

1. Introduction

One of Fair Wear Foundation's core labour standards is the payment of a living wage.

"Wages and benefits paid for a standard working week shall [...] always be sufficient to meet basic needs of workers and their families and to provide some discretionary income." (From FWF Code of Labour Practices, based on ILO Conventions 26 and 131).

In 2009 FWF conducted a study that focused on recent developments in wage levels in China's garment industry. This study served a double purpose: to assess levels of wages that are presently being paid, and to assess to what extent present wages are sufficient for garment workers' living needs.

Though in 2010 the minimum wages were increased by local governments, they still fall (far) short of living wages. According to this study, legal minimum wages for regular working hours were only about 60% of a living wage in 2009. Many workers, meanwhile, still earn less than the legal minimum wage for a regular working week. To achieve a take-home wage that approaches a living wage, therefore, garment workers are forced to work excessive hours. Not surprisingly, the labour shortage persists: labour conditions may simply not be good enough to keep skilled workers longer term in a context of an increasingly tight labour market.

The study, funded by Oxfam Novib, was coordinated and executed by the Social Work Research Centre of Beijing University and Hong Kong Polytech University. The research team was led by Professor Yiu Por Chen of DePaul University.

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2. Research description

Selection of respondents

In four cities (Beijing, Shanghai, Dongguan and Ningbo), rank-and-file workers from at least five garment factories were interviewed. The factories around which workers were approached for interviews were selected through convenience method. The total group of twenty factories included two factories which produced for FWF member companies. From each factory, twenty workers were selected: ten married workers and ten single workers, with five male and five female workers in each of these marital status groups. In total four hundred workers were interviewed.

All interviews were carried out between June and October 2009. Only workers who had been employed in the garment industry since November 2007 were selected for interviews to ensure the worker's ability to answer survey questions on the impact of the Labour Contract Law on their wages. The research teams

approached workers outside the factory compounds. If workers gave their consent for an interview, these were carried out in a nearby restaurant or dormitory after standard working hours, during evenings and resting days. Worker interviews were carried out by multi-disciplinary teams of grassroots NGOs, local researchers and students with backgrounds in sociology, anthropology or other social sciences.

Demographic characteristics of respondents

Most respondents in the sample were between 18 and 24 years old. Most workers had received 6-10 years of formal education. On average workers had spent 5 years living in their current city of employment, and worked for almost 3 years at their current employer. Only 7% of all workers described him/herself as a local resident.¹

Considerable regional variations occurred in the demographic characteristics of respondents. Workers in Shanghai had enjoyed most formal education (on average 10 years) and those in Ningbo least (on average 8 years). In Beijing, 78% of all married workers had a child in school, whereas only 41% of married workers in Dongguan had a school attending dependant. In all four cities migrants constituted the majority of the sample. In Dongguan and Ningbo, only 1% of the workers were local residents, whereas 9% of the interviewed workers in Shanghai and 13% of the workers in Beijing had been born in their current city of residence.

3. Trends in wages in 2009

In 2009 the average take home wage decreased by almost 6%

The survey showed that the Chinese garment industry were severely hit by the global financial crisis. In comparison to 2008, the average take-home wage (regular wages plus overtime benefits) decreased by 87 Yuan in 2009 to an average of 1,458 Yuan. This means that on average take home wages of workers decreased by 5.7% compared to 2008.

Marked decreases in take home wages in Beijing and Dongguan

Dramatic regional variations exist in how wage levels developed in 2009, as shown in table 1. Workers in Shanghai seem to be in a relatively good position with the highest wage level between the different regions – an average of 1,746 Yuan/month. The financial crisis did not lead to a substantial deterioration of take-home wages in Shanghai in 2009.

¹ Under China's hukou system of household registration and residency permits, the population is effectively divided in two groups: urban households and rural households. Under the system, rural citizens have little access to social welfare in cities and are restricted from receiving public services such as education, medical care, housing and employment, regardless of how long they may have lived or worked in the city.

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In Dongguan, however, wages did take a dive: garment workers in this city on average took home a monthly wage of 1,478 Yuan in 2009, a decrease of over 12% compared to 2008.

In Ningbo, the wage decrease was less dramatic, with an average wage level of 1,628 Yuan/month, constituting a 1.4% decrease.

