

Contemporary Formal-Informal Dichotomies: An Exploratory Essay Based on Evidence from Tamil Nadu, Southern India

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Abstract Orthodox explanations for the nature and persistence of the urban informal economy in the global South have ranged from acting as a waiting room for entry into the formal to being constituted through excessive state regulation. Neo-Marxist accounts explain it as an economy reproduced by modern capital to subsidise the costs of reproduction, or more recently a governmental move to address the concerns of populations dispossessed from the rural means of production, but redundant to capital. Without undermining the partial validity of some of the explanations, I argue in this essay that such accounts are inadequate to understand and explain the growing processes of informality in late-urbanising and globalising economies like India. Furthermore, there is a need to move away from a dualistic understanding of formal-informal distinctions and instead evolve appropriate typologies of the informal focusing on processes generating informality and the segment's links to the domain of capital accumulation. The paper therefore makes a case for moving away from theorizing at the level of the nation-state to more intermediate spatial scales like the region or city on the one hand and an explicit recognition of sectoral specificities on the other. Such an empirically grounded exercise is important for conceptualization of the multiple processes generative of informal economies. It would also help to capture the diversity of informality generated across regions and sectors and hence open up a more enabling reading of the processes at work.

Key words informality, labour, urban, mobility, labour geography, globalisation

I. Introduction

Multiple interpretations of the informal economy co-exist in developmentalist discourse with some gaining currency over time. For some, it is a segment that will disappear with 'development.' To others, the informal economy acts as a waiting room for people from the agricultural sector en route to participation in the modern economy. Some also see it as site of entrepreneurial energy that embodies the 'mysteries of capital.' An economy devoid of state intervention, it embodies a potential for efficient resource allocation. Radical accounts of this segment of the economy tend to characterise it as embodying 'backward' relations of production as perpetuated by modern capital in order to subsidise costs, primarily in the domain of reproduction. More recently, scholars have argued that the presence and expansion of the informal economy within post-colonial societies signal a fundamentally different developmental path that is influenced by governmental imperatives. I argue in this essay however, that these varied accounts, though partially useful, are inadequate to understand and explain the growing processes of informality in late-urbanising economies like India. Furthermore, there is a need to move away from the dualistic understanding of formal-informal distinctions and instead towards evolving appropriate typologies of the

informal to ensure more effective interventions.

The persistence and expansion of the domain of the informal has pushed multilateral agencies like the World Bank and policymakers in late-developing countries such as India towards a growing recognition of the impossibility of 'formalising' this segment. The National Commission for Enterprises in the Unorganised Sector (NCEUS) was constituted by the Indian Parliament in 2004 and sought to address the issues faced by this segment, such as access to credit, technology, and markets, and to ensure a degree of social protection to those working and surviving within the segment. The NCEUS has produced a series of reports that seem to have discursively shaped the mode of state intervention in this segment for years to come. Whilst the NCEUS recognises the importance of the informal economy for employment, livelihoods, and the need to ensure decent working conditions, the nature of production relations and the perpetuation of informality is still unclear. In short, various routes have been identified to improve the working conditions and the competitiveness of the informal sector, but the processes that generate informal work and production, and possible change due to globalisation are not explicated.

Simultaneously, scholarly attempts to understand the processes of growing urbanisation in low-income regions state how market-oriented reforms and agrarian crises

are pushing people from rural to urban areas, leading to 'urbanisation without industrialisation' a phenomenon on a scale large enough to hint at the rise of a 'planet of slums' (Davis, 2004). Declining employment elasticities in the global manufacturing sector have revived fears of job-less growth in the modern sector. Sanyal (2007) suggests the possibility of the informal economy lying outside the domain of capitalist accumulation, which renders itself irrelevant to the requirements of capital. Such propositions militate against earlier neo-Marxist understandings of the informal economy articulating with the modern sector in ways that are self-perpetuating in order to serve the needs of capital accumulation in this sector. On a different note, in countries such as India, the anti-caste social movements see the urban as a site of freedom that offers various forms of mobility and liberation from the 'pre-modern' rural time-spaces that are riddled with caste and gender hierarchies, where work only serves to reproduce identities. However, studies have stated that all is not well with the urban. A recent study on inter-generational mobility among slum dwellers in Bangalore shows that poverty and conditions of work tend to be reproduced with little space for economic mobility (Krishna, 2013). If the urban present and future are truly as bleak as they are portrayed or anticipated in such studies, then what is the scope for the politics of social transformation and mobilisation? If the neoliberal market-reforms render urban spaces as more exclusionary and the urban informal economy as less essential to the growth process (as argued in certain quarters), what are the socio-political implications of rural-urban mobility?

To address the issue of livelihood for the large numbers entering the urban informal economy, it is not sufficient to suggest that their presence is less relevant for capital. Whilst it may be partly true that certain trends in late capital accumulation undermine the earlier functional links between the informal economy and the formal sector, it is also true that many continue to survive in and through this economy. Furthermore, it is worth speculating at this stage that the earlier conceptual links were forged at a time when the manufacturing sector was predominant in the urban economy. The burgeoning of services, particularly in regions like South Asia, pushes the World Bank to imagine the possibility of a service-sector-led growth transition. Therefore we posit that links need to be also understood in terms of the growth of producer, consumer, trade, and financial services.

