Chapter 3

Clustering and Industrial Subcontracting related to Informal Sector

3.1 Clustering and Informality in Industrial Activity

Clustering and informality in industrial activity are found to be associated with each other. The informality of activities along with ease of entry into the business attracts people to act in close proximity to each other. Clustering, perhaps, gives assurance to them a kind of security, which is, otherwise absent in informal activities working in a scattered way. Usually, informal industries within the cluster have the same historical-socio-cultural-industries based in family, caste, ethnic, racial, religious, educational, political or cooperate background. It helps them acquire social spirit, which again increases intra-firm or inter-firm relationship.

The socio-cultural characteristics specific to the cluster influence the local industrial atmosphere. It is found that clusters of small firms carry with an element of tacit knowledge regarding technology, skills, products and processes, which are often specific to the community.

The essential point is that clustering may be a major facilitating factor in increasing efficiency. Division of labour, specialisation among the producers, the provision of their specialised products or operations at short notice and at great speed, the emergence of suppliers who provide raw materials and components, new and second-hand machinery, and spare parts, the emergence of agents who sell at distant markets, an easy and often free exchange of sector-specific technical and market information, the emergence of specialised producers’ services in technical and financial and accounting matters, formation of associations providing services and lobbying for its members - all these factors are behind the success of a cluster on industrial activity.
There are two types of clustering (Nadvi and Schimitz, 1994):

First, sectorally specific geographically bounded cluster. It is a common feature of small-scale manufacturing in LDCs. This often results in region becoming known for specific sectors and activities. In many cases, such clusters have a local, historical tradition rooted in peasant farming or craft-production and a custom of self-employment where backward and forward linkages are extensive. These add to the competitive advantage of the region. This type of clusters is found in Brazil's Franca and Sinos Valley region for shoe industry, Mexico's footwear industry cluster in Leon and Guadalajara, Peruvian shoe industry clustering in El Porvenir, Argentina's Rafaela cluster in metal working and machinery work (Schimitz, 1999; Rabellotti, 1993; Villaran, 1993). To this, we can add Delhi's Okhala district which is a centre of garment-making and exports with about 1500 small firms located within an area of few sq. kilometres, covering a wide range of specialist activities in garment-trade (Alam, 1992). The garment making and metal engineering industrial activities in this study also belong to such geographically bounded clusters with people of different religious background.

Secondly, there are relatively disaggregated and less pronounced clusters of small firms. These are found in large and small cities of the developing world. Many have emerged in the face of a macro-economic crisis where limited employment in the formal sector has forced individuals to be self-employed as small entrepreneurs. These types of clusters are observed in metalworking and furniture-making activities in small and intermediate towns in Sudan, Kenya, Zimbabwe and Tanzania (Hanshome, 1992; Livingstone, 1991; Rammussen, 1991; Aeroe, 1992; Sverrisson, 1992). The clusters in large cities are found in Lima's garment making in Complejo Gammara region, metallurgical workshops and small foundries in Tacora district (Villaran, 1993). This type of disaggregated clusters of tailoring works and small engineering works are found in different parts of Kolkata. These clusters are small in size, compared to clusters taken in this study. In proper Kolkata, areas known for concentration of tailoring activities are Bagbazar, Barabazar and Shyambazar. The concentrations of small engineering goods making units are found along Amherst Street in proper Kolkata.
An important feature of clusters in LDCs is that clusters are far from homogenous and distinguished by internal hierarchies. At the lowest tier of the hierarchy are households and small workshops, which have limited resources, produce for local consumption and seek to survive. The medium tier is occupied by firms which are better endowed with capital and skills, and are able to generate an investible surplus and produce either directly or on contract, for the domestic and often export market. The third tier includes firms, which maintain high levels of quality and are technically innovative, capable of entering export markets, and have growth aspirations. Thus, the production relations between firms within the clusters are not necessarily egalitarian. In garment making clusters taken in this study, there are internal hierarchies, which is revealed by the fact that the lowest tier and highest tier linked by subcontracting arrangements while medium tier is working independently with limited resources directly for the market. On the other hand, in metal industrial cluster of Howrah, lowest, medium and highest tiers are associated with subcontracting arrangement within themselves or with other outside the cluster.

