

Executive Summary

MONEY HEI\$T

***Covid-19 Wage Theft in Global
Garment Supply Chains***



MONEY HEIST: COVID-19 WAGE THEFT IN GLOBAL GARMENT SUPPLY CHAINS

Executive Summary

The report studies the impact of the Covid-19 pandemic-induced recession on Asian garment workers employed in the supply chains of major global apparel brands. It highlights wage theft as the most common experience and pre-dominant consequence of the pandemic-induced recession on garment workers, which resulted in a devastating and prolonged humanitarian crisis.

Focus on Wage Theft

Wage theft was not an unintended result of the Covid-19 pandemic crisis, but is in fact an inbuilt mechanism in global garment supply chains through which global apparel brands amass super-profits through extreme labour exploitation of workers in their supplier factories. Wage theft is intrinsic to the business models of global apparel brands, who transfer the risks and costs of manufacturing for volatile consumer markets to their suppliers, and ultimately workers in their supply chains, in the form of wage theft. This was exacerbated during the pandemic-induced recession.

As a result, during the pandemic-induced recession:

- Different forms of labour exploi-

tation and harmful employment practices in the supplier factories of brands culminated in extreme and severe wage theft for workers.

- Several Asian production countries have national legislations to protect workers against loss of employment and wage theft. However, the threat of retaliation by employers in the form of further job loss and wage deprivation, prevented workers from challenging labour rights violations. Even where there is a lack of national workers' rights to decent employment and wage protection find legitimacy in international norms and standards.
- Poverty-level wages of garment workers, even in the pre-pandemic period, did not allow workers any resilience to tide over crisis, in the form of savings, assets or occupational mobility with improved standard of living.

Global Garment Supply Chains Oriented towards Wage Theft

The current unregulated and asymmetrical structure of global garment supply chains allows brands to amass

super-profits through human rights violations of workers in the form of wage theft.

- **Asymmetrical Power Relations form the Basis of Wage Theft:**

Brands capture consumer markets in developed economies by retaining control over the high value activities of design, marketing and retail, while engaging in the extreme exploitation of labour in Asian production countries. They are able to wield monopsonistic power over the large number of suppliers across Asian production countries, who offer cheap manufacturing including low labour costs. Brands falsely project themselves as “buyers” creating intense competition between suppliers and what has been termed a race-to-the-bottom between production countries to further push down production costs by reducing labour costs.

- **Human Rights Impact of Wage Theft:**

Wage payment is a crucial pre-condition for the survival of workers and their households, and mediates access to social, economic, political and civil rights. Both national governments, through legislation protecting the socio-economic rights of workers, and international normative frameworks, recognise access to living wages as central to social justice. Wage loss in the case of workers, who earn poverty-level wages, results in their level of consumption going even below survival level and is undeniably wage theft.

- **Lack of Regulation Perpetuates**

Wage Theft: The highly profitable businesses of brands are driven by coercive and deeply entrenched management practices in their supply chains to transfer risks and costs to suppliers and workers. The lack of regulation of global supply chains permits brands to engage in extreme disregard for basic justice in their supply chains, while paying lip service to normative standards.

During the pandemic-induced recession, brands utilised their power over suppliers and workers to engage in coercive suppression of production costs, and thus labour costs, through aggressive and unilateral actions such as cancellation of orders, reduction in new orders, refusal to pay or delayed payment, demand for deep discounts, and reduced lead times. This allowed brands to adjust their businesses and reduce impact on their profits caused by the pandemic-induced recession. The business models of brands are antithetical to guaranteed and protected wages, leading to human rights violations through wage theft during the pandemic-induced recession. Workers were forced to subsidise the stabilisation and recovery of brands' profits through exacerbated wage theft, extended over a significant period of time.

Methodology

The Report Focuses on the Following Questions:

- What were the adverse shifts in the employment relationships of garment workers employed in the sup-

plier factories of major global apparel brands as a result of the pandemic-induced recession?

- What were the extent and forms of wage theft experienced by garment workers as a result of the adverse shifts in their employment relationships?
- What was the impact of wage theft on garment workers and their households' access to basic human rights and a minimum standard of living?
- What were the coping strategies employed by garment workers to tide over the crisis, and its short and long-term consequences on workers and their households?

