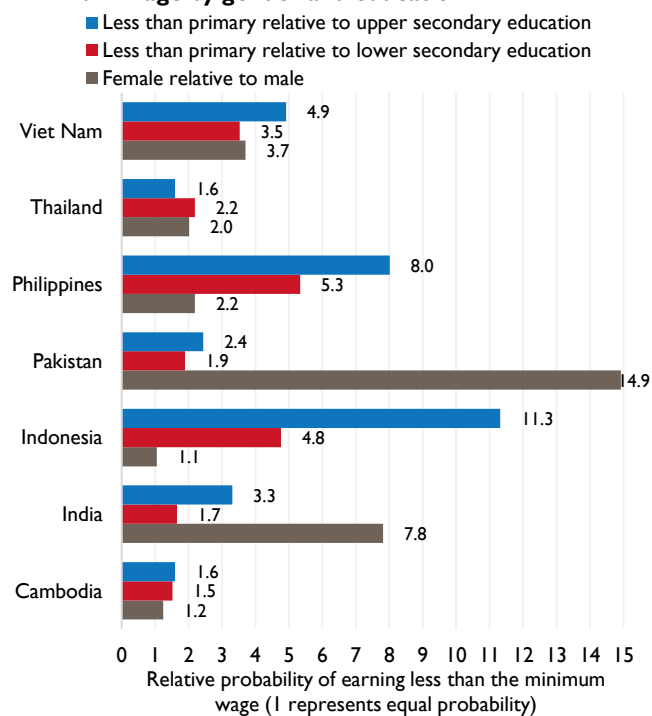
Source: Authors' calculations based on national labour force surveys.

4. Non-compliance and education

Garment workers with lower levels of education are also more likely to be paid below the minimum wage. The relationship is strongest in Indonesia and the Philippines. Figure 4 shows the results of three between-group comparisons of the probability of workers earning below the minimum wage, while controlling for other demographic and employment characteristics such as age, marital status, locality, occupation and economic sector.

⁷ See Better Factories Cambodia, 'Garment Industry 33rd Compliance Synthesis Report', BFC (Phnom Penh, 2016).

Figure 4: Relative probability being paid less than the minimum wage by gender and education



Note: Indicates the relative probability of earning less than the minimum wage for (a) employees with less than a completed primary education relative to those with upper secondary schooling, (b) employees with less than a completed primary education relative to those with lower secondary schooling, and (c) female employees relative to male employees, while controlling for differences in age, marital status, experience, geographic location, status of employment, occupation and economic sector. A value of 1 represents equal likelihood of being paid less than the minimum wage. Source: Authors' calculations based on national labour force surveys.

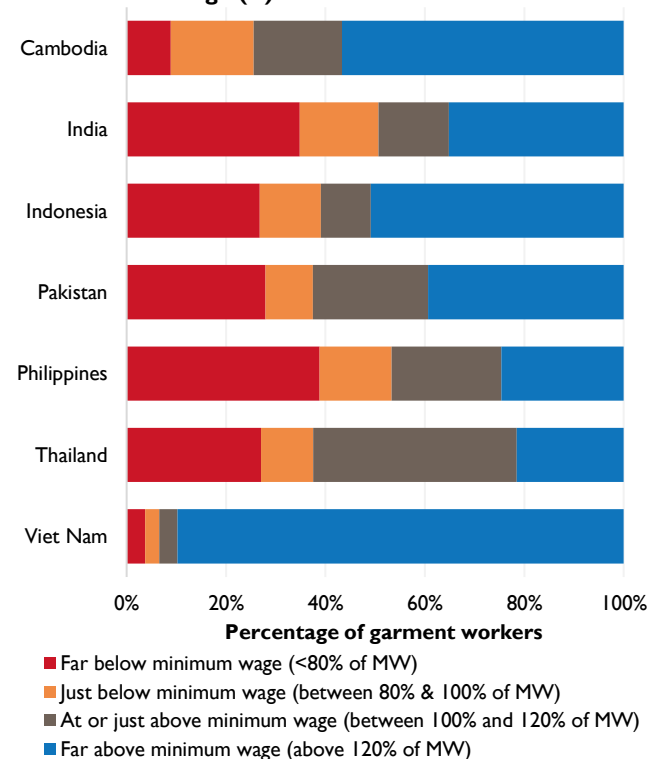
The estimates shown in Figure 4 show that, for example, a garment worker with less than primary education is 11.3 more times than a garment worker with upper secondary education to be paid below the minimum wage in Indonesia, when a range of observable characteristics are controlled for.

