Global Production, Employment Conditions and Decent Work : Evidence from India's Informal Sector

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Abstract

Indian industry, in several sectors, has had a history of incorporation into Global Value Chains for a couple of decades now and in some cases like that of the leather industry, this has taken place for more than half a century. The notable examples in such incorporation are Gems and Jewellery, Automotive Components, Leather and Leather Products, Sports Goods and Garments. In different industries, the extent and the level at which such incorporation has taken place varies, but whatever the position occupied in GVCs for those specific products, a substantial part of such production takes place in the unorganised or informal sector of the economy. This has been highlighted by recent publications of the National Commission for Enterprises in the Unorganised Sector (NCEUS), which have looked extensively at the structure, composition and employment profile of the huge unorganised sector in India. In further work that has taken place at the NCEUS which focuses on enterprises, which the present author has been engaged in, it has been attempted to uncover the extent of interlinked production involving the informal sector and more specifically, such production that takes place in industrial clusters and for Global Value Chains. Data from the National Sample Survey Organisation (NSSO)

reveals that about a third of informal enterprises in India operate on contract and the sectoral analysis reveals that this is significant in sectors that are connected with GVCs. Further, what studies commissioned by the NCEUS show is that while the brunt of market fluctuations is borne by workers all along the chain, informal sector enterprises themselves function with high levels of vulnerability, resulting in the transfer of the vulnerability to labour. Mitigating the degree of vulnerability of enterprises in the informal sector through a group approach that focuses on industrial clusters and cluster-based growth poles, creation of institutional structures (like a National Fund for the Unorganised Sector, a district level skill development agency, to name two) that directly support the informal sector enterprises and the provision of social security for all informal workers constitute the cornerstones of the recommendations that emanate from the NCEUS.

Drawing on work done with the NCEUS, this paper will attempt to specifically look at the issues that arise in the context of incorporation of informal enterprises into value chains in general but with a specific focus on GVCs. It will

- Examine the dominant sectors and products where India is part of a Global Value Chain and in which the Indian micro and small enterprises (or in other words the enterprises in the unorganized sector) show a significant presence and look at whether there have been any structural changes in these sectors with respect to levels of international specialization, industrial upgradation and upgradation of employment conditions.

- Highlight the policy challenges that have arisen with respect to conditions of labour in GVCs, focussing both on the greater prevalence of 'regular work' as well as the increase in self-employment in recent times.

- Highlight the evidence of best practice interventions that have resulted in improved work conditions in such chains and suggest policy interventions required to strengthen the efficiency and competitiveness of micro and small enterprises involved in global and domestic value chains.

- In this context, the importance of and the dynamics of creating a social security system as well as institutions that can upgrade the capabilities of workers will be highlighted, as well as the structures that have been suggested by the NCEUS.

Section 1: Introduction

Indian industry, in several sectors, has had a history of incorporation into Global Value Chains for a couple of decades now and in some cases like that of the leather industry, this has taken place for more than half a century. The notable examples in such incorporation are Gems and Jewellery, Automotive Components, Leather and Leather Products, Sports Goods and Garments. In different industries, the extent and the level at which such incorporation has taken place varies, but whatever the position occupied in GVCs for those specific products, a substantial part of such production takes place in the unorganised or informal sector of the economy. In these industries, the fortunes of different sized firms have been subject to significant fluctuations due to the dependence on what happens in the GVCs for these products. Most recently, there have also been major job losses across different sizes of firms as international demand has shrunk drastically with the recession, these job losses taking place at scales that have perhaps not been witnessed in India before. Given these developments, it is probably opportune and necessary to look at various dimensions of the relationship between GVC incorporation, informalisation of production and labour processes and conditions of work and employment in India. It is perhaps also necessary to compare experiences across countries in similar industries to try and discern patterns of incorporation, strategies and modes of adjustment to shocks in global production. Further, it may be interesting to locate similarities or differences between different experiences in regulatory regimes and other institutional factors.

This paper attempts to specifically look at the issues that arise in the context of incorporation of informal enterprises into value chains in general in India but with a specific focus on GVCs. It

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The rest of the paper is divided into four sections. Section 2 provides a snapshot view of the sectors where GVC incorporation has taken place in the Indian economy, particularly those where there is a significant informal sector presence. Section 3 attempts to present a typology or alternate typologies of GVC-related production and employment. Section 4 examines the relationship between employment patterns, vulnerability and decent work in the industries that are considered. Section 5 outlines the key elements of a protection package that would need to be considered to further decent work conditions under globalised production.

Section 2: Production for GVCs in India - A Sectoral View

This section presents the cases of four industries that cater to GVCs in India and where the informal sector has a significant presence – Automotive Components, Leather, Gems and Jewellery and Garments, with the first being an example of a buyer-driven commodity chain where production is typically controlled by producing MNCs and the

other three being examples of buyer driven chains, where control is exercised by retailer MNCs. It will also briefly touch upon some artisanal industries that have gradually started linking up with GVCs.