The wage drop in Beijing, finally, was dramatically more pronounced. Already in 2008 wages there were lower than in the other three cities. With a 8.8% reduction in 2009, the average take-home wage came to 1,104 Yuan/month.

Table 1: Trends in take home wages (mean)

Variable	Inter-city average	Beijing	Dongguan	Shanghai	Ningbo
Monthly take home wage 2008	¥1.545,00	¥1.210,00	¥1.686,00	¥1.747,00	¥1.652,00
Monthly take home wage 2009	¥1.458,00	¥1.104,00	¥1.478,00	¥1.746,00	¥1.628,00
Absolute decrease monthly take home wage 2009	¥87,00	¥106,00	¥207,00	¥2,00	¥23,00
Difference in monthly take home wage 2009 (compared to 2008)	-5,66%	-8,75%	-12,31%	-0,09%	-1,42%

The fact that workers in Shanghai were able to maintain a higher level of wages may be owing to the fact that companies in the Yangtze River Delta are generally better vertically integrated in the industry. These companies generally add more value and have a greater profit margin. Combined with this, local governments in the Yangtze River Delta may be better at enforcing existing regulations on local legal minimum wages.

The above percentages do not, however, reflect real development in purchasing power. As prices of food, rent and basic commodities rose considerably during 2008-2009, real wages for rank-and-file workers in the garment industry (taking inflation into account) would have decreased in all four cities.²

² See for example:

Average 2.7% decrease in wages for a regular working week, 10% dive in Dongguan

The survey results point out that average wages for regular working hours of 40 hours decreased by 2.7% in comparison to 2008 (table 2). Dongguan shows a remarkable wage decrease of over 10% for a regular working week.

Table 2: Trends in wages for regular working hours (mean)

Variable	Inter-city average	Beijing	Dongguan	Shanghai	Ningbo
Wage for regular working hours in 2008	¥1.373,00	¥1.116,00	¥1.547,00	¥1.280,00	¥1.586,00
Wage for regular working hours in 2009	¥1.336,00	¥1.072,00	¥1.383,00	¥1.342,00	¥1.566,00
Relative decrease wage for regular working hours 2009	-2,69%	-3,94%	-10,61%	4,87%	-1,31%
Local minimum wage 2008-2009	¥872,50	¥800,00	¥770,00	¥960,00	¥960,00

7% earns below the minimum wage for a regular working week

According to the findings from the survey 7.1 % of all workers in our sample received less than the local legal minimum wage that applied to their city in 2009. The percentage of workers receiving less than the local legal minimum wage for a 40 hour working week is highest in Beijing with 10.6% while Dongguan has the lowest percentage with 2.8% The data from this study point out that workers earning less than the local legal minimum wage tend to be older, slightly less educated and tend to have a shorter employment relationship at their factory when compared to other workers.

Average total pay for overtime work decreased by almost 14% in 2009

As overtime work is standard practice in the Chinese garment industry, it is important to assess developments in overtime pay closely. On average, workers in 2009 earned 13.8% less for overtime work compared to 2008 (table 3). Considering that average wages for a standard working week of 40 hours were

<http://www.bloomberg.com/news/2010-05-11/china-consumer-prices-rise-more-than-estimated-2-8-fastest-in-18-months.html>
http://online.wsj.com/article/NA_WSJ_PUB:SB126044535697285233.html

reduced by 2.7%, the decrease in pay for overtime has been the main driver of the overall decrease of 5.7 % in take-home wages (see above).

As shown in table 3, substantial variations were found across regions, both in level of overtime wages and in the decrease in 2009. In Shanghai, total overtime wages in 2009 came to an average of 456 Yuan / month, exceeding the other 3 cities by far. In Ningbo, Dongguan and Beijing, total overtime wages amounted to approximately 100 Yuan / month. In Shanghai, monthly overtime wages decreased with 10%, whereas in Beijing and Dongguan a drop of almost 30% occurred in 2009 compared to 2008. The decrease in total overtime pay in Ningbo was only 3%.³

Table 3: Trends in overtime wages (mean)

Variable	Average	Beijing	Dongguan	Shanghai	Ningbo
Overtime wage 2008	¥241,00	¥140,00	¥140,00	¥507,00	¥94,00
Overtime wage 2009	¥208,00	¥100,00	¥98,00	¥456,00	¥92,00
Relative decrease overtime wage 2009	-13,82%	-29,11%	-29,85%	-10,03%	-2,82%

Decrease in overtime pay likely to be caused by decrease in orders and lower overtime wages

On the basis of the available data, it is not possible to conclude to what extent the decrease in monthly overtime pay was a result of a decrease in overtime hours and/or a decrease in pay per overtime hour. The audits carried out by FWF audit teams in China in 2009, however, generally point out that excessive overtime (a working week of more than 60 hours) remained widespread during 2009, as was the case in previous years. This picture is confirmed by the findings from this study.

