

A hidden workforce: Precarious contract labour in Tamil Nadu's garment industry

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Introduction

The garment and textile sector in Tamil Nadu, India, is a significant contributor to India's economy, particularly through its export-oriented factories. Over the past decades, the sector has increasingly employed contract workers.¹

This briefing, based largely on an interview with an industry expert working with the Indian organisation Paradigm Shift,² supplemented by literature research, investigates the dynamics of contract labour in this garment sector in Tamil Nadu. It explores the structure, legal frameworks, types, benefits and drawbacks of contract labour for both workers and employers. Additionally, it addresses the associated opportunities and risks that international buying brands, retailers, distribution groups and buying houses – hereafter referred to collectively as “buyers” – should consider in their business relationships with suppliers to ensure responsible business conduct.

The main purpose of this briefing is to inform international garment buyers that source from Tamil Nadu. The briefing continues with an overview of the Tamil Nadu garment and textile sector, followed by a description of how contract labour functions in the sector, the benefits and risks associated with contract labour, and a short set of recommendations for buyers.

¹ International Labour Organization, 2017, Working Conditions of Migrant Garment Workers in India. A literature review (<https://www.ilo.org/media/424786/download>).

² Paradigm Shift interview with industry expert, Tirupur, Tamil Nadu, 2024.

The briefing also provides insights for other stakeholders interested in gaining a better understanding of workforce dynamics in garment factories in Tamil Nadu.

The garment and textile sector in Tamil Nadu

Significance of the sector

Tamil Nadu is one of India's leading states in cotton-based apparel manufacturing and is known for its significant contribution to exports, accounting for 21 per cent of India's total garment and textile exports in the financial year 2023–24.³ The state is home to a large number of export-oriented garment factories, comprising both large vertically integrated and small and medium sized manufacturers. These factories produce a wide range of apparel for international markets and contribute significantly to India's ready-made garment (RMG) exports, accounting for over 30 per cent of total national RMG exports.⁴

Production processes in export-oriented factories

Export-oriented garment factories typically organise production processes into the following departments:

1. Sampling department: For most export-oriented orders, samples of garments are first made based on the orders received from buyers. After samples are approved, the full range of sized patterns are made for production (grading).
2. Cutting department: Fabrics for garments of the specified sizes are cut here into patterns based on design specifications.
3. Sewing or stitching department: This is where the assembly of garments occurs, involving various sewing and stitching processes. The main sewing machines used in the factories in Tamil Nadu include single needle, overlock, flatlock and button stitching machines.
4. Finishing departments: Garments undergo final touches such as cutting residual threads, ironing, quality checking and packing.

Outsourcing and contract labour

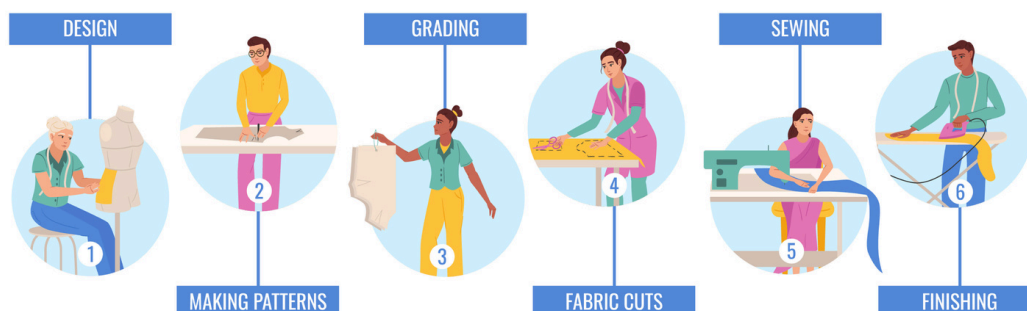
Aside from the departments where in-factory production processes take place, export-oriented factories may also outsource production activities. For example, they may use small-scale production units and homeworkers when there is insufficient in-house skill (e.g., homeworkers often undertake high-skill embroidery) and/or labour capacity to complete production activities.

