

## How much will a dollar buy? (in Indonesia, China, India or Mexico)

If you have ever spent time visiting or living in a developing country, you probably noticed many everyday times cost less-- especially once you get away from the tourist areas.

You're impression was correct: the cost of living is lower in developing countries, mainly because wages are so much lower. That is one reason many Americans retire in Mexico or other countries-- their social security checks go further there. This "live like royalty on \$17 a day" ran on the NY Times web page. Note that it mentions maids and gardeners because what is really inexpensive in poor countries: wages are low. This is why more families are poor in Bangladesh or India. Low wages show up mainly in the price of services: getting a haircut, have a prepared meal and even going to the movies. Rents are also cheaper because the cost of building and maintaining houses and apartments is much lower (also people can afford only so much rent, given their wages). Some items are not much cheaper; an imported brand name appliance for example may even be more expensive as many governments in poor countries rely on import taxes for their revenue. The reason is simple: we cannot go to India to see a movie or have dinner, but we could import cars or grain from India. Hence the price of traded goods is likely to be similar to that in the U.S., but the price of non-traded goods (services, construction, medical care, etc.) can be very different. Low cost broadband made it possible to "import" some services from India, hence the outsourcing "boom" involving programming, tax preparation, tutoring or even customer support – at call centers. Call customer service at Dell or Microsoft or the Gap and you will likely speak to someone in India.

Since land and labor in developing countries is cheap compared to wages and rents in OECD countries-- especially in rural areas-- a dollar goes farther than in the U.S. For example, in Mexico you can easily get a hair cut for \$3-4 or go to the movies for say \$6.50, in India you can even buy a movie ticket online for \$3-4. Even middle class families often have a nanny, driver and a gardener. To account for these differences in purchasing power-- the World Bank's International comparison project (IPC) computes a conversion factor that makes the purchasing power of a dollar roughly equal in both countries. If we add up the basket of goods and services a family normally buys-- food, rent, shoes, etc.—in Indonesia one U.S. dollar buys about what \$3 would buy in the U.S. In Mexico \$1 U.S. buys what \$1.50 would buy, in Vietnam or India it buys almost \$4.00 worth of goods and services at U.S. prices (see Table 1). The PPP factors shown below for 1998 through 2006 tell us how much further a dollar will go in each of these countries compared to the United States. This means someone who earns a dollar in Vietnam can really buy about four times as much as a worker who earns that same dollar in the U.S. (again because rents, food etc. are so much cheaper).

## Retire Overseas

Learn About  
The World's Six  
Best Places To  
Live Or Retire



Live like royalty on \$17 a day

Own an exotic beachfront getaway for \$35,000. Or a romantic pied-a-terre for under \$60,000. Enjoy fine restaurant dining for \$7 per person. Employ your own maid or gardener.

**Table 1: PPP Adjustment Factors: for example in India dollar buys about three times what it does in the U.S. but just 50% more that it does in Mexico or Chile...**

	1998	2000	2003	2005	2006
Bangladesh	2.20	2.37	2.64	2.72	2.91
Cambodia	2.90	3.13	3.27	3.20	3.16
Chile	1.68	1.89	2.26	1.68	1.46
China	2.43	2.50	2.52	2.38	2.31
Costa Rica	1.76	1.77	1.90	1.95	1.96
Cote d'Ivoire	2.05	2.56	2.00	1.83	1.79
Dominican Republic	2.00	1.94	2.66	1.76	1.84
Ghana	2.16	3.64	2.89	2.44	2.26
Guatemala	1.83	2.05	2.09	1.90	1.86
Honduras	2.85	2.24	2.32	2.33	2.30
India	3.21	3.36	3.25	3.02	3.02
Indonesia	4.76	3.02	2.56	2.47	2.11
Korea, Rep.	1.83	1.51	1.50	1.30	1.25
Malaysia	2.48	2.38	2.42	2.18	2.10
Mexico	1.84	1.55	1.58	1.53	1.51
Mozambique	1.70	1.92	2.41	2.11	2.27
Uganda	2.12	2.79	3.29	2.80	2.80
Vietnam	3.48	3.53	3.64	3.35	3.26

Source: World Bank WDI online, January 2009, based on updated 2005 estimate of Purchasing Power Parity.

