Economic slowdown and the Garment Industry in Bangalore:

Background

In the wake of the global economic crisis, there have been reports in the media of a strong negative impact on export oriented industry in India. In particular, the garment sector has been highlighted as severely affected, with exports having declined by over 15% over the levels of 2008. The garment industry has been vocal in its demand for economic relief and concessions, in order to sustain competitiveness, and safeguard employment in a highly labour intensive industry. The Bangalore garment industry has been as vocal in making these demands. The industry (till September) failed to implement the wage increase legislated by the state government in the sector, to be applicable since April 2009, despite the fact that non-implementation of the legislation is a violation of the Minimum Wages Act.

At the same time, at the ground level, discussions with worker representatives gave a different, and often mixed, picture. Companies used the threat of factory closure to pressure workers to accept increases in production norms. However, actual factory closures were few. Some factories selectively downsized the workforce, by withdrawing transport facilities to some areas for employees. At the same time, most companies had signs outside the factory gates, asking for immediate applications for tailors and helpers at all levels. Garment workers said that they had no difficulty in getting alternative employment if they left work. There was a small trend reported of factories employing piece rated workers to meet sudden production demands, and even on a regular basis. But this trend has been in existence for the past few years. Some reports talked of garment workers in large number leaving the city and returning to their rural occupations. They referred to large number of houses in localities of garment workers lying vacant. However, actual discussion with workers did not seem to confirm this.

This is the context in which the present study has been undertaken. We are grateful to the support of the Garment and Textile Workers Union (GATWU) in conducting the primary research.

Methodology

A survey was done of garment workers working in factories in the Mysore Road and Peenya garment manufacturing centres in Bangalore. The survey was administered through a structured questionnaire. The analysis of the survey data formed the main source of primary information for the study. In addition, various discussions with union activists around issues of productivity, labour turnover, and factory structuring of production were also used in the study.

The study incorporated discussions with garment manufacturers and representatives of major brands in its analysis. It also utilised various secondary information sources for understanding the impact of the economic downturn on the garment sector.

Sample description

A total of 106 workers were drawn from 36 factories, with employment ranging from 250 workers to 3600 workers. The average factory strength was around 1360 workers. As per the estimate of workers, around 85 percent of workers in the factories were women.

Table1: Age profile

Age (years)	Number
Less than 25	58
26-35	36
More than 35	12

Table1 gives the age profile of the sample. The average age of workers in the sample was 26 years. 90 of the workers (85%) were women. There were 61 tailors and 31 helpers in the sample. This roughly corresponds to the industry composition of the workforce.

Wages of workers

Wages in the garment sector are very low. The statutory Minimum Wages in Bangalore are around 20% lower than Minimum Wages in Delhi and 35% lower than Mumbai wages in the garments industry. Demand for a higher wage has been a longstanding issue in the sector. GATWU has since 2007 actively campaigned for a Minimum Wage of Rs.200 per day in the sector.

Table2: Worker wages

Wages in June 09	Number of respondents
Rs.2000-2750	12
Rs.2750-3000	27
Rs.3000-3500	28
Rs.3500-4000	25
> Rs.4000	13
Average/worker	***Rs.3320***

However, inadequacies in functioning of the Minimum Wages mechanism in the state and strong opposition from the garment manufacturers' lobby ensured that state wages remained low. The statutory Minimum Wages for tailors in 1985 in Bangalore was Rs.18 per day. We find that after adjusting for the consumer price index (CPI), this wage in real terms for 2009 should have been Rs.146.30. However, the newly legislated Minimum Wage for a tailor, applicable from April 2009, is only Rs.132 per day. There has been 10% erosion in minimum wages in real terms since 1985.

We see that even this minimum wage is still to be paid by the industry. The industry has been lobbying with the government, using the plea of economic downturn, to defer the implementation of the minimum wage notification.

Table2 indicates actual wages paid to workers in the sector. We see that the average wage in the sample of Rs.3320, or Rs.127 per day, is less than the notified minimum wage for helpers.