³ Textile Insights, 2024, Tamil Nadu's Textile & Apparel Exports Dip 10.12% In 2023-24 (<https://textileinsights.in/tamil-nadus-textile-apparel-exports-dip-10-12-in-2023-24/>), and Indian Textile Journal, 2024, Tamil Nadu's textile exports slightly decrease to \$ 7.1 bn in FY24 (<https://indiantextilejournal.com/tamil-nadus-textile-exports-slightly-decrease-to-7-1-bn-in-fy24/>).

⁴ Fibre2Fashion, 2024, RMG exporters in India's Tamil Nadu to see 8-10% FY25 revenue growth (<https://www.fibre2fashion.com/news/apparel-news/rmg-exporters-in-india-s-tamil-nadu-to-see-8-10-fy25-revenue-growth-298403-newsdetails.htm>), and Business Standard, 2024, TN readymade garment exporters' profit may rise by 8-10% in FY25: CRISIL (https://www.business-standard.com/industry/news/tn-readymade-garment-exporters-profit-may-rise-by-8-10-in-fy25-crisil-124100400764_1.html).

Figure 1: The production process in a garment factory

GARMENT MANUFACTURING PROCESS



Buyers are often unaware of outsourced production activities as suppliers may not be transparent about this due to compliance issues. Unauthorised outsourcing does not usually comply with customer codes of conduct, buying agreements or legal requirements.

This briefing focuses on on-site contract labour in export-oriented factories. However, according to the industry expert interviewed for the briefing, the employment and working conditions of contract workers in factories producing garments for the domestic market are similar to, and often worse than, those in export-oriented factories. Further, although contract labour is especially prevalent in small and medium sized factories, it also occurs in large vertically integrated factories.

Prevalence of contract labour

Due to the informal nature of contracting/subcontracting and contract labour, there are no measured statistics on the presence of contract labour in the Tamil Nadu garment sector. Moreover, as most contractors do not comply with legal requirements, export-oriented factories are not transparent about their reliance on contractors and contract workers; nor do conventional social audits detect rights violations related to contract labour.

Thus, this component of the factories' workforce, and its employment and labour conditions, remain largely hidden. However, according to the industry expert, it is estimated that approximately 50 per cent of the workforce in many garment factories in Tamil Nadu consists of contract labour, especially in small and medium sized factories that depend heavily on fluctuating orders and lead times from buyers.

Contract labour in Tamil Nadu export-oriented factories

Tamil Nadu factories' mix of contract labour and permanent employees

Contract labour refers to workers who are hired through third-party labour supply contractors rather than directly employed by a supplier factory where production takes place. These workers are assigned specific tasks within the factory by their contractor. Based on agreements between the contractor and the supplier factory, such hires are often for a specific period of time, such as during peak production periods, or based on a specific order placed by a buyer.

Export-oriented factories often employ a mix of permanent, directly employed workers and contract workers, assigning them to different departments. Although the balance between permanent employees and contract workers varies between factories, it is common practice in the Tamil Nadu garment sector to hire workers through third-party contractors.

Factories are more likely to hire contract workers for cutting, packing and high-skilled sewing work, while permanent workers are more likely to be employed in lower-skilled tailoring, quality checking, ironing and other tasks in finishing departments.

Cutting and packing are tasks at the very beginning and end of the garment production process. It is common, especially for smaller and medium sized factories, to have cutting work for only three to four days a week. Packing capacity is mainly required when an order is finished and needs to be shipped.

Contract workers in stitching departments usually operate single needle and power table (involving both overlock and flatlock) machines. Highly skilled and experienced labour is required to operate these machines, and workers involved in this work usually earn higher wages.

Factories prefer to hire contract workers for these tasks because they are unable to provide consistent cutting, high-skilled stitching and packing work throughout the month. The provision of work in the different departments depends on the production cycle and order flow. Contract workers employed for these tasks usually work in several factories, moving from one to another when each task or order is completed, or working part time in multiple factories. They may work for the same contractor or for different contractors at the same time. This is common among contract workers in garment factories in Tamil Nadu.