The decrease in total overtime pay, therefore, is likely the result of two interrelated factors: less overtime work was available due to decreasing orders by customers and more factories have resorted to increasing production quota for workers, effectively paying lower wages for the same amount of working hours.

³ In general workers do not distinguish earnings for overtime work and regular working hours. For the sake of this study, interviewed workers were asked to estimate their earnings for overtime work.

4. Cost of living for workers in the Chinese garment industry

Monthly expenses: daily living cost takes up most of the budget

The survey results point out that on average workers spent approximately 1,442 Yuan per month. As indicated in table 4, total expenditures for workers was highest in Shanghai (1,528 Yuan/month) and lowest in Beijing (1,381 Yuan).

Average daily living expenses (including rent, food, and other items needed on a daily basis) take the highest portion on the monthly budget (798 Yuan/month).

On average garment workers spent approximately 235 Yuan/month on remittances to other members of their family. Child related expenditures, including cost of education, are the third highest spending category. The average amount for child related expenditures of 184 Yuan/month is an average for all workers. Calculating the average for parents only, spending per child equals 379 Yuan. Workers with one (or more) children thus spend a great share of their income on their dependants.

Table 4: Average monthly expenditures

Spending category	Average	Beijing	Dongguan	Shanghai	Ningbo
Daily living expenses	¥798,25	¥861,00	¥721,00	¥704,00	¥907,00
Remittances	¥234,50	¥144,00	¥226,00	¥345,00	¥223,00
Children	¥183,74	¥200,58	¥227,41	¥159,80	¥147,15
Leisure	¥90,79	¥43,11	¥119,40	¥149,47	¥51,18
Communications	¥70,43	¥72,75	¥69,58	¥70,85	¥68,53
Travel	¥36,56	¥23,72	¥55,19	¥51,41	¥15,93
Medical	¥16,62	¥24,57	¥10,23	¥25,59	¥6,10
Study	¥11,11	¥11,60	¥8,70	¥22,28	¥1,85
Total	¥1.441,99	¥1.381,33	¥1.437,51	¥1.528,40	¥1.420,73

Remarkable variations are found in the cost of specific expenditures between cities. The cost of living is highest in Ningbo, followed by Beijing and then Shanghai. While this seems incongruous with the outcomes described above, an explanation may be found in the limited sample size: possibly, a disproportionate number of the selected workers in Shanghai resides in factory dormitories, for which a fee is paid which generally lies below the cost of renting a private residence. Availability of a factory canteen at one or more of the

included factories, which limits daily cost of food for workers in most cases, may also have contributed to this variation.

Legal minimum wages fall far short of average expenses

Comparing the average monthly expenses for workers to the local minimum wage clearly shows that local legal minimum wages for a 40 hour working week are not sufficient to guarantee workers an income that meets their basic needs. Table 5 shows how local legal minimum wages compare to the amounts that equalled total average expenses for workers. The legal minimum wage equals 58%, 53%, 63% and 68% of the average amount that workers spend on a monthly basis in Beijing, Dongguan, Shanghai and Ningbo respectively. This indicates that workers are forced to seek alternative forces of income or work overtime shifts to fulfil their living needs. The validity of payment of minimum wages as a social compliance benchmark should therefore be questioned.

Table 5: Comparison of legal minimum wage and average monthly expenses

Variable	Average	Beijing	Dongguan	Shanghai	Ningbo
Legal minimum wage (LMW)	¥872,50	¥800,00	¥770,00	¥960,00	¥960,00
Average monthly expenses	¥1.442,00	¥1.381,00	¥1.438,00	¥1.528,00	¥1.421,00
Average monthly expenses as a percentage of the LMW	60,47%	57,93%	53,55%	62,83%	67,56%

Levels of living wages according to workers

As part of the survey workers were asked to indicate which wage bandwidth they would find reasonable as a living wage. Judging from the results of this survey workers were quite modest with respect to the level of wages which they would find realistic to meet their living needs. As indicated in table 6, most workers in Beijing thought a wage level between 1,500-1,999 Yuan/month would allow them to meet their needs. In Ningbo and Dongguan most workers considered wages between 2,000-2,499 Yuan/month appropriate for their situation. Reflecting the highest local cost of living, most workers in Shanghai felt an income of above 3,000 Yuan to be necessary to meet their basic needs.