Table3: Family wages

Total family wage June 09	Number of respondents
< Rs.3000	7
Rs.3000-4000	12
Rs.4000-6000	34
Rs.6000-9000	33
>Rs.9000	17
Average/family	***Rs.6400***

Table4: Earning members in family

Earning members	Number of respondents
One	26
Two	47
Three	17
Four	13

Industry and experts in the garments sector use the argument that employees in the garment sector are women, and wages to women is a supplementary wage for the family. Therefore, women need not be paid a high living wage. Tables 3 and 4 bring out a totally different picture.

We see from Table3 that 50% of respondents in the sample reported family wages of less than Rs.6000 per month. For these families, the wages from garments would have been at least half the family wage. By no means could the wage be termed a supplementary wage. Table4 shows that as high as 25% of the sample had only one earning member in the family. This tallies with data from Table3 which indicates around 20% of the sample reporting family wages less than Rs.4000. The extremely high incidence of single earner households in the garments sector is a strong argument for paying a living wage to workers in the sector.

Living wage

The Report on Working Class Family Income & Expenditure of the Labour Bureau, Government of India, based on a survey conducted in Bangalore of workers primarily from the apparel industry, estimated the average monthly family expenditure (family size between 4 and 5) as Rs. 4723.75, out of which, Rs. 4473.65 was for basic consumption expenditure. This can be taken as an index of a living wage. Given a 60% appreciation in CPI from 2001 to 2009 (CPI for June 2009=164 on base year of 2001=100), the estimate of living wage for garment workers in Bangalore would be Rs.7500 per month. The sector on an average does not even pay half this wage. A wage demand of Rs.200 per day (or Rs.5200 per month) in the circumstances is a very conservative demand.

Productivity

Along with wages, productivity is the other burning issue for workers in the garments sector. High productivity norms are linked to forced (and often unpaid) overtime work to meet norms. Supervisory harassment on the shop floor is primarily for meeting very high production targets.

In the present survey, 39 workers (38% of sample) reported production norms of more than 75 pieces per hour. This is repetitive wok at the rate of more than one piece per minute. This is high by any standards. Two years ago workers reported targets of sixty pieces per hour as high. There would now be technological aids to help push up production. With all that the productivity standards are high.

On the question of increased targets, 53% of the respondents said that targets had been revised up by the management in the last one year. 50% said that they had to work beyond the eight hour norm to complete the targeted production. 75% said that they had to face the burden of supervisors shouting at them. It is not surprising in the circumstances that labour turnover in garment factories (as obtained from ESI data, and confirmed in interviews with management) range around 100% per annum.

Impact of economic slowdown

It would be expected that with a major and sustained economic slowdown, work intensity at the factory would reduce. There were some reports in early 2009 of workers being laid off, and rumours of factories considering closure of operations. Media reports spread the scare of thousands of workers leaving Bangalore. However, ground level information from workers indicated that the reports might be exaggerations. There was also the evidence of factory gates advertising for immediate requirement of workers to join at all levels of employment.

Table5: Leave taken June 09

Leave taken in June 09	Number of respondents
Nil	49
1-2 days	37
More than 2 days	20

Table6: Leave refused June 09

Leave refused in June 09	Number of respondents
Yes	89
No	16

Table7: Sundays worked June 09

Sundays worked in June 09	Number of respondents
Yes	34
No	71

Tables 5, 6 and 7 give a reasonable picture of the situation at factories today. Nearly 50% of respondents did not take any leave in June 09. 89 respondents (87%) applied for leave but were refused. Over 30% had to report for work on one or more Sundays. These are indicators of factories with full order-books, and loaded production schedules.