The legal framework governing contract labour

In India, the Contract Labour (Regulation and Abolition) Act 1970 provides a legal framework for contract labour. It stipulates that factories indirectly employing over 20 contract workers must register this with the local government.

The 1970 act's requirements for contractors (and subcontractors) include that they must obtain a licence to employ contract workers (including paying prescribed fees and adhering to specific terms regarding wages, facilities and working conditions); they must provide basic facilities for contract workers such as clean drinking water, restrooms and first aid; and they must pay wages as prescribed. Should the latter not happen, the act makes the principal employer (i.e., the supplier factory) liable to ensure the basic facilities, the payment of wages and registration with social security schemes including Employees' State Insurance (ESI)⁶ and Employees' Provident Fund (EPF).⁷

However, enforcement of the regulations under this act is inconsistent and largely lacking, including in the garment sector. Most contractors in Tamil Nadu operate without licence registration or compliance with legal requirements. Therefore, supplier factories that use contract workers usually have no administrative or legal documentation of their employment agreements with contractors.

⁶ ESI is a health insurance scheme for workers in India, designed to provide them with medical care, sickness benefits, maternity benefits and other forms of social security in case of work-related injury, illness or death.

⁷ EPF is a retirement savings scheme where both the employer and employee contribute a percentage of the employee's wages to a fund.

This informal and unlawful nature of contracting often leads to exploitation and inadequate working conditions for contract workers. Without any proof of employment, it is very difficult for contract workers to hold their contractor and/or the supplier factory where they are contracted to work to account if their rights are violated.

Types of contractor/subcontractor in the sector

There are two main types of contractors: production contractors and subcontractors.

Production contractors provide a complete workforce for factories. They negotiate payment for services rendered (e.g., stitching) and manage these contract workers on site (e.g., as production line managers).

Subcontractors are often, but not exclusively, hired as permanent workers in the factory for specific tasks within production processes (e.g., cutting or packing). These workers become subcontractors by recruiting and organising a number of contract workers, through personal connections (word of mouth) or advertisements (such as listings on local bulletin boards and in newspapers) as immediate hires, to join them working in the factory where they are employed.

In the following account, the term “contractors” includes both production contractors and subcontractors unless otherwise stated.

Both types of contractor offer contract workers employment either on a piece-rate basis (i.e., a price per piece completed) or on a shift-rate basis (i.e., a predetermined wage for the entire shift). In most cases, contractors pay contract workers in cash on a weekly basis. However, the expert interviewed also said that there are factories where the supplier factory pays part of the contract workers’ wages by bank transfer on a monthly basis, while the contractor pays the other part in cash on a weekly basis. This is usually arranged to comply with social audit requirements.

Usually contractors earn commission on each contract worker they bring to work for a factory. Contractors may exploit contract workers by offering lower wages and employing them under poor working conditions. The contractors themselves may also face job insecurity and lack social benefits associated with permanent employment.

Benefits and risks associated with contract labour

Opportunities for contract workers

Flexibility: Workers may prefer contract positions due to flexible working hours and the ability to earn higher wages based on skills and productivity as opposed to permanent workers who have a standard weekly, biweekly or monthly wage. Also, unemployed workers who are in urgent need of employment for cash can start working immediately through contractors. In addition, especially for internal migrants, it can be easier to leave work and visit family in their hometowns.

Immediate payment: Unlike permanent workers who are often paid biweekly or monthly, many contractors offer daily or weekly pay to contract workers, which is advantageous when they rely on immediate cash flow to meet basic needs and repay loans.

As garment workers usually do not earn a living wage, they borrow money from family, friends or contractors, especially in case of emergencies or unexpected events, leaving many in constant debt.

Risks for contract workers

Job insecurity: Contract workers often face uncertainty regarding their employment status due to the periodic nature of suppliers' need for contract labour. They are employed and receive wages only when there is a pending order and can be asked to leave or be replaced without notice. Contract workers generally do not receive formal or written employment contracts or agreements from their contractors.