Firstly, an important reason for the absence of an available framework in which to understand contemporary urban informality appears to be the lack of empirically

grounded analyses of the various mechanisms and processes that produce urban informality under the current globalising conditions. Secondly, although one recognises the 'hollowing out' of the rural through shift from agricultural to non-agricultural employment in certain rural areas of India, the implications of this shift in relation to the changes in the urban are not clear. Whilst in traditional developmental accounts this transition is symptomatic of a structural transformation of the economy, distress-induced displacement may indicate an altogether different set of processes at work. Therefore, some empirical exercises have become critical in order to develop such an understanding. Based on a set of observations from the state of Tamil Nadu, which is known for its high rate of urbanisation as well as its dynamic industrial base, this exploratory paper raises issues around conceptual dichotomies such as the rural-urban and the formal-informal. Whilst Sanyal's (2007) work makes certain useful departures from the earlier understanding of post-colonial modernisation processes, it is hardly supported by any field based observations of the processes involved. Such an understanding, I believe, is critical in order to build upon and engage with Sanyal's conceptual insights and further our understanding of the contemporary informal. The other major departure will be to move away from theorising at the level of the nation-state to more intermediate spatial scales such as the region and the city, and the explicit recognition of sectoral specificities. Such an exercise would also help capture the diverse drivers of informality as generated across regions and sectors, and hence enable a less homogenised reading of the processes at work. Importantly, we also highlight the growing inadequacy of the formal-informal distinctions in order to understand the worlds of labour and livelihood strategies.

II. Conceptualising the Informal in India: A Review

Following Hart's (1973) pioneering work that first recognised the persistence of the informal economy, the International Labour Organisation (ILO)-inspired early studies of the informal economy essentially sought to measure its size and map the various activities in this domain. It was found that this sector, consisting primarily of small firms, contributed to the production of consumer goods for the low income segment and employment generation and also produced certain capital goods.¹ Sanyal (2007), by describing these studies as essentially bureaucratic, contends that they do not reveal much about the processes that generate this informality. The dual sector

reading that treated this sector in isolation was soon replaced by studies that explored its links with the modern sector, inspired largely by the perspective of the 'articulation of modes of production' proposition.² Through their operations with dated technologies and location beyond the realm of formal legislation, these firms were viewed as having derived their advantage essentially from their ability to exploit labour more intensely. The sector was also seen as stagnant and incapable of moving on a trajectory of expanded accumulation because of its links with the 'modern' sector. This framework has been used fruitfully to understand the nature of urban economies within the peripheral regions. The works of Gerry (1978), Bienefeld (1975), and Quijano (1974) are examples of such an approach. They characterise the urban peripheral economy in terms of a hegemonic modern capitalist sector, where other segments are subordinated to it either through surplus extraction, or by a relative lack of access to resources.

Inspired by certain strands of a neo-Marxist approach to development, a set of studies in India have tried to examine production relations in specific sectors that are dominated by informal production, and have sought to identify the factors that hinder their movement towards the 'modern' or formal sector. Studies by Singh (1990), Isaac (1984), Mies (1982), and Kalpagam (1981), stress the need for capital to perpetuate 'informal' conditions to sustain accumulation. The dominance of merchant capital and a consequent lack of incentive to invest in productivity-enhancing technologies have been highlighted. Other studies such as Dhar and Lyndall (1961), Sandesara (1981, 1988), and Little, Mazumdar, and Page (1987) focus on understanding the technological conditions of small firms (the informal sector) and the impact of government policies on this sector. Tyabji (1989) explores the context of changing nature of government policy formulations with regard to the Indian small-scale sector. He contends that the policies towards this sector have essentially been informed by the assumption that once it is protected from competition of the large-scale sector, it would transform into and become part of the modern capitalist sector.

There are other key studies that emphasise both the multiplicity of links between the formal and informal, and the multiple forms of informality. The important studies by Harriss (1982), and Harriss, Kannan, and Rodgers (1990) focus on the small-scale production and labour markets in Coimbatore, whilst Bremen (1976) focuses on the small urban economy in Gujarat, and Bose (1974) refers to the informal economy in Calcutta. Harriss attempts to overcome the conventional binary categories

of the 'organised' and 'unorganised' labour markets by pointing to the various segments within the 'unorganised' sector, as characterised by different production relations. Bremen too undermines the dualistic reading of urban labour markets, and calls for a complication of the 'informal' category by delineating the multiple segments within the informal sector. He maps how the various forms of production in the urban economy articulate with each other, and how the 'modern' capitalist sector articulates with the world capitalist system. To him, the formal-informal distinction should be replaced by distinguishing different articulated production relations, which can be found within the economic system of peripheral countries in varying degrees and gradations. Importantly, despite limitations, these approaches explicitly concern themselves with trying to understand the factors that generate or perpetuate informality, rather than merely describing the economy. Although differences do exist among Marxist scholars regarding the factors behind this persistence, they concur on the negative implications of the persistence of this sector.³