5. Depth of non-compliance

If workers are paid below the minimum wage, this is recorded as an instance of non-compliance in this brief. However, not all instances of non-compliance are the same. A worker being paid 99 per cent of the minimum wage is in a very different situation to a worker who is paid only 50 per cent of the minimum. The depth of non-compliance is an important dimension. To examine this, we divide workers into four categories, based on the wage they receive: far below the minimum wage; just below the minimum; at the minimum wage or just above; and far above the minimum wage.

We classify a worker as being paid 'far below the minimum wage' if he or she is paid less than 80 per cent of the minimum wage. 'Just below the minimum wage' applies to workers who are paid less than the minimum wage but at least 80 per cent of the minimum wage threshold. We classify a worker as being paid 'far above the minimum wage' if he or she receives more than 120% of the minimum wage.

Figure 5: Depth of compliance and non-compliance with the minimum wage (%)



Source: Authors' calculations based on national labour force surveys.

The depth of non-compliance varies considerably across countries (see figure 5). In Cambodia, for example, 25.6 per cent of workers are paid below the minimum wage. This is composed of 16.7 per cent of workers who are paid just below the minimum and 8.9 per cent of workers who are paid far below the minimum. By contrast, India, Indonesia, Pakistan, the Philippines and Thailand each have a large proportion of garment sector workers who are paid far below the minimum wage.

6. Alternative estimates of non-compliance with monthly or daily minimum wages

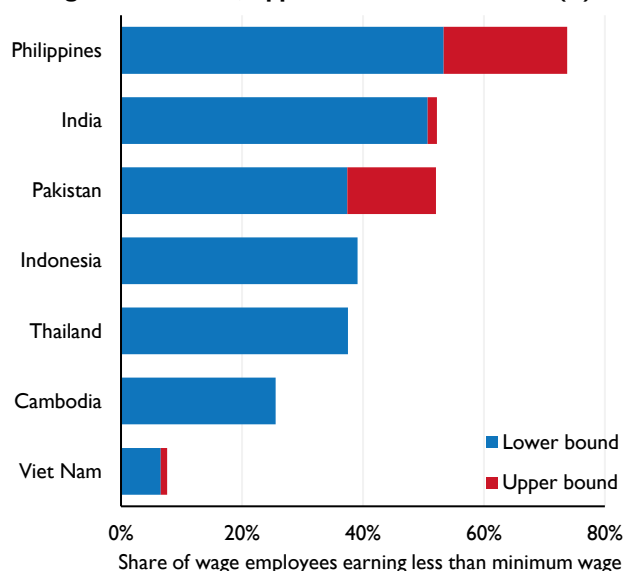
Two of the countries considered in this brief, Thailand and Cambodia, have a single minimum wage that applies in the garment sector, without variation based on skill or geographical region.⁸ For these countries, deriving the non-compliance rates (as shown in Figure 1) is relatively straightforward. Workers' remuneration as recorded in the

⁸ This was the case at the time of the labour force surveys used in this research note and remains the case as at August 2016.

labour force survey is compared to the minimum wage that was in force at the time the survey was conducted.

For other countries, there are a number of minimum wages that apply to different workers based on factors such as geographic location or skill level. In these countries, it is possible to derive alternative estimates of non-compliance based on different assumptions about the correct minimum wage that applies to particular workers. For this brief, alternative estimates of non-compliance rates were derived for four countries, shown in Figure 6.

Figure 6: Non-compliance rates with the minimum wage in the garment sector, upper and lower estimates (%)



Note: See Appendix B for further information on sources and methods.
Source: Authors' calculations based on national labour force surveys.

Figure 6 compares the 'lower' non-compliance estimates with the 'upper' estimates. The figure shows that applying the alternative minimum wage figures makes only a small difference to the estimated non-compliance rates in Viet Nam and India, adding 1.0 and 1.6 percentage points respectively. In Pakistan and the Philippines however, the situation is different. When the higher minimum wages are used to calculate compliance in the Philippines, the estimated non-compliance rate rises by 20.4 percentage points from 53.3 per cent to 73.8 per cent. In Pakistan, using the 9 000 PKR rate in the calculations results in a 52.1 per cent non-compliance rate rather than the 37.4 per cent obtained using the 8 000 PKR minimum wage – a 14.7 percentage point difference in non-compliance rates.