Table8: Impact of slowdown on factories

Market response	Number of respondents		
	Yes	No	Don't know
Brands stopped orders	6	78	22
Orders from new brands	27	46	29
Batch/machines idle	43	60	1

Table8 indicates broader factory level impact of slowdown. The information is from interviews with workers, and not verified with factory management. Therefore there can be a degree of error in the responses. The responses however are significant. Only 5% of the respondents said that existing brands stopped production at their factories. Nearly a fourth said that their factories were executing orders from new brands. The situations in the factories seemed good by June of the year.

40% respondents said that batches/ machines were kept idle during the month. We might infer that the impact of the slowdown still persists in some factories.

Table9: Impact of slowdown on employment

Impact on workers' jobs	Number of respondents		
	Yes	No	Don't know
Workers left jobs	93	12	1
Workers joined other garments	74	7	17
Workers left city	16	79	9
Houses vacant in area	31	72	3

Table9 gives indications of the impact on employment in the sector. Over 90% of the respondents said that they knew of workers leaving employment in their factories. However this can not be termed out of the ordinary, given the very high labour turnover that is endemic to the industry. What is significant is that 74 respondents (nearly three fourths) said that workers leaving employment joined other garment factories. Only around 15% of the respondents knew of workers having to leave the city because of the slowdown; 30% said that there were houses lying vacant in their localities. The impression we get is that while the economic downturn would certainly have had its impact, the present situation is of the industry returning to normalcy.

Table10 gives data on Indian exports of garments, as compared top world trade in garments for the period January to May each year from 2006 to 2009. There is a definite decline in exports from India, from 5.9% in 2006 to 4.4% in 2009. The date is from a large database tracking consignments of garment exports. While there could be discrepancies of exclusions, the data is broadly valid for comparisons on Indian export.

Table10: Indian garment exports and world garment trade

	Year (January-May)			
Category	**2006**	**2007**	**2008**	**2009**
Indian exports	20607	18460	20802	16287
World export trade	350533	368707	414581	373709
Indian exports as proportion world trade	5.9%	5.0%	5.0%	4.4%

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The period 2006 to early 2008 saw the strengthening of the Indian rupee against the US dollar. This adversely impacted not only garments but all exports from the country. It is however a matter of concern that Indian exports declined significantly in the first five months of 2009, as compared to the earlier years. This was a period of the rupee declining against the dollar, giving Indian trade a comparative advantage.

Responses from manufacturers

In discussions with top management of Gokuldas Images, the company said that the recession and the exchange rate problems have affected the garment industry adversely. October 2008 was the cut-off period, after which things worsened generally for the garment sector. The recession has led to increased demand for cheaper products met by manufacture in Bangladesh and Vietnam. Brands that cater to the mass market like Tesco are doing well.

The raising of minimum wages by the Karnataka Government in March 2009 was seen as a further blow to the sector. An average monthly increase of Rs.800 in wages per worker amounted to an overall increase of 20 percent increase in wages. The manufacturers felt that this was a hike the industry could not afford at this stage.

However, the company also agreed to there being a contradictory situation, of declining order and production on the one hand, and difficulty of getting skilled workers in the sector on the other hand. The economic slowdown should in the ordinary course have resulted in a labour surplus. But most companies had boards outside their factories asking for workers. The top management also said that labour turnover continued to be high, and factories continued to find it difficult to hold on to workers.

One reason given for this contradictory situation was the reverse migration of garment workers from the cities back to their villages. The guaranteed rural minimum wage of Rs.100 per day under the National Rural Employment Guarantee Act (NREGA) of the government was seen as a probable reason. What clearly comes out from this is that the minimum wage in garments is clearly not a living wage, particularly in the present times of high inflation in wage goods. Even the general economic crisis has not been able to hold back workers to their jobs. The garment sector will have to look at wage increases and restructuring of employment practices to hold on to a stable work force.

Another issue with respect to the high labour turnover highlighted by the management was poor supervisory practices in garment factories. The managers agreed that there was considerable harassment of workers at the shop floor level. The only supervisory technique known in the sector was that of the "stick". In fact, they said that there was a very urgent requirement for training at the supervisor and junior plant manager level in the sector. They agreed that many workers left garments to find employment in the proliferating malls and shopping complexes in the city. While these employments did not pay more than employment in garments, the level of harassment at workplace, and intensity of work pressure was less than in the garment sector.