No social security and other benefits: Contract workers do not usually receive social security benefits such as access to ESI and EPF or paid leave, despite it being stipulated by law that their contractor is obliged to provide these benefits and that the supplier factory is liable in cases of the contractor's default.

Exploitation: There is a higher risk of wage theft and unsafe working conditions due to inadequate oversight of contractors. Excessive or forced overtime without payment of appropriate overtime wages is a common violation contract workers face. In some cases, contractors withhold wages from contract workers or make deductions from their pay for reasons undisclosed prior to employment.

The expert interviewed gave several examples of contractors disappearing at the end of a contract or assignment without paying their contract workers fully or at all. In such situations, the contract workers may try to claim their due wages from the supplier factory, but without any proof of employment they are usually left unpaid.

Abuse of vulnerability: In the shift in the past decades from permanent employment to temporary contract work, vulnerable groups such as young migrant women and men who do not speak Tamil, the local language in Tamil Nadu, and/or who do not have relatives and friends nearby to rely on, have increasingly entered the Tamil Nadu garment workforce. And more widely in India, contract workers are predominantly internal migrants, often from socioeconomically disadvantaged rural and urban areas and members of marginalised caste communities.

These workers are in a vulnerable position vis-à-vis both supplier factories and contractors and are at increased risk of exploitation. The risk of discrimination and verbal, physical and sexual abuse is exacerbated by the informal nature and vulnerability of this group of contract workers.

No access to remedy: Their vulnerability, the informal and irregular nature of their work and the fact that they move from one factory to another make it difficult for them to gain a clear understanding of their labour rights, to exercise their right to freedom of association, and to strengthen their ability to assert their rights.

⁸ Ethical Trading Initiative Norway, Ethical Trading Initiative and Danish Ethical Trading Initiative, 2017, The Joint Ethical Trading Initiatives' Guide to Buying Responsibly (https://www.ethicaltrade.org/sites/default/files/shared_resources/guide_to_buying_responsibly.pdf).

Benefits for suppliers: why do they use contract labour?

The shift from employing permanent workers to opting for contract labour is linked to the purchasing practices of international buyers. There is growing pressure on suppliers to offer competitive prices and meet shorter lead times, while the irregularity of purchasing orders from buyers is also increasing.⁸

Benefits for supplier factories that opt to hire workers through labour contractors, rather than directly employing workers, include:

- Flexible and increased access to suitable labour for fluctuating orders and lead times. When a supplier has fewer orders, they are not obliged to provide stable, continuous work and wages to contract workers. In this way they can reduce costs.
- Shifting of responsibility to the contractor for human resources management, labour agreements and working conditions. The supplier does not enrol contract workers in social security schemes or provide them with paid or sick leave. In most cases, the supplier can also reduce transaction costs.
- Employment of cheaper child and/or adolescent labour through contracting can remain hidden from conventional audits, as these workers are not registered as workers for the factory.⁹ Supplier factories often request contractors and their contract workers not to come to work when factory audits are scheduled or announced. This is common practice in the garment sector in Tamil Nadu.
- Shifting to contractors of responsibility for, and oversight of, production lines.
- Limiting workers' ability to organise and bargain collectively. There is a strong anti-trade-union bias among manufacturers in the garment sector in Tamil Nadu, with many believing that unionisation of the workforce will harm their business interests.

Suppliers often outsource certain production processes off site, including to homeworkers, to gain benefits such as the above in response to increasing pressure and demands from buyers.

Risks for suppliers

Compliance issues: Suppliers lose sight of who their workforce is and of the conditions under which they work. If supplier factories do not properly manage their contractor relationships in adherence to the legal requirements under the Contract Labour (Regulation and Abolition) Act, they can face legal and operational consequences including fines and imprisonment.

Reputational damage: Buyers that source from factories that use unregistered contractors and contract workers may face a backlash in their business if their labour practices come under scrutiny. Buyers may choose to stop doing business with these suppliers.