The 'industrial district' framework is concerned with the positive aspects of small-firm networks, and its rise to popularity (since the 1990s) counters this bias. Furthermore, a lack of emphasis on the patterns of consumer demand and its possible effect on production organisation makes the Marxist theory less applicable to sector-specific studies. Although it can be argued that the capitalist imperative to accumulate shapes demand, it would still be possible that the pattern of demand is given to certain producers at certain points in time, which would affect the way in which they organise production. This would be especially true of capitalists in the periphery that cater to demand in the core capitalist economies. Sayer and Walker (1992) forcefully argue that Marxist analyses privilege the capital-labour relation as an explanatory variable, but fail to adequately consider the impact of product market changes, new technologies, and importantly, the problems posed by the ever-growing division of labour, which is essential to any modern capitalist economy.

Whilst vertically integrated autonomous firms that entered into arms-length transactions with one another were earlier considered as the norm for industrial organisation, the success of small-firm clusters led to the recognition that there could be a multitude of production arrangements that could be equally, if not more, efficient. In several of these clusters, the intra-firm division of labour is fluid; a feature conventionally viewed as 'pre-modern' and therefore inefficient. The fragmentation of mass markets and intense product differentiation because

of competition is argued to have rendered 'flexibility' in production as critical. Inter-firm networking and use of general purpose machinery are some of the mechanisms by which such economies are ensured. The initial empirical studies, anchored in an industrial district perspective, mostly employ a static framework. This prevents an understanding of the forces that have shaped the clusters, as well as the fragility or resilience of these formations. For instance, the Emilia Romagna region in Italy and Baden Württemberg in Germany were the archetypes of flexible specialisation in the 1980s, yet are now but have come to be regarded as regions in crisis subsequently (Bianchi, 1994, cited in Schmitz, 1995, 538; Cooke and Morgan, 1994). The growing concentration of large firms in the Italian footwear districts (Rabellotti and Schmitz, 1997) and the garment clusters in Mexico (Wilson, 1992) are other examples of capitalist accumulation imperatives that undermine the basis of industrial districts. A major criticism against the industrial district perspective is that it overemphasises the 'co-operative specialisation' (differentiation by product or process) and co-operation between firms, with the consequent neglect of hierarchical and competitive relations between firms in such clusters (Pollert, 1991; Schmitz, 1995).

Since the early 1990s, the growing influence of cluster-based approach for studying small-firm industrialisation has resulted in studies of several clusters of small-firm agglomerations being carried out in India.⁴ Whilst the cluster approach does consider the socioeconomic embeddedness of informal production in the region (a dimension that was absent in the earlier approach), they tend to be largely driven by policy emphasis to identify small-firm clusters that could be competitive in global and pan-Indian markets. The factors that hinder the dynamism of firms and their movement along the 'low road' as opposed to the 'high road' (despite geographic agglomerations) were identified, and interventions were delineated to address this absence. Moving away from case studies of industrial clusters, Harriss-White (2003) sought to situate the dynamism of clusters in the political economy of Indian development by drawing upon the category of 'intermediate regimes' as proposed by Kalecki (1972), in order to understand the specificities of clusters in post-colonial countries such as India.

The most recent attempt to develop a framework to understand the dynamics of the informal economy was by Sanyal (2007) and later endorsed by Chatterjee (2008). Crucial to this framework is the distinction between the capitalist and non-capitalist economic space, with corporate capital operating in the former sphere and non-

corporate capital in the latter; corresponding to the informal economy. The distinction is premised on the factors that drive entrepreneurship in the two segments. In the formal sector, corporate capital is engaged in the production of surplus, which is driven by the need to accumulate and maximise profits. According to Sanyal, however, this capitalist imperative to accumulate does not explain the productive motive of capital in the informal economy. Drawing from Gramscian readings of the Indian state, he points out that in most societies, the processes of primitive accumulation that precedes capitalist development and creates conditions for the formation of wage labour cannot be completed because of political compulsions. Although people are dispossessed of the means of production and pushed out of the countryside, most fail to find their way into the domain of capital. Instead, they straddle an economy that he labels as the 'need economy', where they undertake a range of tasks in order to meet their basic needs. However, the state cannot afford to ignore this dispossessed segment of the population if it were to sustain the domain of modern capitalist accumulation. He argues that this pressure leads to a reversal of the process of primitive accumulation. In the early history of capitalist accumulation in the advanced capitalist economies, capital was expropriated and transferred from the non-capitalist to the capitalist sectors through a range of processes. However, post-colonial societies have witnessed a simultaneous process of capital transfer from the capitalist to the non-capitalist sector in order to counter the negative effects of primitive accumulation. The pressure of democratic politics forces the state to implement a set of schemes to improve the welfare of those trapped outside the domains of capital and traditional subsistence. In short, he contends that capitalist development can never be along the same lines as the ones witnessed in advanced capitalist countries, where capital is forced to be in a continual 'state of becoming.' In such efforts to reverse the impacts of dispossession, national governments are aided discursively and materially by a repertoire of techniques and programmes from agents of global governance, such as the World Bank. Global developmental goals such as the achievement of millennium development goals, basic entitlements, and a rights-based approach to human development, are routinely deployed in order to introduce new methods to govern populations inhabiting such informal spaces outside the domain of capital.