India's automotive component industry, which, for almost two decades now, consists of large corporations, both domestic and multinational, came up as a domestic industry and has also diversified into export markets as suppliers for MNCs to other countries[1]. While there has been a proliferation of firms, particularly global players, in the last two decades to cater to the fast growing domestic market segment, a number of firms have also moved to the export market, especially auto component producers. The industry thus manufactures the entire range of parts required by the domestic automobile industry for various vehicles and now has exports contributing to about 20% of sales (Ravi Kumar 2008, Vijayabaskar 2008). The auto industry is a classic case of a producer driven comodity chain led by big firms that source a large number of components from different locations across the globe. But here, unlike some of the other sectors like leather and gems and jewellery where the dynamism is primarily derived from their global market orientation, the sector in India has responded well to the growth in domestic markets as well. Apart from MNCs that control global supply chains, there are also several domestic firms that have built strong links with component suppliers across different tiers. There are 402 medium and large key players in auto components in the organised sector along with 6000 ancillary units and more than 5000 units in the unorganized sector. The direct employment generated by the medium and large firms in the organized sector is 250,000. In the automobile sector, Indian firms have been able to build positions of some strength in parts manufacture. State policies, like high tariffs on imported components, and the peculiarities of the Indian market, forced auto giants to localize their component design. With Indian companies developing this capacity, they have then been able to move on to supplying components to the global lines of the assemblers. The increase in the IT-

[1] The Indian auto component industry started out small in the 1940s,supplying components to Hindustan Motors and Premier Automobiles. In the1950,the arrival of Telco, Bajaj, Mahindra and Mahindra led to steadily increasing production . In India, the vehicle industry till the 1980s was characterized by an oligopoly structure, small-scale operations, high cost of production , technological obsolescence and numerous government regulations. But the entry of Maruti Udyog Ltd (MUL) in mid 80s led to a paradigm shift in the auto ancillary sector. This gave birth to a variety of new age auto components manufacturers who manufactured components that combined the best of technology with quality.

embeddedness of automobile components and India's established capacity in IT-enabled design has led to companies in India further strengthening their position within component design and manufacture. In terms of upgrading, the auto component industry has seen the rise of original equiment manufacturers, as well as improvements in quality and qualifying for global technical standards. During the period 2001-2 to 2006-7, the Indian component industry grew at an annual compound growth rate of 20.32 per cent, with exports growing 23.56 per cent (Vijayabaskar 2008, Ravi Kumar 2008).

Typically, production in the automobile industry is located in some major clusters such as Chennai, Pune, Delhi, Hosur/Bangalore, Noida and Coimbatore and the structure of production consists of large corporations at the top being supplied by about 100 to 200 vendors each, which in turn are linked to small units that manufacture replacement parts, or jobwork units that are engaged in a variety of engineering good production, foundries and the like. The automobile sector is one where a systematic extent of tierisation has taken place with vendors, which constitutes the first level of interlinkages and is very often quoted as a successful case of GVC incorporation being accompanied by firm upgrading.

The gems and jewellery sector, in India, a buyer driven chain dominated by retailers is one of the fastest growing sectors in the country, also yielding substantial foreign exchange resources. Since the early 1970s, there has been a steady growth of the industry with $12.33 billion worth of polished diamond exports for the year 2005. India at present produces 55 percent of the world diamond polished market by value, 82 percent by carats, and 95 percent by number of pieces (Vijayabaskar 2008). The sector is also a major employer with about two million employees spread across over one hundred thousand small and micro enterprises in different clusters in the country. This sector too is clustered in several locations in the country with Surat being the most known centre. Studies also refer to firms having moved up the value chain in this sector. Initially, Indian firms used to specialize in cutting and polishing small pieces, but now many firms have developed capabilities to process larger rough and fancy shapes. Many have also upgraded into patenting cuts. The structure of production in the industry consists of

gradual growth in the size of first level firms, which have subcontractors of different sizes, with production going into the smallest sized own account home-based enterprises. In work done for the NCEUS, the present author found that the database for the unorganised sector in India, the National Sample Survey Organisation's (NSSO) Surveys of Unorganised Manufacturing showed a significant increase in what are called Own Account Manufacturing Enterprises in this segment in the period of high growth of exports (NCEUS 2009).

The Indian leather industry, which is a traditional labour-intensive industry and is organised in the form of clusters, has been incorporated into global value chains from the early 1970s onwards. Almost half[2] of this sector's output is exported and unlike the some other sectors which cater to GVCs, in the leather industry, supplying to the global market has been the major element influencing transformation in the structure of the domestic industry. State intervention has been crucial in this sector with government policies emphasising export orientation and value-added production primarily geared towards exports from the early 1970s, in response to major international relocations of the the global leather industry[3]. Over the history of its existence from colonial times, the leather industry in India has came to play different roles in the international market for leather and leather products - as a raw material supplier in the colonial and immediate post-colonial period until 1973; as an intermediate product supplier (i.e., supplier of finished

[2] There are no exact estimates of the relative proportion of exports and domestic production, these are based on rough assessments made by representatives of industry associations.