The company however did not visualise a large scale shift of production out of Bangalore to any of the other established garment centres. Places like Bangladesh might have lower wages. However, it did not compare with the Indian centres for infrastructure and size of skilled workforce.

Discussions at Madura Garments indicated that the company was facing a situation of reduced production and losses over the past two years. The company claimed production slowdown of nearly 40%, and reduced margins. It said that it had to diversify to take on new, less paying orders to keep its machines running. Around 20% of its markets had shifted from USA to UK. Individual order sizes had reduced by 20-40%; with lower lead times as the factories needed to rotate their working capital faster.

Employment in the factories of the company reduced from around 7000 in 2007 to 5000 in 2009. There had been no lay-offs. Labour reduction had been because of the natural attrition of workforce. Attrition had reduced from around 75% per annum in 2007 to 50% per annum.

The company expected the business to pick up, and projected getting back to break-even by March 2010.

Discussions indicated that productivity levels in Bangalore compared favourably to productivity in other manufacturing centres in India, and also productivity in Bangladesh and Sri Lanka. Bangalore had a comparable advantage over Delhi because of lower wages. Compliance and quality were also better in Bangalore. The garment business in the city was picking up after the slump, over the past 6-7 months.

The company also did not plan to move production out of Bangalore to the rural hinterland, despite the advantage of lower minimum wages. There were logistical problems to this. "Buyers are from foreign land. Their QCs (Quality Checkers) are located in the city. The QC has to go to 2-3 factories in a day. Going to a factory say in Channapatnam will mean a day long tour for him. QCs and buyers do not agree to that."

Texport Overseas reported a marginal decline in turnover from Rs.265 crores in 2006-07 and 2007-08, to Rs.250 crores in 2008-09. The company also faced a small decline of around 9 percent in profits. None of the brands discontinued business, though some reduced their order size.

The company claimed that compared with other states Bangalore has a very good force. Now the industry was also scattered, with factories moving to 25-30 Km radius of Bangalore. This allowed workers to get employed near their villages. There was a definite benefit to workers because of reduced cost of living, and less commuting difficulties.

The company also claimed Bangalore as a preferred destination for brands, as it had a higher degree of compliance of the various Codes of Conduct.

Analysis of the impact in Bangalore

The foregoing indicates that while the economic downturn had its impact on the garment sector in Bangalore, the intensity of the impact was probably not that severe. The survey results and informed discussions with manufacturers and experts in the industry confirm a general view that garments in Bangalore was relatively less affected by the economic slowdown than other garment centres like Delhi. The industry is already recovering from the downturn.

One reason for the lack of severity of the impact in Bangalore is certainly the low wage levels. Today a skilled tailor has statutory Minimum Wage of Rs.168 per day in Delhi; Rs.194 in Mumbai, and Rs.151 in Punjab. The new notified Minimum Wage in Bangalore is Rs.132 per day. The garment manufacturer in the city has over 20 percent advantage on the account of wage over a manufacturer in Delhi.

Discussions with senior management of the largest manufacturers in Bangalore pointed towards two other reasons.

One, the Indian rupee weakened significantly by 23% from January 2008 to January 2009, giving the Indian exporter a huge exchange lead advantage (see Table10). The rupee had started weakening in 2008 itself. However, most exporters in 2008, expecting the Indian rupee to continue to strengthen against the dollar, hedged their contracts against dollar devaluation. Therefore they did not benefit that year from the weakening of the rupee. The gains would be available to garment exporters in 2009.