Sample

- **2185 garment workers** employed; across
- **189 supplier factories**; located in
- **6 countries** – Sri Lanka, Pakistan, India, Indonesia, Cambodia and Bangladesh; where
- **15 major brands** source their garments

Tools of Data Collection

- **Structured Interview Schedule** was administered to all workers to collect data on key variables regarding their employment and wages, and the impact of wage theft on their households.
- **Factory profile** was administered to trade unions to triangulate infor-

mation collected from workers and collect data on the overall workforce and working conditions across factories.

- **Qualitative interviews and FGDs** were conducted with selected groups of workers to cover gaps in data collection and further explain trends in quantitative data collection.

Wage Theft Estimates

- **Actual Wage Theft** (of surveyed workers) and **Wage Theft Estimates** (of total workforce across surveyed factories through an estimation method) have been calculated.
- Wage theft estimates are based on a **representative sample** at the factory level, with **proportionate representation** across gender, type of employment contract, departments and job roles, to the extent possible.
- Wage theft estimates are **under-estimations** as the sample focuses on unionised workers with relatively secure employment and wages in the Tier 1 export factories of major global apparel brands.

Major Findings

There were adverse shifts in the employment relationships of workers with the suppliers, resulting in extreme deprivation of wages and benefits. The most prominent cause of wage theft was the reduction in the number of working days due to a change in the employment status of workers through layoffs or terminations. As a

result, workers and their households were trapped in a vicious cycle of poverty and indebtedness.

Pre-pandemic situation of workers was exacerbated through wage theft during the crisis:

- Workers’ wages were at poverty levels even before the pandemic, and were pushed further below the International Poverty Line in their countries.
- Even the household income of workers fell below Asia Floor Wage Alliance’s Living Wage figure, with this disparity increasing during the pandemic.
- Workers’ wages have remained stagnant over their lifetime, despite an increase in age and experience. Even though they spent several years working in a high growth, global industry, they remained unable to tide over even a month without wages.

Workers and their families engaged in their own physical and mental degradation in the present and mortgaging of their future to cope with wage theft:

- Workers’ wages did not meet their consumption requirements even prior to the pandemic-induced recession. However, during the pandemic, they were faced with the immediate consequence of further cutting down consumption expenditure on food, shelter, healthcare and education and other social or cultural needs. At the same time, they had to take on more debt to finance reduced consumption.
- Long-term impacts on the workers’ households in the form of inter-generational transfer of poverty through reduced spending on food and nutrition, healthcare and education, long-term indebtedness to access sub-standard consumption, and sale of meager assets.

Impact of Pandemic-Induced Recession on Access to Work, Wage theft, Poverty Levels and Indebtedness of Workers Across 6 Countries

Country	% Reduction in Work Days	% Wage Theft	% Workers below Poverty Line	% Increase in Debt
Sri Lanka	21	23	78	200
Pakistan	26	29	81	196
Indonesia	20	21	78	198
India	26	23	93	137
Cambodia	6	6	10	64
Bangladesh	23	27	96	202



494,076 workers from across 189 supplier factories of major brands in 6 countries experienced at least 157 million USD in wage theft in 2020.

Country	Wage Theft per Factory (Million USD)	Actual Wage Theft (USD)	Wage Theft Estimates (Million USD)
Sri Lanka	1.38	68,913 (193 workers, 11 factories)	9.42 (14,650 workers, 11 factories)
Pakistan	2.2	144,954 (605 workers, 50 factories)	85.08 (244,510 workers, 50 factories)
Indonesia	0.73	221,704 (390 workers, 28 factories)	20.02 (81,633 workers, 28 factories)
India	1.15	140,336 (433 workers, 53 factories)	29.67 (79,600 workers, 53 factories)
Cambodia	0.71	57,072 (294 workers, 24 factories)	12.71 (73,412 workers, 24 factories)
Bangladesh	N/A	95,229 (271 workers, 21 factories)	N/A

74% of the total workers across 189 factories in 6 countries were pushed below the World Bank Poverty Line in their countries due to wage theft.

Workers took on debt for accessing survival – to spend on food and shelter, while they cut down on children’s education and critical medicines. Removing children from school, child labour and distress employment of younger family members were devastating consequences of wage theft.

Typology of Management Practices and Wage Theft

The management practices of brands are deeply entrenched in their supply chains, in relation to the contracting out of production to their suppliers. These management practices, in turn,

have a **cascading effect on the labour management and employment practices** of their suppliers, resulting in wage theft for workers in their supply chains.

Wage theft, therefore, is the net impact of brands’ deeply entrenched management practices on workers. These management principles orient supply chains towards creating risk free businesses for brands.