[3] In the late sixties, the developing countries of the world were major exporters of hides and skins and advanced countries such as USA, Germany, UK, France and Italy were the manufacturing nations. Developed countries started to close down their tanneries due to stringent pollution measures on the one hand and the rise in labour costs on the other. From the seventies, a migration of the tannery segment to countries such as Korea and Taiwan was witnessed, as also to countries such as India, which had a raw material base, and where pollution norms were not a major consideration. It became possible for these countries to produce finished leather in a big way and also develop capacity for producing leather manufactures, although the major production centres for leather manufactures continued to be in the advanced countries mentioned earlier. In India this was reflected in a major policy initiative in 1973, where the transition to production of finished leather was encouraged. A second migration of the industry took place in the nineteen eighties, with some countries such as Korea and Taiwan becoming uncompetitive partially due to rising labour costs, and the relocation of labour-intensive processes within the production of leather and leather manufactures to other developing countries, particularly in South Asia and the less developed of the South East Asian countries. In India, the main policy changes in this period were in export policy favouring production of labour-intensive value-added manufactures, including intermediate products.

leather, footwear components, etc) from 1973 onwards; and also as a supplier of low labour cost leather products in the lower ends of the international market from the 1980s. At each stage, it has functioned as a raw material or component supplier, or as a low cost producer in the global commodity chain for leather and leather products. The industry is concentrated in several leather clusters in four or five distinct locations in the country, with each cluster containing a wide variety of enterprise forms and organisational structures. Each of these clusters, even though dominated by small-scale firms, have a wide spectrum of firms, varying from tiny firms at one end to large, integrated firms at the other, with a large variety of intermediate size firms in between. The bottom level consists of jobwork units in tanning and leather product making, involved in hierarchical, vertical relationships with firms that place orders with them. These have come into existence in response to the export thrust and represent the response to fragmented, highly volatile demand in the international market. These enterprises belong entirely to the informal sector, i.e., the unorganised or unregistered sector. As far as the system is concerned, they exist in order to provide the major cushion against the adverse impact of fluctuations in demand. At the next higher level, there are a large number of small scale producers of finished leather and leather products who are either independent producers or produce for a group consisting of many small scale enterprises in different stages of the production process. The small-scale independent enterprises are involved in vertical hierarchical relations with jobwork units or fabricators (depending on what they produce) who either supply specific products to them or undertake specific processes regularly, or in times when demand is buoyant. They are also involved in relatively stable vertical relations with one another, in complementary parts of the production process, and these are more or less independent, equal relationships with little hierarchy. The top level consists of medium and large scale enterprises which are independent as well as those that form part of groups. They, in many cases have grown from small scales, sometimes even from fabricator levels. Vertical integration within the same firm does not necessarily mean the absence of vertical relationships with other firms and this goes side by side with extensive relations with jobwork or fabricating units.

A similar kind of organisational structure can be seen in the garments industry in India, which is one of the major export earners for India. Large retailers are linked, through buying agents at different levels, to direct exporters located in different clusters who themselves undertake production as well as have dense interlinkages with large numbers of smaller firms. These smaller firms consist full producers of garments on the one hand, as well as of fabricators who obtain cut components of garments from direct exporters, stitch the garments and send back to the main units for further process or of machine embroidery units. Production, typically activities such as embroidery, takes place in home based units as well, coordinated by contractors, which get linked through different levels, to direct exporters or their suppliers. Over time, there has been an increase in the size of direct exporters, although in the garment industry, the nature of the products, seasonality of demand and the fragmented nature of markets offers inherent advantages to small scale production. As a result, the middle segment of small scale producers is large and consists of thousands of firms in typical garment clusters (Vijayabaskar 2008).

In a range of artisanal industries, such as brassware, handlooms and handicrafts, where links with global markets have gone up over time,a third kind of structure can be seen.Typically, such industries are characterised by household-based, family labour based artisanal production, often in clusters that have existed for a long period of time. Here, it is difficult to distinguish entrepreneurs from workers and all those involved are very often barely eking out a livelihood from artisanal production.

It can be seen clearly from the above brief description of the relationship between specific sectors and GVCs in India that while there are substantial numbers of large formal firms catering to global markets, all the sectors have strong links with informal sector enterprises, irrespective of technological demands. If we look at aggregate data, estimates made by the National Commission for Enterprises in the Unorganised Sector (NCEUS 2009) show that Garments, Leather and Transport Equipment showed higher than average growth rates of employment over the period 1983 to 2004-05 (4.11%, 4.84% and 6.33% respectively, while the all-industry average was 2.5%), with growth rates of organised sector employment also growing at more than 3% in all the three

sectors, indicating a simultaneous growth in informal sector employment (NCEUS 2009). Data for the informal sector also shows that in 2005-06, on an average, about a third of informal sector enterprises worked on contract, which might indicate in some cases the connection with GVCs[4]. The link with informal enterprises or those that belong to the informal sector are not the only indication of the prevalence of informal processes in global production. Even within the formal sector, the labour process and employment patterns are characterised by informality and this is an aspect that this paper wishes to emphasise. In order to do this, the following section looks at typical typologies of production as exemplified by the sectors described above.