In India, industrial clusters are found in cotton knitwear production in small southern town of Tiruppur, for synthetic garments in Delhi and Bombay, woollen knitwear industry in Ludhiana (Cawthorne, 1990). Tiruppur town as a whole is a hive for textile-related activity in which small firms dominate. There are backward and forward linkages in and around Tiruppur which include thread suppliers and small, medium and large firms supplying elastic, buttons, clothing labels, packing materials and chemicals and dyes for the cotton knitwear sector. Ginning and spinning mills, supplying cotton yarn, account for 20% of all factories in Tiruppur, and with increasing export orientation there were about 20 foreign buyers based in Tiruppur by 1987 (Cawthorne, 1990).
Punjab of India is known for regional and sectoral small firm clusters producing printing and printing goods, water pipes and bathroom fixtures, sports goods in Jalandhar, foundries in Batala, agriculture machinery at Goraya (Kashyap, 1992). Ludiana is known for light engineering and metal working activities and accounts for 60% of Punjab’s total industrial output (Dasgupta, 1989). Ludhiana’s industrial base is closely tied to agrarian change and rural capital formation in Punjab (Tewari, 1990, 1993). It accounts for 95% of the woollen hosiery, 85% of sewing machines, 60% of its cycle, and cycle parts produced in India (Dasgupta, 1989) and a prominent centre for machine tools and auto parts manufacture (Kashyap, 1992).

3.2 Subcontracting arrangement in Informal Industrial Activity in Different Clusters

The inter-firm relation within the cluster may be of four types- a) vertical links between small firms, b) vertical links between large and small firms, c) producers, traders' interaction and d) horizontal forms of cooperation and production relations. In all these types of relationship inter-firms subcontracting arrangements are found.

These subcontracting arrangements are widespread in different clusters of industrial activity. It helps in cutting down organisational waste by:

a) Niche marketing.
b) Shorter product cycle.
c) Just in time inventory management techniques.

This arrangement is found in metal processing, engineering and ancillaries of plastic and rubber products of Thailand (Marsden, 1984), metal engineering industry in Kanpur (Papola and Mathur, 1979), tailoring industry in Kolkata (Rometat, 1983), diamond processing industry in Gujarat (Kashyap, Tewari, 1982), engineering industry in Coimbatore (Hariss, 1982). The present study of garment making and engineering goods
making finds widespread subcontracting arrangements among the units owners within the clusters.

It is common for the subcontractors to be formally or informally tied to their parent firms through technical, financial input and product market linkages. This tie may be in two different ways. First, parent unit provides all or most factors of production and buy the finished product that is only labour services. Secondly, parent units provide nothing and give order for production and buy according to their requirements. Former can be called ‘tied subcontractor’, for e.g. Bidi units of Sambalpur (Samal, 1990). These ties can restrict the subcontractor’s freedom to operate as independent entrepreneur. The subcontracting arrangement in garment making and engineering goods production in this study is found mainly to be of the former type.

Though one distinguishing character of a subcontracting relationship is the aspect of domination and control, it is not general. Sometimes, the inter-firm relationships are usually between specialist manufacturers with equal bargaining strength. Relationship between large metal industries and their ancillaries are often similar to that between independent buyers and sellers with equal bargaining capacity. It is found in this study that in garment making, the domination and control of the parent firm are more prominent than in engineering goods manufacturing.