Whilst this need to provide welfare does explain the existence of such programmes, it does not tell us how such a welfare regime would shape the domain of capital through its possible influences on the labour market. This

is particularly important given the shift in accumulation strategies towards competing global markets through low-cost labour, among other elements. Whilst this conceptual distinction is important in understanding the formal-informal dichotomy and explains the functioning of substantial segments of the informal, some segments of capital within the informal have transformed themselves from producing for need to production for capital accumulation. The conditions that enable this transformation is a topic that needs further analysis. For instance, one could make the distinction between the modern small scale and the traditional small scale, in order to provide a degree of differentiation in terms of technological and growth dynamism. Sanyal hints at the possible consumption linkages that can be forged between the formal and the informal by acknowledging that the consumption requirements of those engaged in the needs economy has to be met through the market. Given the substantial size of the market, the formal could step in to meet this market requirement, thus enabling a dynamic that is not conceded by his framework.

Yanagisawa (2010) also seeks to locate the need for informal production in the structure of demand, which is contrary to Marxist perspectives that emphasise the need of capital. His contention is that in an economy characterised by highly differentiated income groups, the consumption needs of these market segments must be met differently. Though he does not quite use this formal-informal distinction, he argues that demand patterns should be considered when explaining the rise of small-scale industries in the colonial period. Hence, whilst quality and design may matter to the upper-income segment which may require frontier technologies and skilled labour, low cost products may be of utmost importance to the low-income segments. Based on the development of small-scale production in rural areas in sectors such as hosiery, rice, and groundnut oil, he shows how a demand structure can explain sectoral evolution.

Since the early theorisations of the informal economy in the 1970s and 1980s, few studies have attempted to understand and theorise the: (a) changing modes of informality; (b) relations of production within the informal economy; (c) nature of relations (productive and otherwise) between the formal and the informal economies; (d) the impact of governmental interventions by state and non-state actors; and (e) the modes of collective action among the informal-sector actors. Adequate attention has not been paid to the changing labour processes and the nature of institutional (caste/gender/ethnicity) mediation. An important transformation in this regard has been the rise in both the

quantum and range of services, and employment in this segment of the economy. In terms of our understanding of the informal economy, this change is particularly striking since earlier theorisation was based on the predominance of the manufacturing sector. Finally, a macro-regime shift warrants a re-examination of the processes that produce informality: is it merely a retreat of the state? What are the imperatives of globalised production that produces informality? Does the spatialisation of production, as generated by globalising pressures, differ across sectors? What are the production networks that link the rural with the urban, and the urban with the global, in terms of labour flows? In the context of the 'hollowing-out' of the rural, and the rise of urban informality, what are the rural-urban interactions with regard to industrial growth and employment? The objective of this paper is to embed the rise of some new forms of informal and formal employment spatially, in order to understand how labour and livelihoods in the informal economy are shaped by new temporo-spatial rhythms, even as they shape the spaces of the new urban and the new rural. Before I move on to specific instances of new spatial manifestations of informality at the micro level, I would like to highlight two important macro trends that have emerged in the context of rural-urban mobility in India. These concerns the movement of labour and the movement of capital.

III. Contemporary Trends in Rural-Urban-Rural Mobility

Chandrasekhar (2011) makes an important observation about the growing significance of the 'commuting worker' in India's rural and urban landscapes. He uses information from the Employment and Unemployment Survey of the National Sample Survey Office (NSSO) for non-agricultural workers' places of residence and work in order to provide an estimate of 'commuting workers': workers that stay in one area (rural or urban) and commute daily to the other for work. Based on the NSSO data, Chandrasekhar estimated that in 2009 to 2010, over eight million workers employed in non-agricultural work commuted every day from rural to urban areas, whilst another 4.37 million lived in urban areas and moved to rural areas. Importantly, the urban-rural commuters did not work in agriculture. He identifies an additional 12 million plus workers (five million in rural areas and seven million in urban areas) who do not have a fixed place of work. This implies uncertain employment and a highly mobile workforce. The mean ages of the rural-urban and the urban-rural commuters were 32 and 35, respectively. This mobility was

also highly gendered, as can be expected. The breakdown of the jobs that were undertaken was even more striking. Whilst 40% of the rural-urban commuters worked in regular salaried/wage employment, the share was higher (49%) for the urban-rural commuters. Together, they accounted for 48% of the total commuting workforce.