The upper estimates were derived as follows:

- In Viet Nam, the zones used for minimum wage setting do not precisely correspond with the regions used in the labour force survey. For most of the analysis in this note, the lowest minimum wage that could apply in a particular region was used to calculate non-compliance.

The upper estimate in Figure 6 uses the highest rate that could apply.

- In Pakistan, the 2012-13 labour force survey microdata to which the ILO has access do not contain a province variable. The 'lower' compliance rates used for most of the analysis in this note are based on the 8,000 PKR per month unskilled minimum wage that was in place in Sindh and Khyber Pakhtunkhwa. The 'upper' estimates in Figure 6 are based on the 9,000 PKR minimum in place in Balochistan and Punjab.
- In India, three states (Gujarat, Maharashtra, and West Bengal) apply different unskilled minimum wages for garment workers in particular zones within the state. For most of the figures in this note, the lowest of these zonal rates was used for workers in those states. The highest are used in the 'upper' estimates in Figure 6.
- In the Philippines, different minimum wages are applied to small enterprises and large (non-agricultural) enterprises. For most of this note, the rates for small enterprises are used, while Figure 6 uses the higher wage rates to calculate the 'upper' estimates.

Indonesia also has an array of provincial, district, and sectoral minimum wages. This brief uses the general provincial minimum wages to calculate non-compliance. While measured non-compliance rates would likely be higher if the sectoral and/or district rates could be appropriately applied, this is not possible for this brief given the data available.

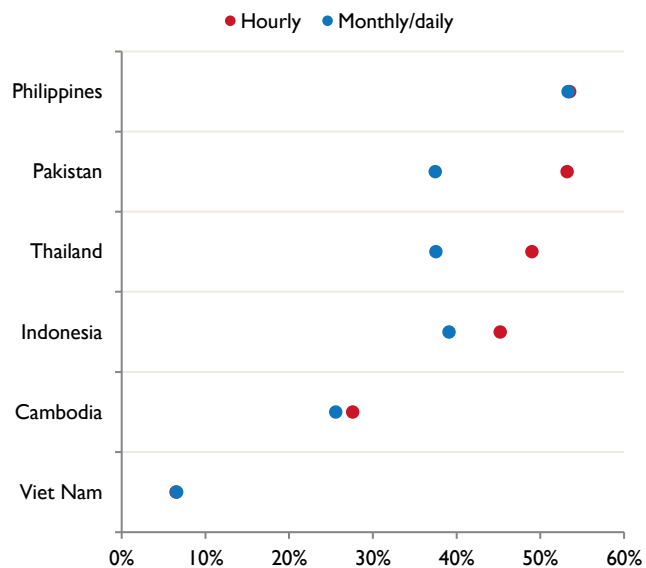
In countries that have higher minimum wages for skilled workers (such as Pakistan), even the 'upper' estimates do not take into account underpayment relative to skilled minima. The proportion of workers who are being paid less than the applicable legal minimum is likely to be even higher in these countries than the 'upper' estimates presented here if skilled rates were taken into account.

7. Estimates of non-compliance based on hourly wages

The non-compliance estimates in this note were obtained by comparing employees' monthly remuneration to the monthly minimum wage (other than in India and the Philippines, for which daily rates were used). Such estimates are imperfect. Employees' remuneration, as recorded in labour force surveys, may include payments made in respect of overtime worked. If a worker worked more than the required base hours, but received only the monthly minimum wage, this will be recorded as 'compliant' in the analysis above, even though minimum wages should be paid in respect of ordinary hours. This likely reduces the estimated non-compliance rate below the true non-compliance rate.

Alternative, and possibly more accurate, estimates of non-compliance can be derived by comparing hourly wage rates received by workers with an estimated hourly minimum wage. The hourly minimum wage was calculated by dividing the monthly minimum wage by each country's ordinary limit of working hours for garment sector workers.⁹

Figure 7: Non-compliance rates with the minimum wage in the garment sector, monthly/daily and hourly basis (%)



Note: The Philippines is based on a daily wage, all others are monthly. India was not included as its survey data does not include hours worked.
Source: Authors' calculations based on national labour force surveys.