Table11: Rupee and Chinese Yuan movement against dollar

Exchange rate to dollar	**Year**					
	Jan. 2005	**Jan. 2006**	**Jan. 2007**	**Jan. 2008**	**Jan. 2009**	**Oct. 2009**
1$ in Indian Rupees	43.27	44.95	44.11	39.41	48.58	46.18
1$ in Chinese Yuan	8.27	8.06	7.78	7.24	6.83	6.83

During 2009, the rupee, as also many other Asian currencies, strengthened against the dollar. However, overall, compared to January 2008, the rupee is still weaker by around 17%. More significantly, while the rupee weakened, the Chinese yuan strengthened against the dollar by 6%. The combined advantage for rupee trade in 2009, as compared to 2008, is **over 23 percent** as compared to the Chinese yuan. The Chinese government has not allowed the yuan to be revalued against the dollar despite the intrinsic strength of the currency. The expectation is that the government will be forced to allow some upward float of the yuan. This will further benefit the rupee in trade with the USA.

Two, the major markets for garment manufacturing in Bangalore are the standard high volume brands. Wal Mart and GAP are big buyers from the city. These brands were less affected than the low volume designer brands. In fact, some trade sources suggest that the standard high volume brands probably gained, and stand to further gain in the medium term form the economic downturn.

Table12: Cost Structure in clothing industry (% gross output)

	Unskilled labour	Skilled labour	Total labour	Skilled/ total labour
USA	21	5.8	26.8	28%
Canada	25.9	5	30.9	19%
France	21.6	4.7	26.3	22%
India	21.1	2.9	24	14%
China	18.2	2.5	20.7	14%

Source: DISCUSSION PAPER NO 5: The Global Textile and Clothing Industry post the Agreement on Textiles and Clothing, Hildegunn Kyvik Nordås, World Trade Organization, Geneva, Switzerland, Printed by the WTO Secretariat (VII-2004).

It is for these reasons that we would cautiously infer that the garment sector in Bangalore was not affected severely by the economic downturn. It is poised for rapid expansion and growth in the medium term. There is a restructuring of the industry that has been taking place in the last couple of years. The focus has been on size and modernisation for productivity increase. We can also expect some degree of specialisation among factories, of products and styles, with the industry gaining in experience and confidence. One major requirement for such a modernisation is a more skilled workforce, geared to the particular requirements of the factory. Table11 is interesting in that it is indicative of the low skilled labour component in the garment sector in India and China, as compared to the developed world. This skill gap will have to be bridged in the long run, if the countries have to retain their competitive edge.

The need for a more skilled workforce is brought out clearly in the discussions with management at Madura Garments. Companies have to deal with situations of more diverse buyers, and shifting locations of markets between the USA and countries in Europe. They have to deal with smaller orders, diverse styles, and shorter lead times. All this require retention of skilled workforce, if quality has to be maintained.

A prerequisite for developing a skilled workforce is that companies are able to retain workers at all levels. There are two important requirements for this.

First, workers will have to be paid an adequate wage, closure to a living wage. The situation in the city is that even with lower production levels, factories are finding it difficult to hold on to workers. There is a shortage of skilled and experienced workers. Present wage levels are inadequate for workers to stay on in the city.

We have seen that in Bangalore a living wage is around Rs.7500 per month, or Rs.300 per day (26 working days). This may not be possible for companies to pay, within the present pricing parameters. However, we see that if we consider the supply chain as a whole, labour constitutes less than 3% of the final product price. On a $20 shirt, an extra price of $1 passed on to the manufacturer is sufficient to double wages. This is not so difficult to envisage.

Second, the workplace situation will have to become more tolerant for workers. This can only happen when the production targets are more achievable, and supervision is less primitive. Productivity increases will have to come through a trained workforce and modern work practices, and not through unbearable supervisory pressures.

We see therefore that despite the economic slowdown, the garment sector in Bangalore is in good shape, and has all the preconditions for growth. The way forward has to be from an all round modernisation of the garment sector, encompassing technology, management and labour at all levels. The management among the leading manufacturers in the sector in the city are aware of the challenges faced by the industry.