**Case study:** Estimating the cost of living in Tangerang Indonesia vs. New York in 2000.

In 1998 Jim Keady a graduate assistant coach for St. John’s University soccer team resigned in protest over the University’s \$3.5 million contract to display Nike’s logo on its uniforms and equipment.<sup>1</sup> To make their point that Nike workers were not being paid a “living wage” in August 2000 Jim and fellow theology student Leslie Kretzu spent a month living in Tangerang, Indonesia, a suburb of Jakarta with many shoe factories. While there, they carefully documented the costs of things a typical worker might buy, interviewed workers from footwear factories, and put together information on the wages workers are paid and how much things cost. They put the results of their research on a web page (nikewages.org) which is gone now but may be somewhere on their larger [Educating for Justice](#) web page (and pasted below for your convenience).

Reproduced below are photos and prices of items Jim Keady and Leslie Kretzu purchased in Tangerang stores. To compare what dollar buys in New York vs. Tangerang choose any six items, preferably three would be food, and find prices of similar items in a U.S. store (not a fancy store, an urban discount store or Kmart – or ask someone at home to check for you). Make a table like the one below listing each item. Add up the cost in dollars of purchasing those items in Tangerang during 2000. Now add up the cost of buying roughly the same items in the New York in 2008. Now multiply your total by .8 to adjust for 2000-2008 inflation (on average everything urban consumers buy was 20% cheaper in 2000 than in 2008). The ratio of these two totals is a rough estimate of the ppp conversion factor for Tangerang and New York in 2000. It shows the cost of the same bundle of goods here and there in 2000, more or less. Feel free to check their web page for other items (reproduced below). Finally compare your estimate with the official PPP estimate for 1998 or 2000 shown in Table 1 above.

Now take the ratio of the cost of the same goods in NY vs. Tangerang. This is our rough estimate of the PPP factor. Here is an example of how your table might look. Not that the estimates in Table 4 tend to corroborate a ppp factor of just under four, but please add your own prices to this spreadsheet version just to be sure...

Table 4: PPP Calculations based shopping by Jim Keady and Leslie Kretzu in Tangerang (as posted on their web page, [www.nikewages.com](http://www.nikewages.com))

Item	2000	2008	2000-2007*	PPP ratio
	Tangerang, Indonesia	suburban New York	Inflation Adjusted	
2 Bananas	0.08	0.55	\$0.46	6
Cooked Rice & Vegetable	\$0.17	\$2.15	\$1.78	10
1 Kilo of oranges	\$0.48	2.17	\$1.80	3.8
Bottled Water	\$0.24	\$0.69	\$0.57	2.4
Note book	\$0.24	\$1.29	\$1.07	4.5
Men's LS shirt	\$1.74	\$7.99	\$6.63	3.8
Coca-cola (8 oz?)	0.17	0.75	\$0.62	3.7
Chicken (free range?)	\$1.33	\$4.95	\$4.11	3.1
<b>Total cost for this basket:</b>	<b>\$4.5</b>	<b>\$20.5</b>	<b>\$17.0</b>	<b>3.8</b>

\*cumulative U.S. consumer price rose about 17% between 2000 & 2007.

Note: a kilo is 2.2 pounds

**A**

**B**

**B/A**

<sup>1</sup> To be fair, there is some controversy as to exactly what happened to Jim Keady at St. Johns, for an archive of local press coverage click here [Jim Keady vs. St. John's soccer](#).

## How Much Do Clothes Cost?

And what can **Men** afford...

Location: Tangerang



### Men's long sleeve shirt

Rupiah: 15,000Rp

Dollars\*: \$1.74

% of DBW\*\*: 139%



### Men's Golf Shirt

Rupiah: 10,000Rp

Dollars\*: \$1.16

% of DBW\*\*: 93%



### Men's Socks

Rupiah: 4,000Rp

Dollars\*: \$0.46

% of DBW\*\*: 37%

\*Value in US dollars is based on 8,300-8,600Rp per \$1USD depending on daily exchange rates.

\*\*DBW was calculated by taking the basic monthly wage of 325,000Rp and averaging it out over 30 days.

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**Source:** [http://www.educatingforjustice.org/nikewages/cost\\_men.html](http://www.educatingforjustice.org/nikewages/cost_men.html)

## How Much Do Clothes Cost?

And what can parents afford...

