Global insights 03
March 2011

Worker welfare in export zones: Lessons from a garment cluster in south India

Summary

This briefing explores the need to improve labour welfare in low-income economies that are rapidly integrating into global production networks. While corporate and civil society initiatives have received considerable attention in the literature, the dynamics and impacts of multinational and national government interventions have been much less scrutinised. Such multinational and national policy initiatives tend to promote industrial upgrading and competitiveness in global markets, but rarely focus on the welfare needs and vulnerabilities of those employed in export industries in the global south. Welfare issues include both the need for social protection and social security, and the payment of a living wage and decent returns to labour. Based on a case study of the Tiruppur garment industry in south India, this briefing explores some pressing work-related welfare issues faced by garment workers employed in different types of firms and under a variety of contractual arrangements. The briefing considers some implications of different employment regimes in terms of worker welfare and social security, and suggests new directions for policy making on these issues.

Promoting Small and Medium Enterprise Clusters

The promotion of Small and Medium Enterprise (SME) clusters has become a key strategy of growth in several developing economies producing for global markets, including India. Focusing on clusters with potential for exports, national and multinational government policies have sought to support such industries by providing or facilitating access to critical inputs like market information, credit, skills training and technology. Supported by multilateral agencies like UNIDO, such initiatives have also become increasingly visible within the informal industrial landscape of post-reform India. However, such interventions are primarily targeting the promotion of growth and competitiveness in global markets, and pay little attention to the wages, welfare and social protection of the labourers involved.

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The growing informalisation of much of India's post-reform economy has pushed the government into exploring ways to address the welfare of informally employed labour. India's National Commission for Enterprises in the Unorganised Sector (NCEUS), for example, has called for a national level intervention to assure social security for labour in the informal economy. It has also proposed a growth pole strategy or a 'cluster of clusters' strategy for infrastructure development to improve incomes of SMEs and ensure better returns for labour. Existing cluster initiatives, however, assume that improved competitiveness and enhanced returns for the cluster will also translate into better incomes for workers. Unfortunately, studies have shown that this 'trickle-down' effect may not occur. Labour welfare is equally dependent upon regional labour market policies and labour market conditions. In the absence of favourable policies and conditions, the distribution of returns between capital and labour within clusters is likely to remain skewed in favour of capital. Further, SMEs often work with very small margins at the lowest end of the value chain and with very little room for firm-level provision of welfare. This policy briefing makes some policy suggestions that simultaneously address the growth imperative of the cluster and returns to workers. The briefing suggests that cluster-level provision of subsidized and quality social infrastructure like housing, healthcare and education can address both the welfare needs of labour and the competitive prospects of SMEs within the cluster.

The Tiruppur garment cluster

Tiruppur, in Tamil Nadu, south India, is a major garment manufacturing cluster, at the heart of a rapidly industrializing region that produces more than 60% of India's knitted garment exports. The cluster exported knitted garments to the value of US $2.5 billion in 2008/9. It has received wide recognition for its export dynamism in the cotton knitwear sector. It has benefited from interventions by UNIDO in the form of organization of visits to model garment clusters in Italy and it has received support for the creation of export consortia and shared service facilities like testing, brand building and other upgrading services. The cluster is characterized by a dense horizontal network of firms specializing in different stages of the production and distribution process. There are also vertical or hierarchical relations between firms where leading exporters outsource part of their orders to subcontractors. As one moves down the production hierarchy, one finds smaller jobworking firms who undertake specific stitching, cutting, trimming or checking operations both for exporters and for subcontractors. A main difference here is between the largest production houses, which mainly operate as direct exporters, and the smaller producers, who are either indirect exporters (producing as subcontractors for exporters) or jobworkers.

A DFID-ESRC funded research project, conducted in 2008-2009 in and around Tiruppur, sought to investigate the impacts of the export cluster on labour and to explore how different forms of production organization affect labour welfare (including livelihoods, incomes, etc), social security and worker vulnerability. Field research was carried out in the Tiruppur garment cluster and involved a mixture of research methods, including extensive formal and informal interviewing, worker and firm questionnaires, and participant observation. Research participants in Tiruppur ranged from company owners and managers, unions and industrial organizations, training centres and government representatives, to labour contractors and garment workers.

Flexible production, fluctuating markets and labour shortage

Estimates suggest that there are about 10,000 garment production units in Tiruppur, employing more than 400,000 workers. For many workers in the immediate region around Tiruppur, garment work has become a desirable form of employment. Thousands commute daily from villages and smaller towns, while many more migrate from further away to take up garment jobs for longer periods of time. There is a wide diversity of jobs available: from unskilled work in dyeing and processing to skilled tailoring work.

The industry, however, is subject to seasonal variations in demand and most firms work with fluctuating orders. These fluctuations create periodic shortages in the labour market that push up nominal wages. Increases in house rents, charges for drinking water and rising transport costs, however, limit the extent to which nominal wage hikes turn into real income rises. Workers rarely feel that wage increases make a real difference to their incomes, not least because they are often further offset by days or weeks without work during the low season or when an order has suddenly been cancelled. At the same time, wage increases have become a serious source of concern for smaller manufacturers, especially those who work as subcontractors and jobworkers, given the high share of wages in their overall production costs (wage costs account for only 10% to 15% of the total production cost of direct exporters, but they account for almost the entire cost of production for the smaller jobworking firms).