Though it is thought that subcontracting is merely a hangover from the days of relatively poorly developed industrial technique, the experience of Japan shows that even in the current phase of rapid technological advancement, growth of subcontracting as a principle of organisation has not diminished (Annavajhula C.B., 1989). The history of Japan’s industrial development presents both internal and external subcontracting systems. Before technological development, merchant brokers mainly carried out subcontracting system. But after technological development, their importance has fallen; instead there occurred vertically integrated subcontracting system. The unique feature of Japanese subcontracting system is the way it stretches through a re-subcontracting chain. In many East Asian countries, the recent changes in the industrial structure at the global
level have provided opportunities for inter-firm linkage and subcontracting system. The government of these countries has initiated specific policies to enhance small and marginal enterprise linkage development. Korea, Taiwan and Singapore have been particularly successful with this type of programme. In our country, no such central government policy has been framed to incorporate sub-contracting arrangement for the economic development of the country. Instead, several state governments like Punjab, Tamil Nadu have helped small tiny enterprises in this respect. It is true that some public sector units like Telco, ALL are engaged with numerous small units in subcontracting arrangement (Nagraj, 1984), this arrangement is not governments policy induced.

The most extensive and important trend in industrial structure today is the break-up of large factories. Decentralisation, deverticalisation and downsizing are evident on an increasing scale globally. The potential value of linkages between large enterprises and small and marginal enterprises in creating a broad and sustainable industrial structure is significant in the face of these trends. New technologies today are permitting more differentiated products at a lower cost where subcontracting system ventures easily (Meyenathan and Munter). The reasons for this trend are-

1. Need for cost reduction.
2. Advancing technologies and management innovation.

Many large firms concentrate on core activities and subcontract related activities to specialist small firms. In less developed markets, firms tend to choose in-house production in order to avoid high transaction costs related to poor market development. Thus, subcontracting becomes a very advantageous strategy now to cope with globalisation for less developed countries.

In India subcontracting intensity has risen in aggregate manufacturing (Ramaswamy, 1990). It is found that the consumers non-durables industry group have the higher subcontracting intensity compared to basic and intermediate goods because latter represents process technology and continuous flow method of production in contrast to
non-durables in which batch production method is widespread. In India, the subcontracting intensity and labour intensity are found to be positively related and subcontracting intensity first falls and then rises with employment size of factories (Ramaswamy, 1990).

3.3 Historical Roots of the Clusters of Garment making units in Metiabruz and Bankra and Metal Engineering units in Howrah and Qualitative Differences between them

Metiabruz in the South-Western fringe of Kolkata is semi-urban cluster of garments manufacturing units. In West Bengal, Muslim-inhabited tailoring clusters other than Metiabruz are found to be at Bankra, Domjur, Uluberia, Ulsani, Bagnan (in the district of Howrah) and some parts of Howrah proper. About 70% of market supply of garments in West Bengal are provided by these Muslim inhabited clusters.

Metiabruz is mostly inhabited by the Muslim people. Those who are engaged in tailoring activities are mainly Bengali Muslims. Only few (5% of all tailors) Bengali Hindus are engaged in this trade. Non-Bengali Hindus or Muslims are rarely found in this trade.

In Metiabruz, the cluster of about one and a half lakh people earns their living directly out of tailoring activities and another lakh of people depend on it indirectly selling fabrics and other accessories like bokram, thread and buttons, packaging materials and in transporting cloth and garments. Within Metiabruz, the largest concentration of tailors is on Battala and its neighbourhood.

The industry dates back to the middle of 19th century, when the Nawab Wajed Ali and some of his followers settled down in Metiabruz (Tapadar, 2002). The existing tailors then being trained by tailors accompanying the Nawab from Lucknow began to make fashionable garments of Lucknow gharana like Pyzama, Punjabi, Achkan and others to meet the demand for special types of garments used by the Nawab and his associates.
During the British regime, many western people along with the Britishers lived in Kolkata. To meet their demand for high-fashioned garments, some European tailoring houses were established in Kolkata. As European fashioned garments began to be demanded by the local aristocracies, local tailors were increasingly employed by these European tailoring houses. Since Metiabruz tailors were already able to acquire expertise in this activity, they got priority in the employment in these houses.

Subsequently, some of these tailor workers of big houses began to start their own tailoring business. They came to be known as “ostagars” by local people and began to receive orders regularly from aristocratic western families who supplied imported fabrics. During the II World War, tailoring activities in Metiabruz got momentum with the increase in demand for making uniform for soldiers.