⁹ Transparentem, 2021, Hidden Harm: Audit Deception in Apparel Supply Chains and the Urgent Case for Reform (<https://transparentem.org/wp-content/uploads/2021/09/Hidden-Harm-Audit-Deception-in-Apparel-Supply-Chains-and-the-Urgent-Case-for-Reform.pdf>); Home Workers Worldwide, India Committee of the Netherlands and SOMO – Centre for Research on Multinational Corporations, 2018, Case closed, problems persist (<https://arisa.nl/wp-content/uploads/CaseClosedProblemsPersist.pdf>); The Nation, 2020, The Factory Oversight Industry Protects Profits, Not People (<https://www.thenation.com/article/world/factory-audit-investigation/>); Human Rights Watch, 2022, “Obsessed with Audit Tools, Missing the Goal”: Why Social Audits Can’t Fix Labor Rights Abuses in Global Supply Chains (https://www.hrw.org/sites/default/files/media_2022/11/Social_audits_brochure_1122_WEBSPREADS_0.pdf).

Loss of business: The demanding obligations of corporate sustainability legislation on European Union buyers (such as the Corporate Sustainability Reporting Directive, Corporate Sustainability Due Diligence Directive and Forced Labour Regulation) require suppliers to be transparent about their operations, including their workforce, and to comply with international human and labour rights standards. Failure to do so can also result in a loss of business with buyers.

Recommendations for international buyers

To navigate the complexities surrounding contract labour in Tamil Nadu's garment sector, buyers should consider the following recommendations:

1. As part of their human rights due diligence, international buyers should gain detailed insight into the composition of their suppliers' workforce, their recruitment practices and their working conditions so that they can understand and address risks related to contract labour in their supply chains.
2. In their due diligence buyers should meaningfully open direct communication channels with contract workers, who can provide valuable insights into their employment and working conditions. This should be conducted in a participatory way and off site (i.e., outside the factory premises). Buyers should also initiate meaningful engagement with relevant local stakeholders who represent workers, such as labour unions and civil society organisations.
3. Buyers should engage with their suppliers to evaluate how their buying practices directly and indirectly impact on the suppliers' workforce, both workers hired via contractors and permanent direct employees. Practices they assess should include order placement, forecasting and lead times, and they should improve their purchasing practices accordingly.
4. Buyers should require suppliers to formalise the workforce and preferably employ workers directly on a permanent basis. Where suppliers still use contract labour, this should be through legally registered contractors who comply with the Contract Labour (Regulation and Abolition Act) and respect workers' rights. This includes the provision of employment contracts, social security benefits (ESI and EPF) and other statutory benefits.
5. Buyers should require their suppliers to implement a thorough age verification process in their recruitment practices, whether direct or through legally registered contractors, to prevent child labour. Buyers should also require this where suppliers outsource production.

By taking these steps, conducting comprehensive due diligence, and meaningfully engaging with stakeholders along their supply chain, buyers can enhance transparency in their supply chains while contributing positively to the working conditions and livelihoods of contract workers and other workers, and to their business relations with their suppliers.

Colophon

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About Arisa

Arisa – Advocating Rights in South Asia – works to improve respect for human rights and labour rights in global supply chains. Working with civil society partners in India, Bangladesh and Pakistan, among other countries, we expose human rights and labour abuses in the production of garments, leather, natural stone and vegetable seeds, and we call on companies and governments to ensure that rights are respected. We prioritise the position of the people in the most vulnerable situations in global supply chains and work to eliminate child labour, forced labour and caste discrimination. For more information, see www.arisa.nl.

About Paradigm Shift

Paradigm Shift is a vibrant team of social dialogue experts, engineers, theatre activists, labour and human rights experts, environmentalists, social researchers and public health experts from many countries coming together to form an out-of-the-box working platform in India. We address complex supply chain challenges, promote living wages, and focus on modern slavery, the migrant worker crisis, workers' grievance management and industrial relations in South Asia, the Middle East, Africa and South America. We are active in such sectors as textiles and ready-made garments, natural stone and minerals, plantations, impact investment, healthcare, engineering, furniture, and chemicals and pharmaceuticals. For more information, see www.paradigmshiftglobal.co.in.