In terms of the occupational profile of commuters, most of them were, not surprisingly, employed in what the NSSO categorises as 'elementary occupations.' These were jobs that required low skill as well as 'crafts and trades,' which can be interpreted to mean low-skilled or traditional skill-based jobs. In terms of sectoral employment, around 31% of the rural-urban commuters were employed in the construction sector, with 20.5% in manufacturing, and the rest mostly in wholesale and retail trade, transport, storage, and communication. As for the urban-rural commuters, a relatively large percentage of them worked in the wholesale and retail trade (28%), with nearly 24% engaged in the manufacturing sector. This phenomenon of increasing urban-rural commuting to work in manufacturing jobs is indeed novel and needs to be understood. A substantial proportion of those who did not have a fixed workplace worked in construction, as can be expected, followed by the service sectors; particularly trade, transport, storage, and communications. Of the factors that Chandrasekhar identifies as having led to the increasing visibility of the commuter worker, the growth in the number of towns, and the improvement in transportation networks are likely to have played an important role. However, what is not clear is the nature of movement of capital and production that drives these mobilities. Considering that a greater proportion of commuting workers moved from urban to rural areas to work in manufacturing, are we witnessing a ruralisation of manufacturing in the country?

The rise of new ruralities and the 'hollowing out' of the rural has been a recurrent theme in recent sociological accounts of rural transformation (Gupta, 2005; Vasavi, 2009). Such accounts essentially refer to the declining role of agriculture in constituting livelihoods in rural areas, and the consequent implications for changing social and economic relations in the villages. A recent study on rural non-farm employment in Tamil Nadu based on a survey of villages indicates this 'hollowing-out' of Tamil Nadu villages (Jeyaranjan, 2012). The researcher highlights that the proportion of workers engaged in non-agricultural employment increased from 26.1% to 42.5% for men, and from just 16.4% to 27.6% for women, during the period 1977/1978 to 2009/2010. The survey in four districts revealed that only 28% of the sample households relied

solely on agriculture for their livelihood. In the remaining households, at least one member of the household was engaged in non-agricultural employment. The study points to two contrasting tendencies in non-farm employment of rural households. One strand of this workforce has entered into the formal sector with regular paid employment, whereas the other segment is increasingly engaged in casual work. The two trajectories may be indicative of a correlation between a progressive diversification and a distress-induced diversification. Importantly, the survey revealed that manufacturing accounted for a larger proportion of the non-farm employment than construction. What is the nature of the emerging employment in manufacturing that fosters such new labour mobilities and accompanies rural-urban transformation? In a working paper presented at the Harvard Business School, Ghani, Goswami, and Kerr (2012) identified two important trends in the relationship between urbanisation and manufacturing in India.

Firstly, they pointed to a growing ruralisation of the formal manufacturing sector's activity in the country over the last 15 years. In terms of employment, manufacturing employment has become more urbanised, with the share of manufacturing sector workers in urban areas increasing from 33% in 1989, to 41% in 2005. Whilst this trend held for the number of manufacturing plants that appeared in urban areas, the paper suggested that it was not true in the case of output. The manufacturing sector's output increasingly came from rural areas during the period. This was essentially because most of the output came from the formal sector, and formal manufacturing moved to rural areas during this period. The obverse of this phenomenon is striking. Manufacturing employment in the urban areas was increasingly informal in nature. The paper estimated that during this period, the organised manufacturing employment in urban areas declined from 69% to 57%, whereas the employment share of non-formal employment increased from 25% to 37%. What could explain this tendency towards ruralisation in manufacturing?

The 2012 paper considered the district-level infrastructure such as education, transport, and power, and found a correlation between the physical infrastructure and the declining urbanisation of production. Furthermore, educational levels and real estate costs matter in the rural-urban distribution of industries. However, the study did not find any relationship between industry characteristics and this movement, which is indeed surprising, as one would expect that sectors requiring relatively low skilled workers would move to rural areas more easily than the sectors that required workers with high-end skills (pos-

sibly with tertiary education) to remain in urban areas. Whilst these factors explain the movement of formal manufacturing from urban to rural areas, the reasons for greater informalisation for production in the urban milieu is less clear. To highlight the dynamic of these tendencies, I provide evidence from sectors in Tamil Nadu.

IV. Sectoral Dynamics and Spatial Manifestations

Tamil Nadu is a region long known for the development of the textile industry, and at present, accounts for one-third of the textile output of India, with 45% of the yarn production, 70% of the yarn exports, and more than 50% of the cotton knitwear exports (Vijayabaskar and Jeyaranjan, 2011). Tamil Nadu is also a major centre for leather and leather product exports, with over 90% of the exports from South India originating from Tamil Nadu (Vaithegi, 2007; Tewari, 2001). The state is also known for its dynamic auto and software services sector, with the Chennai and Coimbatore regions emerging as important hubs in both sectors.