Location: Tangerang



### Children's Sweatsuit

Rupiah: 12,000Rp

Dollars\*: \$1.39

% of DBW\*\*: 111%



### Children's Dress

Rupiah: 35,000Rp

Dollars\*: \$4.07

% of DBW\*\*: 324%



### Children's Pajamas

Rupiah: 10,000Rp

Dollars\*: \$1.16

% of DBW\*\*: 93%



### Soccer Strip

Rupiah: 20,000Rp

Dollars\*: \$2.33

% of DBW\*\*: 185%

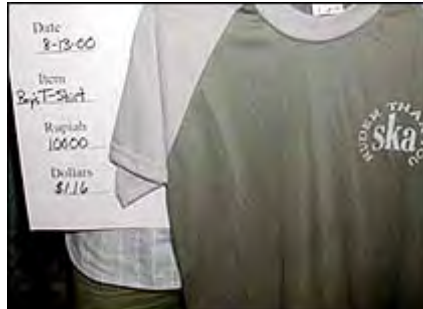


### Children's T-shirt

Rupiah: 8,000Rp

Dollars\*: \$0.93

% of DBW\*\*: 74%



### Boy's T-shirt

Rupiah: 10,000Rp

Dollars\*: \$1.16

% of DBW\*\*: 93%



### Boy's Shorts

Rupiah: 20,000Rp

Dollars\*: \$2.33

% of DBW\*\*: 185%



### School Uniform

Rupiah: 20,000Rp

Dollars\*: \$2.33

% of DBW\*\*: 185%



### Children's outfit

Rupiah: 15,000Rp

Dollars\*: \$1.74

% of DBW\*\*: 139%

\*Value in US dollars is based on 8,300-8,600Rp per \$1USD depending

on daily exchange rates.

\*\*DBW was calculated by taking the basic monthly wage of 325,000Rp and averaging it out over 30 days.

## How Much Does Food Cost?

And what can **People** afford... Location: Tangerang



### Sugar

Rupiah: 4,000Rp

Dollars\*: \$0.48

% of DBW\*\*: 37%



### Milk (small Bottle)

Rupiah: 1,500Rp

Dollars\*: \$0.18

% of DBW\*\*: 14%



### Garlic

Rupiah: 1,200Rp

Dollars\*: \$0.14

% of DBW\*\*: 11%



### Instant Noodles

Rupiah: 1,000Rp

Dollars\*: \$0.12

% of DBW\*\*: 09%



### Oranges

Rupiah: 4,000Rp

Dollars\*: \$0.48

% of DBW\*\*: 37%

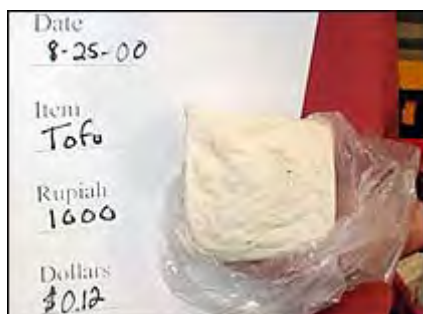


### Rice and vegetables with potato

Rupiah: 1,600Rp

Dollars\*: \$0.17

% of DBW\*\*: 15%



### Tofu

Rupiah: 1,000Rp

Dollars\*: \$0.12

% of DBW\*\*: 09%



### Spinach

Rupiah: 500Rp

Dollars\*: \$0.06

% of DBW\*\*: 05%



### Bottle of Coke

Rupiah: 1,200Rp

Dollars\*: \$0.15

% of DBW\*\*: 11%



### Butterfish (1 kilo)

Rupiah: 10,000Rp

Dollars\*: \$1.20

% of DBW\*\*: 102%



### Bananas (2)

Rupiah: 700Rp

Dollars\*: \$0.08

% of DBW\*\*: 08%



### Biscuits

Rupiah: 1,500Rp

Dollars\*: \$0.18

% of DBW\*\*: 14%



### Bottled Water (large)

Rupiah: 2,000Rp

Dollars\*: \$0.24

% of DBW\*\*: 19%





### Chicken (1)

Rupiah: 11,000Rp

Dollars\*: \$1.33

% of DBW\*\*: 102%



### Eggplant

Rupiah: 500Rp

Dollars\*: \$0.06

% of DBW\*\*: 05%

Source: [http://www.educatingforjustice.org/nikewages/cost\\_food.html](http://www.educatingforjustice.org/nikewages/cost_food.html)