Section 3: Typologies of Production Organisation for Global Value Chains

Production for Global Value chains, following the classification of such chains into producer-driven and buyer-driven ones (Gereffi 2003), in India, as elsewhere, can be seen as distinct for these two types of chains. In organizational terms, there is a clear difference between these two because in the former, like in the automobile industry, the producer companies, which are large multinationals, set up production facilities within the country and set up linkages with smaller local firms which supply components to them. In the latter, such as in garments and the leather industry, the highest tier of firms are themselves local and only buying is coordinated by buyer multinationals. Further, they are also distinguished in organizational terms by technological needs which determine to a large extent the degree of decentralization of production. Within buyer driven chains, the organisation of production for artisanal sectors is different from that of leather or garments.

Thus, it is possible to argue that production for GVCs is characterized by three main typologies, represented respectively by automobiles as the first, garments, gems and jewellery and leather as the second and handicrafts as the third. It must be stated that these examples are only illustrative of differences in structure that have implications for labour and are not exhaustive in any sense.

[4] NSSO Surveys on Unorganised Manufacturing (1999-2000 and 2004-05).

The major changes that have occurred in the organization of production in GVC related production can be summed up as follows:

1) In the first two sets of industries, i.e., automobiles, gems and jewellery and garments, over time there has been a growth of size of firms in the higher tiers of production both for technological reasons, the necessity to stabilize production as well as due to the need to overcome the uncertainties of decentralized production. In the leather industry, for example, even in centers of production that catered to the domestic market such as Agra and where industrial organization was characterized by large proliferation of small firms, over time there has been a move by several of them towards exclusive export production and a commensurate increase in size (Akbar 2007, Damodaran 2007). What has changed is the extent of reliance on arms-length transactions with smaller firms, although it still exists. In the garment industry, this has been triggered off by the need to maintain delivery schedules and quality (Krishnamoorthy (2006). Demands made by the international market have, thus, resulted in increases in the scale of production across industries. This has occurred through a combination of vertical integration (involving an internalisation of processes external to the firm, such as production of inputs), horizontal expansion (or capacity internalisation) or labour incontracting (where labour employed goes up, but they are divided into own employees and those under contractors but all production is under one roof).
2) This, however, does not mean that this ostensible increase in 'formalisation' has meant a reduction in informal sector presence in these industries. The technological characteristics of production, the position occupied in the value chain, the possibilities of producing larger variety in order to compensate for uncertainties in demand, all these determine the actual extent of reliance on decentralized production. For example, even the largest firms in the leather industry produce a large variety of leather products, even though their core specialization might lie in one of two products. All major shoe- producing large companies in Tamil Nadu, which produce shoes through the assembly line in large factories employing sometimes thousands of workers, also export small leather goods in order to spread risk, which are often made by small fabricators in

nearby areas (Damodaran 2007). This is true about garment production as well, with large companies installing assembly lines for relatively larger scale production and having links with small firms for highly flexible production of small batch items (Barrientos 2006).

3) What the above means is that the nature of 'market vs hierarchy' relationships have changed to some extent with greater integration into GVCs, with different kinds of centralization and decentralization tendencies being seen.
4) Further, what is important to note is that this structure is tending to get replicated in the case of domestic value chains as well and is also covering industries which were not part of value chains at all, such as handicrafts. In such sectors, what has happened is that the same artisan-raw material supplier-trader networks that characterised production for local and domestic markets are now being used for supply, through complex chains, to national and international markets. The third typology, therefore, consists of completely decentralised production, very often in home-based units or at the most in small workshops being coordinated by long chains of intermediaries right upto the international market. Here, informal production and employment are the norm and hence constitute a typical form of production organisation.

Section 4: Employment Patterns, Vulnerability and the Challenges for Decent Work under Global Production Networks

It has been argued above that certain typical typologies of inter-firm organisation and networks are seen in production contexts linked to GVCs. In this section, we analyse the labour process and employment implications of such organisational structures as well as make an assessment of the quality of such employment.

The first result that has been observed that is linked to a large extent to production for GVCs, but gets replicated for DVCs as well, is an increase in what is referred to as 'regular work' in the economy as a whole, as against casual employment. This is a feature in larger firms that cater to GVCs, often the Tier I and Tier II firms. However, the only thing this means is that workers receive their remuneration regularly, whether on a

weekly, fortnightly or monthly basis, and indicates nothing about the term or conditions of such employment. In several case studies, it has been seen that minimum wages are probably paid, but without meeting most of the conditions related to payment of minimum wages, in fact, very often by significantly violating the laws relating to employment in such firms. The firms operate in the grey area between the formal and unorganized informal sector. The formal sector laws that are applicable are considered applicable on paper, but are violated in practice in almost all cases.