Until the early 1990s, most spinning mills were located in urban areas; primarily in the Coimbatore region. Similarly, leather goods production units were located in Chennai and the Ambur, Ranipet, and Vaniyambadi regions, which again were primarily urban areas. Both sectors are relatively less skill-intensive and more labour intensive. Since that period, there has been a gradual movement by the larger firms from the Coimbatore and Ambur regions into the nearby villages. Furthermore, a number of new units that specialise in this sector have been set up in these villages. Whilst this movement can be primarily attributed to lower land costs and wages, technological characteristics have an important role in this regard as well. Transportation and road networks have contributed significantly to this mobility of capital. Importantly, lower skill requirements have enabled capital in this sector to draw upon the unskilled or less-skilled labour from rural areas. The firms employ company buses to transport workers from the villages to the factories, even for units that are located in urban areas. For garment production, the relatively higher-end segments of garment production that require better quality control continue to operate within Tiruppur town, and the garment factories that cater to the mass markets have slowly begun to move to the rural hinterland and draw upon locally available labour.

The automobile sector, on the other hand, is more technology intensive and requires more skilled labour.

However, by using high levels of automation, several segments of production within the auto sector have managed to embed skills into machines, thereby lowering the skill requirements of the workforce. In short, firms can now draw upon a relatively less-skilled labour force (compared to workers employed in the past) for some of their operations (Vijayabaskar, 2005). However, even in such cases, the machinery maintenance and repair, the programming of computer numerically controlled CNC machines, and the managerial labour all require skills that are not amenable to a large-scale ruralisation of the industry. Whilst the automobile industry has moved from the outskirts of Chennai to the Sriperumbudur and Oragadam regions, it can be ruralised only to a limited extent. Its proximity to Chennai has been an important factor in attracting investments, and the government has been proactive in providing highly subsidised infrastructure for the establishment of new units.

The need for proximity to Chennai is particularly evident from the fact that most of the special economic zones have been set up in Chennai and the bordering districts (Vijayabaskar, 2013). The limit to the dispersal of certain manufacturing sectors is illustrated in an interesting incident in which a senior political functionary in the state attempted to move a manufacturing facility to his constituency. According to a senior bureaucrat, who agreed to be interviewed on the condition of anonymity, a global major was interested in establishing a facility to produce components for the aerospace sector in the state. The political leader was keen that the facility should appear in one of the southern districts where he was popular. These districts were also among the least industrialised in the state, and even the government was under political pressure to prove that the industrialisation of backwards regions can benefit from the policy of providing incentives for private capital. However, the firm refused to move away from Chennai, and demanded a location on its outskirts. Thus, whilst land prices create incentives to move to rural locations, this is insufficient for sectors that are skill intensive.

Such limits to capital mobility are more evident in the software services sector. Both the central and state governments have made considerable efforts to diffuse this sector away from metropolitan regions and into smaller towns. Initiatives include the establishment of IT parks in these towns and the provision of additional tax incentives to locate these parks. Large firms prefer to set up low-end development centres in smaller towns to cut infrastructure and wage costs alongside the expenses related to the higher attrition in metropolitan cities. The state government established IT parks in several Tier-2

towns in Tamil Nadu. However, this was only successful in Coimbatore. Two large IT firms established development centres, whilst others leased space in the IT park. None of the other towns have been able to attract capital in this sector, except in a few instances where local entrepreneurs have set up small development centres. Apart from deficiencies in communications and power infrastructure, skill availability and access are cited as critical factors that undermine the prospects of capital mobility. The extent and mode of ruralisation of formal manufacturing is therefore driven by sectoral factors. Importantly, ruralisation does not necessarily imply better wage rates or working conditions for the rural population upon entering the workforce.

V. Ruralisation of the Formal Sector and Implications for Labour

The shift of formal manufacturing sector into the rural areas need not be associated with better wage rates for workers. This movement, that concerns textiles, clothing, and leather goods production, has in fact been accompanied by poor terms of employment. Spinning mills recruit workers as apprentices under the Apprenticeship Act in order to retain them as temporary workers. Importantly, studies have pointed to adverse terms of employment akin to neo-bondage, where workers are paid most of their wages only after the completion of a fixed period of work that ranges from one to three years. Workers in clothing factories located in rural areas are paid less than their counterparts that work in the factories located in towns. In the shoe factories, workers are paid a low minimum wage. The workers in both the clothing and shoe factories (young male workers in particular) prefer to work as casual workers and get paid on a piece-rated basis, compared to the fixed time-rated wage of regular workers. This is primarily due to the poor standards of the formal-sector employment. Young male workers are of the opinion that the wage rates for formal jobs in these factories are poor, and importantly the quality of the social security offered in terms of health care through the Employee State Insurance (ESI) scheme is quite poor. Workers prefer to use the private health care system despite the high costs that this health care entails. The workers also find that the transaction costs of accessing their provident funds are quite high once they have left a firm. As a result, they prefer to get their entire wage payments at the end of the week, rather than to see their savings locked in formal institutions. In short, the movement from the agriculture sector into the formal manufacturing sector that Jeyaranjan's (2012)

study observes need not be an indication of better livelihood options for those living in rural areas, despite the connotations of formal employment.