Table 6: Worker estimated monthly living wage

Answers (%)	Overall sample	Beijing	Dongguan	Shanghai	Ningbo
1000-1499 Yuan	4%	13%	2%	0%	2%
1500-1999 Yuan	29%	60%	30%	11%	27%
2000-2499 Yuan	27%	19%	50%	13%	38%
2500-2999 Yuan	19%	7%	11%	28%	22%
3000 Yuan or above	21%	1%	7%	49%	12%
Total	100%	100%	100%	100%	100%

To point out how wages for regular working hours in 2009 compare to living wages, we will use the upper limit of the mode bandwidth (the range which is

most often referred to by workers as a realistic living wage) as the proxy for the estimated living wage in these cities. Table 7 compares estimated living wages for the four cities with the average wage for regular working weeks in 2009 (taken from table 2).

Table 7: Comparison estimated living wage with regular wages in 2009

	Beijing	Dongguan	Shanghai	Ningbo
Upper bandwidth of expected living wage (mode)	¥2.000,00	¥2.500,00	¥3.000,00	¥2.500,00
Basic wages for regular working hours in 2009 (average)	¥1.072,00	¥1.383,00	¥1.342,00	¥1.566,00
Basic wages as a percentage of expected living wage	53,63%	55,34%	44,73%	62,67%

As specified in table 7 the survey results point out that 2009 wages for regular working hours fell far short of estimated living wages. The average amount for regular working hours equals between 44 % (Shanghai) and 63 % (Ningbo) of the estimated local living wage.

As part of the survey workers specified which needs they would like to fulfil in case of a hypothetical wage increase, and what wage level would be appropriate to meet these needs. Most workers (24 %) would chose to reserve money for savings. 13 % would allocate (more) money to child education. Another 13% of workers prioritised other family-related expenditures. A third group of 13% of workers opted to spend a hypothetical wage increase on daily costs of living.

5. Conclusions: towards payment of a living wage

The findings from this study indicate that, contrary to conventional wisdom, wages in the Chinese garment industry have not been rising since 2008. Though field work for this study was executed during a limited timeframe, there is sufficient ground to believe that wages decreased substantially in 2009. An increase in wage levels in the final months of 2009 is hypothetically possible, but it is unlikely that this would have compensated prior decreases.

FWF acknowledges that this study lacks sufficiently empirical ground for authoritative statements on actual levels of living wages in the Chinese garment industry. Particularly it is difficult to be certain about wages for overtime work as workers are generally only aware of their total monthly wages.

The figures, however, do offer a reasonable indication that both the present level of wages and the existing legal minimum wages are not sufficient for workers to meet their basic living needs on the basis of a 40 hours working week. This means that payment of minimum wages in China cannot be a satisfactory benchmark for compliance with the FWF Code of Labour Practices.



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Rather, companies must be expected to commit to wage levels that provide workers the means to live in decent conditions with their families.

Following increases in local cost of living, many cities in China raise their minimum wages in 2010. Whereas these increases are a step into the right direction, FWF believes that payment of minimum wages in China does not provide a sufficient framework for decent working conditions in factories.

FWF continues its work towards payment of living wages in China

In response to the gap that presently still exists between actual wages that are being paid and living wages FWF has integrated the 'wage ladder' into its audit methodology. The wage ladder is a benchmarking system used to chart wage levels in a factory relative to various available wage standards in a country or region. By means of the wage ladder FWF will be able to chart wage levels at individual factory relative to other (living) wage standards. The wage ladder will be included in reports of factories audits that are carried out from July 2010 onwards.

Information taken from wage ladders will be used as input for management system audit reports (see fairwear.org), by means of which FWF publicly reports on the extent to which affiliate members companies effectively implement the Code of Labour Practices, including their commitment to facilitate the payment of living wages on factory level.