For example, in a study of terms of employment of security guards employed by the security company G4S (Damodaran 2006), it was found that they had no idea of for how long or on what terms their employment was at the time of appointment. For example, they had no idea whether they were 'regular' or 'casual' on the one hand or 'temporary' or 'permanent' on the other. What is important to note is that the mode of employment even in the largest firms is entirely informal, where the employee has very little information on the terms or duration of employment. Further, there is very often no legal document in the possession of the employee that states that she is in the employment of the company concerned under certain terms and conditions. In the G4S case study, it was found that the company is in possession of a contract that stipulates a code of conduct for each employee, which is used to take disciplinary action against them when considered necessary. Further, when employees reach the retirement of 60, there is no document that they possess which allow them to claim retirement benefits because when this happens at the initiative of the employee, it is considered tantamount to a resignation. This was seen in the leather industry and the garment industry as well.

It has also been seen that while the minimum wages are paid very often in large companies, there are no increments with increasing service as would be necessary under any such arrangement. In fact, the minimum wage very often is broken up into a scale, to make it possible for the company to show only a very low basic wage, which forms the basis for contributions to the provident fund or for the payment of an annual bonus. The employer is obliged to pay 10% of the minimum wage as a contribution to Provident Fund, but by bifurcation into a 'basic wage ' and two components, these two

components would come into the category of ‘perks’ against which no contribution to the worker’s long term security need be made and hence Provident Fund is paid only proportionate to the much lower basic wage. Similarly the bonus is paid at the rate of 8.33% of the basic wage, whereas without the bifurcation into the basic wage and other components, the applicable rate would be the total wage. So, while what is paid is a consolidated wage, its division into different components also creates the impression of being governed by formal sector regulations. Further, two components of a wage scale, as opposed to a consolidated wage, i.e., an annual increment and a dearness allowance, are not paid by large companies across sectors. The absence of a clear employment contract in the hands of the employees also allows for a range of violations regarding conditions governing breaks in service, termination of workers and compensation therein, guarantee of continuous employment and clear delineation of the duration of employment. In most cases, therefore, the payment of minimum wage (even with major violations), Provident Fund and other such contributions are taken as compliance with labour standards and formal firms get away with violations on other counts, such as allowing workers leave, retirement or retrenchments and most importantly, the right to collective bargaining.

It may be concluded, therefore, that while’ regular’ employment might indicate that the minimum wage is being adhered to and thus does not violate one of the basic rights of any worker under the Indian laws of employment, it is very often bifurcated in a manner that allows the incurring of minimum liability for the company and also allows for flexibility of employment. This, in turn, has taken place possibly because maintaining a stable labour force within firms is necessary to ensure stability in export production, this being a change from earlier periods of export production, where the flexibility offered by irregular labour was considered an advantage for firms to keep labour costs very low. However, with greater regularity of production and delivery being demanded with greater incorporation into GVCs as well as pressure from unions and civil society initiatives, firms have had to comply with some regulations such as a payment of minimum wages, but with finding flexible means within that[5].

[5] The same results were found by Barrientos (2006) for supplier firms which were bound by codes of conduct for garment manufacturing, indicating that this is a generalised tendency across sectors.

In other words, it may be conjectured that pressures for regulation, through ethical campaigns, ILO conventions and so on, as well as the nature of production for exports in certain segments of the value chain might have resulted in this tendency which has been observed, that of greater 'regular' employment, but being counteracted by careful, however, systematic informalisation.

In aggregate data terms, this has been clearly reflected in what has been referred to by the NCEUS as 'informalisation of the formal sector' (NCEUS 2007, 2009). It found that in the latest period for which data is available, (1999-00 to 2004-05), the net growth of employment in the economy as a whole was entirely informal, including in the formal segment, which means that while employment increased, it did not offer any security to employees even in the formal sector.

A second feature of employment practices on the shopfloor is the prevalence of different systems of employment within the physical confines of firms, whether representing casual or regular employment, such as direct employment by the firm concerned or incontracting of labour through labour contractors. Very often, these labour contractors are employees of the firms themselves and this arrangement, of calling a certain set of workers contract workers who are brought in from outside, is to avoid payment of benefits or to absolve the employer of primary responsibility of those workers. While it might still be possible to monitor employment conditions of direct workers, it becomes difficult to do so for contracted workers because the contractors very often are not registered firms. Firms thus get the flexibility of employment that they require without running the risks associated with production outcontracting to smaller firms. Barrientos found, in interviews with supplier Tier I firms to large multinationals, that this was an area that created complications with respect to compliance in the formal firms and where large scale evasions were possible. In fact, very often contractors circulate workers between firms to prevent them from acquiring claims based on number of days worked in any one firm (Vijayabaskar 2008).

A third aspect that has emerged from case studies is the proliferation of a variety of systems of employment that draw from local discriminatory practices in large formal firms where even keeping track of violations of applicable labour laws become difficult. The example of what is referred to as 'scheme labour' in employment of large numbers of women in the state of Tamil Nadu, mostly in the garment industry and one of its key inputs, the spinning industry, is a case in point. This system consists of employment of large numbers of young girls and women from the age of 15 or so on contract for fixed periods of time where they are not paid a monthly wage, but are paid a lumpsum of money after the contract is over which is suppose to contribute to their dowry when they get married. Firms, thus, get captive, docile workforces that exist in conditions very similar to bonded labour, where the final payments that are made are paltry sums in comparison to what they would have to pay as minimum wages. Such workers, obviously, have no bargaining strength and receive no security benefits.