## How Much Do School Supplies Cost?

And what can **People** afford... Location: Tangerang

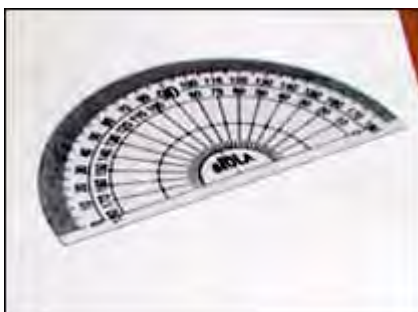


### Markers

Rupiah: 2,000Rp

Dollars\*: \$0.24

% of DBW\*\*: 19%

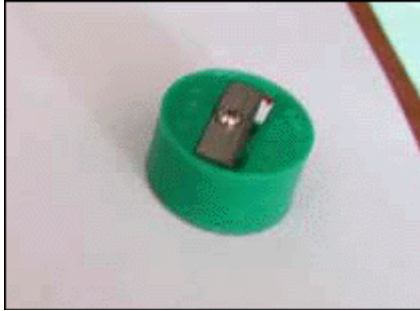


### Protractor

Rupiah: 350Rp

Dollars\*: \$0.04

% of DBW\*\*: 03%

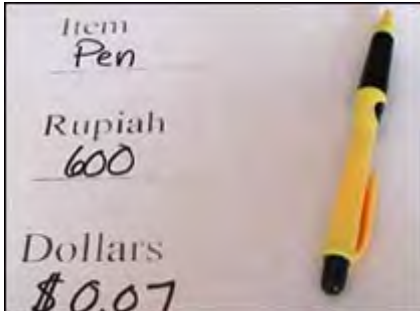


### Pencil Sharpener

Rupiah: 400Rp

Dollars\*: \$0.05

% of DBW\*\*: 04%



### Pen

Rupiah: 600Rp

Dollars\*: \$0.07

% of DBW\*\*: 06%



### Notebook

Rupiah: 2,000Rp

Dollars\*: \$0.24

% of DBW\*\*: 19%



### Drawing Pad

Rupiah: 500Rp

Dollars\*: \$0.06

% of DBW\*\*: 05%



### Eraser

Rupiah: 400Rp

Dollars\*: \$0.04

% of DBW\*\*: 03%

\*Value in US dollars is based on 8,300-8,600Rp per \$1USD depending on daily exchange rates.

\*\*DBW was calculated by taking the basic monthly wage of 325,000Rp and averaging it out over 30 days. Source:

[http://www.educatingforjustice.org/nikewages/cost\\_school.html](http://www.educatingforjustice.org/nikewages/cost_school.html)

## Worker Hours

### Basic Working Hours\*

(Mandated by Ministry of Manpower)

Basic Daily Shift	8 hours
Basic Weekly Shift	42 hours
Basic Monthly Shift	176 hours

### Overtime Hours\*

Overtime hours per day	3-5 hours
Overtime hours per week	18-30 hours
Overtime hours per month	504-840 hours
Sunday and Holiday Overtime Hours per day	7-10 hours
Sunday and Holiday Overtime Hours per month	28-40 hours

\*These hours can drastically fluctuate due to orders/quotas.

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## Calculating Workers' Wages

### Worker Wages in Rp

Basic Monthly Wage	<b>325,000Rp*</b>
Basic Daily Wage	<b>10,800Rp</b>
Basic Hourly Wage	<b>1550Rp</b>
Overtime Wage (based on 3 hours)	<b>10,450Rp</b>

- First overtime hour x 1.5 = 2850Rp

- Second overtime hour x 2 = 3800Rp
- Third overtime hour x 3 = 3800Rp

The hourly rate for overtime wages is mandated and determined by the following equation.

$$1/173 \times 325,000\text{Rp} = 1900\text{Rp}$$

Sunday and Holiday Wage **37,400Rp**  
 - Basic daily wage (10,800Rp) + 7 hours overtime x2 (26,600Rp)

**Worker Wages in USD**

Basic Monthly Wage **\$37.00**  
 Basic Daily Wage **\$1.20**  
 Basic Hourly Wage **\$0.17**

Overtime Wage (based on 3 hours) **\$1.18**

- First overtime hour x 1.5 \$0.32
- Second overtime hour x 2 \$0.43
- Third overtime hour x 2 \$0.43

Sunday and Holiday Wage **\$4.25**

\* This basic wage of 325000Rp per month is not representative of all of the Nike factories in Indonesia. It is actually the highest entry level basic wage in any of their factories. The entry level basic wage at most factories is 300000Rp per month.

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**Compensation** 1. How much money do you make each month? Without overtime, the basic minimum wage is 300000Rp. They also receive 1500 per day in a transportation allowance and if they do not miss a day of work they receive a 20000Rp-attendance bonus. Line chiefs would receive a 30000Rp-attendance bonus.

**4. What do your meals consist of?** Meals consist of rice and vegetables and possibly meat. They told us that the one meal that is provided for them at the factory, that has a market value of 1800Rp, contains the lowest grade of rice that is available and portions that are entirely too small.

**5. How much do you spend on housing?** Housing costs ranged from 75000-150000Rp depending on family needs. Water and electricity are included with the rent.

Source: <http://www.educatingforjustice.org/nikewages/interviews.html>