In the Philippines and Viet Nam, the estimates of non-compliance based on hourly wages are very similar to the central ('lower') estimates used elsewhere in this paper. For Cambodia, there is a relatively small difference, with an estimated non-compliance rate of 27.6 per cent based on hourly wages compared to a 25.5 per cent figure when using monthly wages. The differences for Pakistan, Thailand, and Indonesia are much more pronounced.

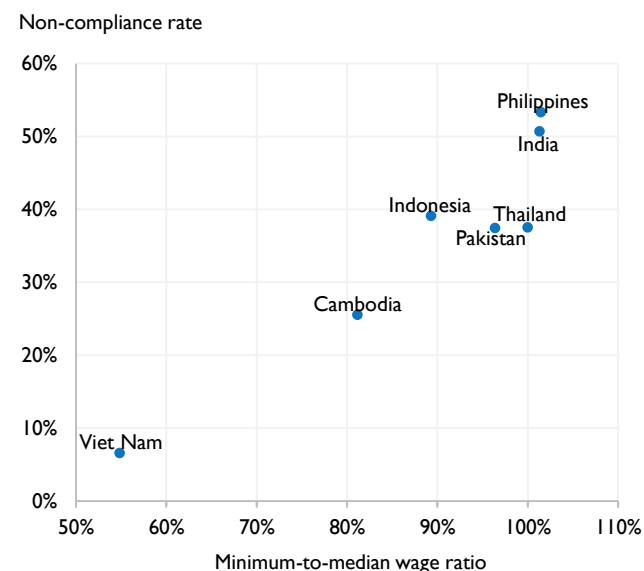
This suggests that a substantial proportion of garment workers in those countries only attain a wage equivalent to the monthly minimum wage by working overtime. If workers attain a wage equivalent to the minimum wage (or higher) through working overtime, they are recorded as 'compliant' for the purposes of this research note, but this is properly understood as a situation of non-compliance, as the minimum wage should be paid in respect of ordinary hours. This is another respect in which the estimates produced in this report are 'conservative' and more likely to under- than over-state non-compliance rates.

⁹ For details of the hours limits used, see L. Hult: [Working hours in the global garment industry](#), Asia-Pacific Garment and Footwear Sector Research Note Issue 3 (Bangkok, ILO, 2016).

8. Strategies to promote compliance

Non-compliance with the minimum wage in the garment sector tends to be higher in countries with higher minimum wages, relative to the median wage. This is shown in Figure 8. This accords with previous evidence from studies that are not specific to the garment sector.¹⁰

Figure 8: The minimum-to-median wage ratio and the non-compliance rate in the garment sector



Note: The minimum wages used to calculate the minimum-to-median ratio for each country is the average across sub-national regions, weighted by the regions' share of garment sector employment, except in Viet Nam which is based on an unweighted average of the four regional minimum wages. The median wage is the median for the garment sector.
Source: Authors' calculations based on national labour force surveys.

The relationship between non-compliance and the level of the minimum wage, depicted above, should not be taken as a suggestion that a lower minimum-to-median wage ratio should be pursued in order to improve compliance. As others have noted, "reducing the minimum wage to some meaningless level or refraining from adjusting it regularly is clearly not a satisfactory response to the challenge of compliance."¹¹ Minimum wage increases do not necessarily reduce compliance, particularly where there are strong systems in place to monitor compliance, to inform factories regarding their obligations, and to assist them to comply. Data from the Better Factories Cambodia programme suggests that compliance with the minimum wage in the factories it monitors – 381 between May 2015 and April 2016 – has remained more or less stable at a very high level in recent years, even as the minimum wage has been increased significantly. However, the compliance rate is one

¹⁰ See U. Rani, P. Belser, M. Oelz and S. Ranjbar: "Minimum wage coverage and compliance in developing countries", in *International Labour Review*, vol. 152, no. 3-4 (Geneva, ILO, 2013).

¹¹ U. Rani et al., op. cit., p. 395.

factor to be considered by the social partners when adjusting wages.