The fourth aspect that gets highlighted through analysis of organisational typologies is again a feature of employment that has been distinctly noted for the period 1999-00 to 2004-05, a rise in self-employment. This comes across clearly in work done by the NCEUS on microenterprises and value chains. It shows that there was an increase in the category called Own Account Establishments in urban areas between 1994-95 and the following decade (NCEUS 2009), this being seen distinctly for readymade garments and gems and jewellery. The Commission has also noted that rather than this reflecting a seizing of opportunities that global production offers by enterprising entrepreneurs, it actually represents 'disguised wage work' where the terms and conditions of wage employment are not met (NCEUS 2007).

In other words, in industries where global production has resulted in the necessity for firm size to grow as a result of technological requirements or upgradation for international markets, firms have found ways to cope with the inherent instabilities of relying on inter-firm linkages with smaller firms and at the same time counteract the disadvantages of large size through innovations in labour process and employment flexibility. That these are becoming generalised features of employment in the economy

as a whole is shown by these tendencies being reflected in aggregate economy level statistics, which call for concrete interventions.

Given the above mentioned dimensions of labour process and employment in the economy, the following issues arise: How and why is labour vulnerable in different types of firms? What is the link between labour vulnerability and enterprise vulnerability? These are addressed below.

It has been seen above that the dominant form of employment is of an informal type in the economy as a whole, and more strikingly, all the new employment that has taken place in the recent period is informal, including in the formal sector. It is clear that enterprises find labour flexibility as the easiest way of coping with possible disturbances and volatilities in markets, with this being most obvious for international markets and sectors connected with GVCs. For the largest firms, a partial compliance with labour market regulations in the form of , say, the payment of minimum wages and some benefits, allows them to escape greater scrutiny if they are allowed to maintain flexibility.

In the case of smaller firms, the level of enterprise vulnerability itself is very high, because in a situation of contract production for larger firms, volatilities in international markets get transferred to them immediately which they in turn transfer to workers by the maintenance of flexible employment. Mitigating the conditions of enterprise vulnerability thus is an absolutely necessary condition to being able to improve labour standards in these firms. Further, it is necessary to consciously intervene in the enhancement of worker capabilities in order to improve their bargaining strength. These aspects are dealt with in the following section.

Section 5: Best Practice Interventions and Policy Suggestions

It has been seen above that there is no necessary positive relationship between labour market outcomes and product market outcomes, even in production related to GVCs across sectors in India. The instances where labour market outcomes have been positive,

compared to earlier, are cases where tight labour markets have forced firms to improve conditions, where the demands of the international market or the enforcement of codes of conduct have necessitated a greater semblance of stability in employment in some kinds of firms. Labour turnover does affect the productivity of firms both in terms of loss of trained workers as well as through loss of time involved in recruiting replacements and training. Tewari (2007) found that a shortage of skilled workers has forced garment firms to work with unions to retain workers, set up training institutions, and improve wage rates. Similarly, Damodaran (2007) found that gender differentials in wage rates had gone down in large firms in the leather industry in the state of Tamil Nadu, again possibly in response to labour shortage and union strength. However, given the skill bias involved in export production, tight labour market conditions are found only for skilled workers, and for the relatively small numbers of 'regular' employees in some formal firms.

The other route to improved work conditions, as seen in earlier sections, has been through the enforcement of codes of conduct by buyers across different sectors. It is found that in case of lead firms who are serious about standards, there has often been an improvement in working conditions at least in firms that are directly linked with these buyers. Barrientos (2006) found that codes of conduct were followed with respect to health and safety, whereas there were no efforts to adhere to wage regulations or rights such as collective bargaining and the right to form trade unions. The Handloom Board in India has played an important role in providing good working conditions for weavers while simultaneously using these good labour conditions to signal to potential foreign buyers their ability to promote the welfare of workers. Such synergetic functioning of labour and product markets are however rare.

What are the interventions that are possible, given the scenario in GVCs that have been traced above?

For formal sector firms, it is first of all necessary to document the different kinds of employment prevalent and make the compliance with labour standards essential elements of codes of conduct. This, in turn, can be enforced compulsorily only if supplier firms do

not feel vulnerable as a result of being effective price-takers. It has been suggested, in the case of garments, that international campaigns such as the Clean Clothes Campaign should not only focus on monitoring and verification of codes and should, in fact, pressurise leading buyer MNCs to pay proper prices to suppliers, of which a share has to percolate to workers (Krishnamoorthy 2005). It has also been suggested that monitoring and verification should involve worker organisations in the producing country.