The following management practices were exacerbated as brands adjusted their businesses to minimise the impact of the pandemic-induced recession on their profits:

- Unilateral cost cutting decisions without consultation with trade unions and workers even though it impacts them.

- Refusal to share costs arising from the pandemic-induced recession, and transferring of these costs to suppliers and workers.
 - Leveraging of jurisdictional and governance weaknesses in production countries, in the form of poverty-level wages and low enforcement regimes, to push costs onto workers while evading any liability towards them.
- The management practices of brands lead to harmful employment practices in their supplier factories, as suppliers shift costs to workers through different types of wage theft. The table below summarises the typology of management practices and the different forms of wage theft in the supplier factories of brands:

Use of Managerial Power and Leverage Over Workers	Employment Practices	Forms of Wage Theft
Malafide Use of Power to Change Employment Status	<ul style="list-style-type: none"> • Failure to recognise seniority of workers • Replace more secure with more precarious employment • Wrong designation – permanent as contract workers 	<ul style="list-style-type: none"> • Reduction in wages due to demotion • Reduction in benefits due to shift in contract type
Arbitrary Practices to Impose Flexibility of Workforce	<ul style="list-style-type: none"> • Layoffs & termination to reduce size of workforce • Coercive intensification of work by smaller workforce • Extension of workday of smaller workforce 	<ul style="list-style-type: none"> • Loss of terminal benefits • Loss of wages • Unpaid/underpaid overtime
Deceptive Practices to Evade Liability under Labour Law	<ul style="list-style-type: none"> • Manipulation of work-related documentation • Termination or wage theft under guise of disciplinary action 	<ul style="list-style-type: none"> • Loss of wages • Unpaid/underpaid overtime • Loss of terminal benefits

<p>Unethical Practices to Leverage Vulnerability in Workforce Demographics</p>	<ul style="list-style-type: none"> • Replacement/ termination of pregnant/older workers, union members, female over male workers • Rehiring male over female workers & non-unionised over unionised workers • Layoff of female over male workers and contract/casual over regular workers • Forcing contract/casual workers to work longer hours without pay 	<ul style="list-style-type: none"> • Loss of terminal benefits • Loss of wages • Unpaid/underpaid overtime
<p>Blatant Leveraging of Weak Enforcement Mechanism</p>	<ul style="list-style-type: none"> • Denial of bonus, social security, provision of creches, transportation, etc. 	<ul style="list-style-type: none"> • Loss of key security benefits

Main Inferences

- Stagnation of workers’ wages at poverty levels leads to **a lack of resilience** against any crisis.
- Wage theft of workers with poverty-level wages is a **major human rights violation**.
- Brands **caused and contributed** to human rights violations in their supply chains.

Workers provide a “**reverse labour subsidy**” for brands’ super-profits. Workers were forced to engage in the **mining of their bodies** to provide this reverse labour subsidy during the pandemic. The plight of workers during the pandemic proved that, contrary to the position taken by international policy and mainstream academic circles, the **integration of production countries into existing asymmetrical global**

garment supply chains has not led to development gains for workers or production countries.

Rather, during the pandemic, global garment supply chains **exacerbated pre-existing inequalities**. The garment industry draws on the labour of women from oppressed socio-economic groups, with the pandemic further **increasing economic violence against women and deepening gender disparity**. Features of **forced labour**, such as unpaid and underpaid overtime work and severe indebtedness due to wage theft, have become commonplace during the pandemic.

Way Forward

Rapid Response

At the peak of the pandemic, in April 2020, Asian unions rapidly responded to wage theft through **AFWA’s Supply**



Chain Relief Contribution (SRC). The global garment labour rights movement regrouped itself with a broad consensus on Wage Assurance.

New Social Contract

There is a growing demand for a **new social contract** which has at its core social protection against employment loss. The global labour rights movement has put forward a demand for a **Severance Guarantee Fund** financed by brands.

There is an urgent need for transformative shifts in the structure and governance of global garment supply chains for a fair redistribution of power and profits through a guaranteed and protected living wage.

This can be achieved through:

- A **global re-adjustment towards higher prices** by consumer markets and brands through a pricing model that enables adequate compensation and fair redistribution of profits.

- Strong labour market institutions which **promote union driven and monitored processes for payment of living wages**, such as the Wage Forward Campaign for Enforceable and Binding Agreements on Living Wages.
- Transnational commercial relationships between brands and suppliers need to be re-examined to redefine brand liability towards workers in their supply chains. The **joint employer liability of brands**, along with their suppliers, towards workers, must be explored.