Another important factor is the complexity of minimum wage systems. In countries with simpler systems, workers are more likely to know the wage to which they are entitled, and employers are more likely to be aware of their responsibilities. Research suggests that compliance tends to be higher in countries with simpler minimum wage systems, rather than complex systems in which wages vary according to sector and/or occupation.¹² The evidence considered in this research note supports this conclusion. Viet Nam and Cambodia have the lowest rates of non-compliance, and both have relatively simple minimum wage adjustment systems, with no differentiation for skill or sector.¹³ Viet Nam has regional variation, but a relatively small number of regions (four) and a single process that adjusts the wage for all regions. The countries with higher rates of non-compliance generally have more complex systems, with a greater degree of variation in minimum wages along regional, occupational, and/or sectoral lines. However, it should be noted that Thailand also has a simple system, with a single national minimum wage, and yet a high rate of non-compliance is found in the garment sector.¹⁴

Figure 9: The design of minimum wage systems and the rate of non-compliance

	Minimum/median wage ratio in garment sector (%)	Regional variation in minimum wages	Higher minimum wages for skilled workers	Non-compliance rate in garment sector (%)
Cambodia	81.2	No	No	25.6
India	101.3	Yes	Yes	50.7
Indonesia	89.3	Yes	No	39.1
Pakistan	96.4	Yes	Yes	37.4
Philippines	101.5	Yes	No	53.3
Thailand	100.0	No	No	37.5
Viet Nam	54.9	Yes	No	6.6

The design of minimum wage systems, including the minimum wage rate and the complexity of the wage structure, are important considerations for improving compliance. The role of the workers' and employers' representatives in the wage-adjustment process can also affect compliance, as can labour market governance and the robustness of the labour inspection system.

Specific measures to promote compliance could include:

- information and awareness raising campaigns;

- capacity-building activities for employers' and workers' representatives;
- empowering workers to claim their rights through individual complaints as well as collective action;
- investing in measures to formalize the informal economy;
- strengthening labour inspectorates to increase the identification and remediation of minimum wage non-compliance;
- designing and applying appropriate sanctions that function as a deterrent to non-compliance;
- monitoring global supply chains and ensuring responsible purchasing practices;
- developing public employment programmes that pay minimum wages.¹⁵

Measures that encourage collective bargaining could also have a role to play in promoting compliance with minimum wages.

9. Conclusion

Minimum wages play a vital role in the garment and footwear sector, in which collective bargaining over wages is relatively rare. Minimum wages can only achieve their fundamental purpose of giving wage earners necessary social protection against unduly low wages if workers are actually paid the legal minimum. The evidence in this research note demonstrates that a large proportion of workers in the garment sector in a number of countries in Asia are paid below the minimum. This is a matter for policymakers and social partners to consider, both in the design and implementation of the minimum wage-setting system, and also through targeted compliance measures where appropriate.

¹² U. Rani et al., op. cit., p. 397.

¹³ Cambodia's minimum wage applies only to the garment, textile, and footwear sector, but there are no other sector-specific minimum wages.

¹⁴ Thailand reverted to regional variation in minimum wages in 2016, but had a single national minimum wage at the time the survey data used in this paper was collected.

¹⁵ ILO: [Minimum Wage Policy Guide, Chapter 6](#) (Geneva, 2016).

Appendix A: Summary of findings

	Cambodia	India	Indonesia	Pakistan	Philippines	Thailand	Viet Nam
Date of LFS	Feb. to Apr. 2012	July 2011 to June 2012	Aug. 2014	July 2012 to June 2013	Oct. 2013	July to Aug. 2013	2013
Wages in the garment sector							
Minimum wages used in brief - lower bound (LCUs)	292 219	2 405 to 6 737	910 000 to 2 441 301	8 000 to 9 000	5 330 to 11 154	7 800	1 650 000 to 2 350 000
Minimum wages used in brief - lower bound (US dollars)	73	48 to 136	79 to 211	83 to 93	123 to 257	248	79 to 112
Average wage in garment sector (LCUs)	388 173	5 283	1 447 394	10 052	7 585	8 528	3 834 531
Median wage in garment sector (LCUs)	360 000	4 334	1 250 000	8 300	7 800	7 800	3 600 000
Workers paid below minimum wage (% of wage employees) – Lower bound							
Total	25.6	50.7	39.1	37.4	53.3	37.5	6.6
Men	22.0	45.3	36.5	26.5	43.4	23.2	2.2
Women	26.4	74.0	41.1	86.9	57.7	42.5	7.9
Workers paid below MW wage (% of wage employees) – Upper bound							
Total	-	47.2	-	43.1	64.5	-	2.6
Men	-	74.0	-	92.9	77.9	-	9.2
Women	-	52.2	-	52.1	73.8	-	7.6
Depth of non-compliance (% of wage employees by pay range)							
Extreme non-compliance (paid less than 80% of MW)	8.9	34.9	26.8	27.9	38.8	27.0	3.8
Moderate non-compliance (paid between 80% and 100% of MW)	16.7	15.8	12.3	9.5	14.5	10.5	2.8
Moderate compliance (paid between 100% and 120% of MW)	17.8	14.1	10.0	23.2	22.1	41.0	3.7
Extreme compliance (paid more than 120% of MW)	56.7	35.2	50.9	39.3	24.6	21.5	89.8