For smaller firms, especially those in the informal sector, ensuring enterprise viability is essential to improving worker' welfare and enhancements of rights. Most informal entrepreneurs in India face certain common constraints: notably, limited (or no) access to capital, other productive assets, education/training, infrastructure services, access to and knowledge of markets, technical assistance, organisation and bargaining power, and competition from each other and larger units. In establishments that are situated within systems of inter-firm linkages between firms catering to a single industry, or single product clusters, constraints that affect the entire industry are likely to affect these units acutely, in addition to specific constraints faced by them. It was found (Damodaran 2007) that in the leather industry in India, informal sector enterprises face a major raw material problem, that of insufficient availability and large fluctuations in the supply of raw hides and skins that affects the industry as a whole, but affects informal enterprises disproportionately . The solutions that have been tried out to alleviate this problem have mostly resulted in the needs of large enterprises being taken care of, rather than addressing the raw material constraint faced by informal enterprises in the leather industry specifically[6].

Another problem that affects informal enterprises that hire workers possibly more acutely than larger enterprises is that of demand fluctuations due to uncertain and volatile markets, changing technologies, transformation in market networks and so on. Very

[6] For example, as part of the drive to maximize exports from the sector, import duties on imported leather have been cut drastically to facilitate its use for export production, even as large supplies of indigenous raw material get destroyed due to insufficient facilities, technological access and incentives for collection, preservation and transport of raw hides and skins. Informal enterprises are engaged in activities that require them to access domestic raw material at very high prices and uncertain supply and quality.

often, independent producers in the informal sector turn into captive tied units producing for larger enterprises that produce for national and even international markets. In a study of rural industries in West Bengal, Maity (2008) noted this organizational change taking place in clayworks, hornware, conchshell and lac industries in four districts of the state between 1991 and 2001. In a situation like this, where tiny units forge linkages with value chains to rid themselves of the burden of marketing and also very often raw material supply, the major constraint that they face is in recovering their dues from the larger units or the government. Thus, while the local market would have set an upper limit to the possibilities of growth of independent units that supply to it, tied production by these very units for more distant markets creates newer constraints in terms of low rates received for work done. The alleviation of this constraint, in turn, can only take place if along with the access to longer distance markets, there is a regulation of incomes earned by the entrepreneurs of the units.

A serious constraint faced by informal establishments , especially when they are connected to long distance markets, is of limited possibilities for skill and technological upgradation. Typically, in establishments, both workers as well as entrepreneurs require training and skill upgradation that can be certified and adhere to uniform standards. At the same time, there are serious externalities that prevent training from being undertaken both from the point of entrepreneurs and workers, relating to ignorance, lack of time, limited affordability and the inability of converting higher skills to higher wage payments. Across different market and consumer segments, standardization of quality is essential to ensure effective marketing of the products of the sector and upgradation of skills is essential, along with other inputs, to achieving standardization. The viability of large parts of the informal economy might itself be contingent on the existence and provision of formal, standardised skills. However, the reality of production conditions in these enterprises generate motivational problems that are severe, which is very often termed as ‘ignorance’. Working hours are often long and any time off from the productive work means less income, which would affect the willingness of entrepreneurs and workers to join a training programme, even if it is relevant and easily available. It is also unlikely that informal sector entrepreneurs will provide their workers time off for

training. In fact, skilling workers may appear threatening for the entrepreneurs because skilled and trained workers may demand higher pay, leave to work for competitors or establish enterprises themselves. Even if informal entrepreneurs do not report a scarcity of skills as a constraint, it becomes a serious barrier towards upgrading.

A similar situation exists for technology upgrading. In the Firozabad glass cluster in U.P, which has a major concentration of microenterprises in the glass industry, microenterprises produce consumer glass products such as table glassware, bangles, beads, lampshades and so on. It has been seen in work commissioned by the NCEUS that the cluster consumes 30% more energy than comparable clusters in Europe, has much lower life of the furnaces used, results in lower quality and breakage resistance of glass produced and so on.

Faced with such constraints and given the inadequate regulatory mechanisms to record and monitor terms of employment by the state, working conditions continue to be 'indecent' with low wages, long hours of work, and, above all, no social security. With a lot of such production taking place in clusters, there has been emphasis on cluster development, which however, has relegated the emphasis on issues such as ensuring decent work and providing equal opportunity at work to the background. Cluster development initiatives essentially cater to the needs of the employers. Even among employers, it has been found that most policies benefit the set of lead firms rather than the smaller firms tied to the lead firms as job workers (Vijayabaskar 2008).

Given these conditions that make enterprises vulnerable and in turn the workers even more vulnerable, the NCEUS has recommended that specific initiatives be taken to simultanoeously address enterprise constratints and improve worker capabilities and welfare, based on a combination of public and private provision.

First, it has been recommended that a National Fund be created that will focus on enterprises with investment less than Rs. 500,000, given the biases inherent in banking systems against small enterprises, that a safety net be created to protect against default for

banks that lend to such enterprises, that interest rates be very low and so on in order to address the issue of credit constraints faced by informal enterprises.