VI. Welfare Regimes, Rural-Urban Transitions, and Informal Work

Importantly, the rural-urban distinctions that mark the literature on development dynamics have been increasingly critiqued in the wake of persistent evidence of the links between the two. The differences, as stated by Hnatkovska and Lahiri (2013), have narrowed because of the following reasons. Firstly, developments in transport and communication have allowed a convergence of the labour markets to an extent that has been revealed by wage data trends over a 27 year period (1983 to 2010). Secondly, such developments have enabled the rise of the commuting worker; a phenomenon that clearly transcends such distinctions and constitutes a life space that is simultaneously urban and rural. Workers often prefer to stay in their respective villages and commute to their place of work, be it in nearby towns or villages. The garment and shoe factories and electronics firms on the outskirts of Chennai often source labour from within a radius of 60 to 75 km, sending buses or vans to transport the commuting workers. The 'company bus' is a regular feature of rural landscapes in the state and aids the mobility of the female workers in particular. Access to housing in the villages is another important factor that incentivises commuting, and possibly works to subsidise the cost of the reproduction of labour. Importantly, this rural preference is encouraged by social welfare regimes that target the political society rather than the labour force.

Social security measures have been an important component of state interventions in order to address income vulnerabilities in the informal sector, and there has been a greater emphasis on this aspect in the last decade, particularly in Tamil Nadu. The state has a universal public distribution system (PDS) in place that provides highly subsidised rice (20 kg of free rice) alongside other provisions. In addition, implementation of the Mahatma Gandhi National Rural Employment Guarantee Act (MGNREGA) in the state has been commended for its relatively improved functioning. Together, the schemes offer a considerable amount of insurance against livelihood and income shocks. Despite a growing informalisation of work in the state, as noticed by Shyam Sundar (2009), governmental initiatives that provide welfare to members that are deprived of their traditional means of production has insulated workers from the income vagaries of casual or

informal work. Such state interventions have incentivised workers to continue to stay in the villages as their costs of reproduction is subsidised. Although the MGNREGA has been criticised by certain segments of capital for depriving them of access to cheap labour, one must understand that these security nets allow capital to rely on workforce casualisation without having to invest in providing social security.

VII. The Continuing Puzzle of Self-Employment

A much less understood phenomenon has been that of the self-employed in the informal economy. Whilst modernising accounts would expect a decline in the numbers of self-employed from the dismantling of protectionist policies such as reservation for the small-scale sector and the reduction of a range of tax concessions to traditional industries, studies point to the persistence of this form of production well into this decade. It was observed that the share of self-employment among the informally employed had increased from 54.72% in 1993/1994 to 56.61% in 2004/2005 (National Commission for Enterprises in the Unorganised Sector, 2009). In the urban areas alone, 45% of the workforce were reported to be self-employed in 2005 (Chen and Raveendran, 2011). This process has somewhat reversed since then, with the proportion of the self-employed declining to 41% in 2009/2010 (Chen and Raveendran, 2011). This is also a period where wage employment has clearly increased, which suggests that the substantial share of self-employment is distress induced. When confronted with a lack of wage employment, labourers appear to take up such employment as street vending, home-based work like tobacco rolling, ancillary work for garment making, or assisting employed family members.

Among the self-employed in the urban areas, 85% worked in informal enterprises, and 74% were their own-account workers; for example, they ran their own establishments using family labour rather than wage labour (Chen and Raveendran, 2011). In terms of the informal-sector enterprises in manufacturing, 85% of the firms were own-account enterprises, 10% of the units employed less than six workers, and only 5% of informal enterprises employed between five and 20 workers. For most, the home and factory were interlinked as their residential space doubled as production area and constituted an important productive asset. In addition, as the NCEUS stated, nearly 50% of the self-employed reported an income that was lower than the state-stipulated minimum

wage. The expansion of the services economy has possibly spawned a range of new self-employment options that are yet to be understood or mapped. The nature of these links to the formal economy, and the nature of variations within the domain of the self-employed (in terms of links with markets or with input suppliers and skill requirements), need to be studied. The processes that generate such self-employment also need to be understood. In the next section, we highlight the emergence and expansion of a new segment of the informal economy that is linked to production for the global market in the post-reform period.

VIII. The New Urban Informality: Domestic Market as a 'Backyard' for Export Manufacturing

In the cotton knitwear cluster of Tiruppur, the domestic market has expanded in terms of the product profile and penetration into newer markets, along with the growth in exports. Knitwear is normally associated with urban markets, as new dress fashions tend to be diffused from larger urban centres to the smaller towns and then to the rural areas. The low cost of production for knitwear has enabled penetration into hitherto untapped markets such as the rural hinterlands. This process has been accentuated by the need for export manufacturers to offload materials and machines (which do not have a demand in the export market) onto the domestic market in order to cut down on costs and risk. Given the high quality requirements of export manufacture, manufacturing for the export market generates a substantial amount of rejected goods which are used to cater to this segment. Rejections can occur at different stages of the production process. The fabric may be of low quality, or may not conform to size requirements. The yarn quality by itself may be poor. Processing defects such as poor quality of bleaching, colour mismatch in dyeing, and incorrect printing or embroidery may lead to immediate rejections, and the costs involved in rejections after the goods have reached the importer are prohibitively high. Furthermore, damages to the fabric may occur at various stages. Cutting or stitching defects are also common. All such rejected yarn, fabric, and garments are sold at lower prices to agents. Additionally, the exporters also sell their older machines (which include imported machines) and replace them with newer models.