This squeeze in margins – accompanied by other factors such as a lack of access to cheap credit, default in buyer payments, last minute cancellations and ever stricter quality control regimes – have led to high firm mortality among smaller firms, and particularly among jobworkers. Given that jobworkers tend to come from poorer backgrounds, this undermines the possibility of growth dynamics getting translated into a more egalitarian distribution of benefits across different types of firm within the cluster. Rather, the risks and uncertainties of the global market tend to reproduce the vulnerable position of smaller production units, on which thousands of workers remain dependent. This squeeze in margins has also made it harder for skilled and experienced workers to establish a production unit of their own and join the ranks of jobworkers, as discussed below.

Labour mobility and welfare implications

The garment industry in Tiruppur is marked by high levels of labour turnover and inter-firm mobility. As companies are regularly without orders, workers frequently move between firms in search of work. Due to the vagaries of the market, most companies – bar the larger export firms – are unable to offer permanent contracts to their workers and instead keep a flexible workforce. Once an order is completed, firms may not have a new order ready and may be waiting for days and sometimes even weeks before they can restart production. To avoid being without income during such down periods, workers move from firm to firm in search of work. Moreover, because of the lack of regular work in many firms, increasing numbers of workers opt to work for labour contractors, with whom they move as a team from factory to factory. Contractors 'take a contract' to, for example, stitch 10,000 T-shirts or iron 5,000 pyjamas, and when the task is completed they may either take a new contract in the same factory or move with their team to another factory.

Labour contractors have thus emerged in a context where the majority of companies have been unable to offer regular work and permanent contracts to their workforce. Contractors, by contrast, can provide firms with teams of garment workers whenever and for as long as they need them, while they provide workers with more regular employment – albeit across different factories and on short-term contracts. In addition to getting a more continuous flow of employment, working for a labour contractor has other advantages too: it offers workers more flexibility and the potential to earn higher wages (as they are usually paid piece-rates). Labour contractors also provide informal skills training to the members of their team and thereby play a central role in the process of informal skill acquisition within the cluster. Moreover, many workers aspire to become a labour contractor themselves and hope one day to set up a production unit of their own. Unfortunately, cut-throat competition (not least from the larger export houses),

rising costs of investment, unaffordable real estate prices and the persistent power of caste networks prevent most workers, and especially migrant workers, from establishing themselves within the industry. More recently, the dollar fluctuations of 2007, the global economic crisis of 2008-9, and the hike in the price of raw materials have further undermined the chances for upward mobility for those at the bottom of the industry.

While this inter-firm mobility allows labour to offset a lack of regular employment within a single firm and while it allows the cluster to benefit by not having to pay for labour in the absence of orders, such mobility also comes at a considerable cost for both capital and labour. On the one hand, fluctuating markets and high worker mobility act as strong disincentives for individual firms to invest in worker training and to offer social security provision to their workforce. As a result, despite the presence of many dynamic firms, the cluster as a whole does not invest enough in skill formation and productivity enhancement. More importantly, from the point of view of labour welfare, the lack of regular employment in a single firm deprives workers of the right to a reliable income and to the social security benefits that such employment is supposed to entail. As a result, a vast part of Tiruppur's labour force remains deeply entrenched in the informal

economy, including those workers employed as contract labourers in large and accredited export houses. While labour mobility and labour market intermediaries may facilitate capital's access to labour and suppress the cost of labour, this hyper-mobility has begun to negatively affect the adequate and prompt supply of labour within the cluster. Persistent labour shortages in the light of growing, yet constantly fluctuating, demand has made labour recruitment and retention a struggle for export firms. Larger employers – and to an extent even subcontracting firms – have resorted to providing subsidized accommodation to workers to retain labour. Exporters are also pressing the government to build hostels for migrant workers to reduce the cost of housing.

Policy Recommendations

The above discussion reveals that policy interventions cannot simply rely on the 'trickle-down' effects of enhanced competitiveness and returns to capital, and that there is an urgent need to intervene more directly in the welfare of workers. The research also indicates that government interventions (as much as those driven by corporate and civil society agendas) that seek to improve the welfare and incomes of workers need to look beyond the shop floor and consider the diversity in employment arrangements as well as the broader lives of workers. In the absence of interventions targeted directly at labour welfare, growth dynamism in SME clusters may neither be sustainable nor translate into a better distribution of returns among those employed in them. Policy interventions should therefore include:

- The recognition of the fluidity of the employer-worker relationship, the mobility of labour, the diversity of employment arrangements, and the central role of labour market intermediaries in industrial clusters.
- Cluster-level provision of subsidized housing, transport, healthcare and education for the families of workers;
- Enhanced investment in training and skill formation within the cluster;
- The financing of such provisions either through public funding or through a combination of public and private funding;
- The mobilization of corporate funding for such provisions by lead firms within the cluster as well as by lead firms further up the value chain, such as major importers and high-profile chain stores.

Such interventions should aim to stabilize the supply of labour within the cluster, enhance its quality and productivity on the shop floor, and above all address the welfare needs of labourers employed in what remains a predominantly informal economy.

How to contact us
This policy briefing was written by M. Vijayabaskar and Geert De Neve and is one of the outputs of a DFID-ESRC funded research project entitled 'Transforming Livelihoods: work, migration and poverty in the Tiruppur garment cluster, India'. For further information on this research please contact Geert De Neve, Department of Anthropology, School of Global Studies, University of Sussex, Falmer, Brighton BN1 9SJ, UK.

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This research was funded by the joint ECRC/DFID scheme for research on international poverty reduction. However, the findings, views and recommendations contained in the document are those of the authors and do not necessarily represent those of either DFID, ESRC or other collaborating partners.