Second, it has been suggested that a group approach be adopted for addressing a variety of constraints related to marketing, technology acquisition and skill development. This is because only very few of such enterprises have the financial and organisational capability to generate resources for technology acquisition or for skill development or for creating market infrastructure. Further, there are moral hazard issues or externalities that prevent firms from undertaking investments towards upgrading, where they run the risk of other firms taking advantage of the benefits without paying the costs. One of the ways that the group approach can be used, especially for sectors related to GVCs, is by focussing on clusters and on the collective provision of facilities, referred to as 'real services'. While efforts are underway to improve the real services provided to producers to improve their competitiveness in the global market through cluster development programmes initiated by the UNIDO, most of the microenterprise based clusters suffer from a severe lack of social infrastructure. So not only should there be a focus on 'real services', the provision of services has to cover worker welfare as well. At present, labour has hardly any access to affordable and quality healthcare. Even sick leave is not available to labour in most of these enterprises. Most clusters in general suffer from lack of good quality housing; In the more dynamic clusters like Tiruppur which have drawn large pools of migrant workers, the lack of such quality housing has led to a serious supply-demand mismatch resulting in higher rents, thus, depressing real wages. Even access to adequate drinking water involves efforts on the part of the worker households. The need for government intervention in these areas, for provision of housing, drinking water, school education and so on is obvious.

Third, the NCEUS has recommended that one of the major planks of improving worker welfare should be in terms of enhancing their capabilities through imparting skills specifically to the different kinds of workers engaged in the informal sector. This is because of the specific characteristics of the workforce which is predominantly informal, of which more than three-fifths are self employed and of the relmaining, only half are

employed in the formal sector. For most people, the acquisition of skills is a prerequisite to gain entry into segments of the labour market that can potentially generate greater income or to be part of viable production systems that can result in better livelihoods. However, this formal skill acquisition cannot be left to provision by the market and needs to be done through group approaches. There are structural features of production systems in developing countries such as India where relying upon markets and private agents to deliver substantial numbers of skilled workers will probably have a very limited impact and these have been analysed at length in Damodaran (2008) and NCEUS (2009). In the informal sector that has strong links with the formal sector in a range of industries where they are involved in varieties of subcontracting and job working arrangements with larger firms and also in various kinds of inter-firm linkages between them, which are the focus of this paper, training needs arise in the context of upgrading along the value chain both within the country and outside. Workers in these industries often have little more than a primary education and their training needs are industry specific. Because the demand for their products exists, private actors ranging from transnational corporations to domestic firms to private service providers are assumed to show sufficient motivation to train workers at all levels so that upgradation can take place along the entire value chain.

However, in most of such cases, the existence of demand from such value chains is conditional upon the maintenance of low labour costs, keeping the possibilities of higher remuneration with better training low. Further, the value chain itself consists of different levels, where informal enterprises constitute the bottom and upgradation initiatives, if at all, only address the larger firms at higher levels of the chain. Leaving them as they are, forming the base of the low cost economy, will serve the needs of the organized sector best and even in cases where market needs have prompted large firms to take some initiatives to upgrade skills and undertake training at the level of medium-level firms, the lower levels, which employ the largest number of workers, are left untouched. The NCEUS' reports recognise these structural features and recommend that these initiatives be undertaken at the cluster level for these industries, with joint action between the UNIDO, industry associations and government agencies, with explicit subsidy

mechanisms in cases when affordability is an issue and even where demand is not explicit.

Fourth, it has been recommended that there be, through formal legislation, a social floor in terms of minimum wages and social security that are applicable irrespective of size of enterprise, which can be made operational especially at cluster level. It is important that all workers irrespective of their age, gender, nature of employment or position in the process of production recieve social protection, income security, health security and old age security and access to social services like health, education and child care. In the production units that are located at the bottom, consisting of work done within households using family labour or very little hired labour, there is very little distinction that is possible between entrepreneurs and workers. This therefore should be considered applicable to all those who work in home-based enterprises, including the entrepreneur, hired workers and contract workers including migrant workers who do not have an easily identifiable single employer.

In addition to these recommendations made by the NCEUS, it is possible to suggest the following:

One, it is necessary to socialise to some extent the risks presented by international markets due to fragmentation and seasonality, which affects industries like garments and leather significantly. It can be suggested here that producers associations form a social safety net that will ensure a certain level of income to labour during periods of unemployment. Appropriate institutions have to be also created to ensure better match of labour demand and supply in the cluster. Periods of unemployment can be used to provide training as done by many software firms in the country.

Two, it is necessary to initiate processes of arbitration that involve the state, producers and workers in joint committees even in sectors where the informal sector is predominant that allow for recognition of trade unions, allow for adjustments to production uncertainties and also set norms for recruitment and monitoring of workforces. These joint committees can be set up at the level of clusters.

Three, these arbitration mechanisms should be recognized by various actors within the value chain. At present the codes of conduct are implemented only by the employers with no role for the workers.

Four, all labour contractors will have to be registered at the cluster level and employers have to compulsorily source labour only from this set of contractors for whom complying with applicable labour legislation should be made mandatory.

The point is that the assumption that firm growth alone is sufficient to lead to worker welfare is not valid. Labour market intervention has to take place simultaneously to ensure the link between economic growth and worker welfare.

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