Appendix B: Notes regarding sources and methods

The analysis for each country followed the same general approach. The actual wages of a representative sample of garment sector wage workers were obtained from the microdata of the latest available labour force survey for each country. These actual wages were then compared to the minimum wages that were in force at the time the labour force survey was conducted. In most countries, minimum wages have changes since the time of the last labour force survey.¹⁶

The garment, footwear and textile sector was defined using the International Standard Industrial Classification (ISIC). The relevant ISIC divisions are Divisions 13-15 (ISIC Rev. 4) or Divisions 17-19 (Rev.3).

Bangladesh: The survey sample size in Bangladesh was insufficient to generate statistically reliable estimates of non-compliance rates in the garment sector, and therefore the results were not included in the analysis in this note.

Cambodia: At the time of the 2012 labour force survey, the minimum wage was USD 61 per month. In addition, USD 12 in compulsory allowances were required to be paid, consisting of USD 5 health care allowance and USD 7 attendance bonus. These have been included in the minimum wage used for this analysis (USD 73). Note that BFC compliance figures differ significantly from those in this note (see footnote 7).

India: Provincial unskilled minimum wages were used. For provinces that specify different minimum wages based on industry, the most relevant industry figures were used. Where applicable, 'dearness allowance' is included in the minimum wages used in this analysis. Higher minimum wages in place for skilled workers were not used. Minimum wages were obtained from the Ministry of Labour and Employment, *Report on the Working of the Minimum Wages Act 1948 for the Year 2011*, Government of India.

Indonesia: Provincial minimum wages were used. District and sectoral minimum wages were not used. In some circumstances, firms in Indonesia are able to apply for postponements to the implementation of the minimum wage when the wage is increased. Such postponements allow an employer to pay below the (newly increased) minimum wage for a certain period. Such situations are not able to be discerned in the labour force survey data on which this report is based; they are recorded as 'non-compliance'.

Lao People's Democratic Republic: The survey sample size in Lao PDR was insufficient to generate statistically reliable estimates of non-compliance rates in the garment sector, and therefore the results were not included in the analysis in this note.

Pakistan: At the time of the 2012-13 labour force survey, there were two different unskilled minimum wages in place at provincial level – PKR 8 000 per month in Sindh and Khyber Pakhtunkhwa, and 9 000 in Punjab and Balochistan. It was not possible using the labour force survey data used in this report to determine which province workers resided in and thus which minimum wage applied to them. The 8 000 rate was therefore used for all workers, other than in the 'upper' estimates where 9 000 was used. The higher minimum wages in place for skilled workers were not used in this analysis.

Philippines: The 'lower' estimates use the lowest 'non-agriculture' daily minimum wage, multiplied by 26. The 'upper' estimates use the higher 'non-agricultural' daily minimum wage, multiplied by 26. The minimum wages used in the analysis include the compulsory allowance, where applicable. Minimum wages were obtained from the website of the National Wages and Productivity Commission, Department of Labor and Employment. In some circumstances, employers may be able to apply for legal exemptions to the minimum wage. These situations are not able to be discerned in the labour force survey data on which this report is based; they are recorded as 'non-compliance'.

Thailand: The daily minimum wage of THB 300 was multiplied by 26 to obtain a monthly rate.

Viet Nam: Different minimum wages apply in four regions. These regions do not perfectly correspond to the regions in the labour force survey. Where it was not possible to ascertain the minimum wage region in which a labour force survey respondent resided, and therefore the minimum wage that applied, the lowest relevant rate was applied. The upper bound estimates use the highest relevant rate.

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¹⁶ For example, the Cambodian minimum wage was USD 140 as at 1 January 2016.