The market for clothing that is produced from rejected material by using the older machines of the export market is a segment that owes its existence solely to the export manufacturers' need for a 'backyard.' This segment is constituted by the undergarments and casual wear that is

produced with what is termed as ‘waste cloth’ in Tiruppur. The yarn, or fabric, is then sold to various small household units that are dispersed throughout the region for the production of such clothing. In the initial phase of exports, these garments are mostly sold to agents in the Erode Market, which operates once weekly. However, in recent years, traders buy these garments to sell in other parts of India, and to export to Africa. Agents from countries such as Kenya and Nigeria stay in Tiruppur for a few weeks to scout suitable order lots for purchase and negotiate prices. It is said that the market for goods belonging to this segment runs into several million Indian Rupees every month.

The quality standards of the export markets have therefore spawned a new value chain of low-end garments, drawing upon technologies excluded by the quality-conscious markets. This has created a large informal sector that produces low-end clothing of various kinds for the domestic market through use of second-hand machines and involves relatively less-skilled and lower-paid labour. Informal estimates suggest that the slums in Tiruppur are home to nearly 25,000 small-scale or household-based units that cater to the new value chain. Firms of this type operate in household premises using domestic female labour to stitch garments and unravel yarn from waste cloth. They are sustained solely by the surge in exports and the associated emphasis on quality. A similar process is also evident in Ambur town, where the production of leather goods such as shoes and other footwear designated for export has generated a ‘seconds’ economy that draws a substantial number into its production and marketing. We thus observe a clear segmentation in the nature of the organisational arrangements between production for different kinds of markets, different labour market outcomes, and, hence, socioeconomic inequalities. The means through which technology shapes work and labour use practices largely depend on market characteristics. One must remember, however, that the segmentation of markets is a deeply political phenomenon that arises primarily as a result of uneven income distribution.

IX. Implications

This paper aimed to highlight some of the emerging forms of informal and formal employment when sectors are integrated into global markets. A key motive was to establish the need to nuance these categories to highlight the fact that even ‘formal employment’ does not constitute ‘decent work’ conditions. Export factories in Tiruppur that meet the requirements of ‘formal employment’ witness

high labour turnover due to unsatisfactory conditions of work. The minimum wage revisions do not reflect the cost of living for worker households. The fact that the cost of reproduction is highly subsidised in the rural areas clearly explains the preference for workers to stay in rural areas and commute to work in the urban areas.

We need to conceptualise the changes to the formal-informal continuum by examining concrete forms of employment and labour relations in order to understand the factors that generate such diverse labour relations. One must recognise that most of the workers in the Indian economy, even outside the agricultural sector, are self-employed. This conceptualisation would entail the following:

- (a) *Mapping various livelihood types in the urban informal sector towards developing a typology of work and employment options.*
- (b) *Studying the processes that generate the informal economy, from dispossession that pushes people into the urban spaces, to informalisation in the economy at large, and the creation and destruction of markets for labour and other commodities in the informal economy.*
- (c) *Studying how the emerging patterns of informalisation in globalising cities are manifested in the new relations between productive and reproductive spheres.*
- (d) *The shaping of these processes by the politics of the urban poor.*

Acknowledgements

This is a revised version of a paper presented by the author at the INDAS International Conference titled ‘Actualities of Indian Economic Growth at Rural-Urban Crossroads’, held during December 15–16, 2012, at the University of Tokyo, Tokyo. I am thankful to the participants of the conference, late Prof. Haruka Yanagisawa in particular, for the valuable comments that helped me revise the paper.

Notes

1. Works that highlight the positive role of small firms include Weeks (1975) and Sethuraman (1976), with the exception of Hart (1973).
2. This framework sought to overcome the limitation of excessive focus by the ‘dependency’ theorists on exchange relations with the external by emphasising the need to understand the relations of production within that sector. Peripheral economies are characterised by ‘precapitalist’ production relations, hence capitalist development is conditioned by the way in which the existing

production relations articulate with the modern sector. In other words, precapitalistic relations would continue to prevail if it is to the advantage of capital in the core to perpetuate it.

3. According to scholars such as Warren (1980) and Kay (1975), capitalism has not penetrated enough, yet to others, especially those in the articulation school of thought, capitalism itself perpetuates these backward production forms (Wolpe, 1980).
4. Clusters studied in India include the following: the footwear clusters in Agra and Kottayam, diesel engine manufacturing in Rajkot, brass metal parts in Jamnagar, and brassware in Moradabad, the diamond polishing cluster in Surat and diamond cutting cluster in Trichur, the textile printing cluster in Jetpur, the woollen knitwear and bicycle industries in Ludhiana, the garment clusters in Ahmedabad, Delhi, and Tiruppur, the flooring tile cluster in Gujarat, leather tanning in Palar valley, and the electric motor-making cluster in Coimbatore. For detailed references to these studies, see Vijayabaskar (2001).

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