Though government demand for tailor-made uniforms had reduced after the II World War and order for garments from western families had reduced after independence, the tailoring business of Metiabruz continued to meet the demand for western fashioned garments among the local aristocrats. With the increase in prices of cotton products and emergence of synthetic clothing, the demand for readymade trousers and shirts began to increase (Tapadar, 2002). The demand condition of ostagars of Metiabruz was more or less good till 1965. After 1965, high quality shirts and pants from Mumbai, Chennai and Delhi began to capture the market in the eastern part of India including Kolkata. As a result, Metiabruz tailoring business had to confront unequal competition from the products made by power-driven advanced sewing machines. Although tailoring business of Metiabruz got a temporary jolt at that time, it was able to withstand this by switching over to the children wears with embroidery decorations in which tailors of Metiabruz were specialised from the beginning.

Bankra is in the border of the area under Howrah Municipal Corporation. It has three Gram Panchayets. Tailoring activities in Bankra had also started from the pre-independence era. From the interview of resourceful persons it is found that tailoring activity is continuing for 4/5 generations that is much before independence probably at
the same or before the time when tailoring activity in Metiabruz had started. It had gathered momentum during the II World War when the government order to make uniform for the soldiers began to come.

The garments cluster at Bankra is about 18 km. from the west bank of the river Hooghly and it is also Muslim-inhabited. It was found that in the middle of the 18th century, the East India Company inspired the manufacturers of cotton goods by giving them order for work in the different parts of Howrah district and Bankra was one of such centres (Santra, 2000).

The difference between the two clusters of garment-making is that while in Metiabruz all types of garments are produced, in Bankra, only ladies’ garments and children’s wears specially girls’ frocks and short pants, are made. Here men’s wears are manufactured by very few families.

The main marketing outlets of both the clusters are Mongla hat (Howrah) and Metiabruz hat, though some sell at other hats of Kolkata. Even tailors from Bankra used to sell at Metiabruz ‘hat’. In these ‘hats’, wholesalers of different states come to purchase garments. The Mongla ‘hat’ is 150 years old. This ‘hat’ was initiated by a Hindu Zamindar (landlord) who wanted to provide the local tailoring industry with a marketing outlet to protect the indigenous textile industry from being driven by the Manchester fabrics and actually did to a great extent. Previously, the tailors of Bankra used to sell at Chamelia ‘hat’ on the west bank of the river Hooghly which was later abandoned after the establishment of Mongla ‘hat’. The readymade garments of these clusters also cater to the local demand of the local market of Harishahar ‘hat’, Chetla ‘hat’ in Kolkata.

Howrah, the twin city across the river Hooghly, developed its importance as a centre of industries built along the ocean-going vessels coming to its shores. Its first large industries were the dockyards and roperies, which were complementary industries around shipping services. From 1781, a large number of industries of shipbuilding, ship and dock repairing and roperies were established here (Santra, 2000). These led to the
establishment through the nineteenth and early twentieth centuries of many iron foundries and engineering works. All these were facilitated by its proximity to the coalfields and the iron and steel works of the tri-state area of Bengal-Bihar-Orissa as also its location as the eastern terminal point of two of India’s major railway networks.

The foundation of engineering industry became firm with the establishment of railway by the British government. The extension of railway system called for the construction of large number of bridges, and other structures for which fabrication work on imported materials was found essential. The ports in the country required various structural for docking and repair facility for the ships. The British took the advantage of the abundance of raw materials, e.g. coal, iron ore, etc. in the eastern region to set up industries for fabrication of structural items.

Traditionally, therefore, the structural and equipment related to railways and ports assumed a central position in the engineering industry in the state, later other types of engineering goods began to be produced by these clusters.

Thus, the engineering industry in West Bengal was rooted firmly from the First World War and after the Second World War it has expanded tremendously. At that time there was a number of engineering industries near Kolkata, they were Braithwaite and Co., Bum and Co., Jessop and Co., Britania Engineering Co., and Saxby and Turner, etc. These organised engineering factories were engaged in the production of structural, wagons, etc. The mechanical engineering activities that were underdeveloped began to thrive tremendously from the 1950s, with the establishment of jute, cotton and sugar mills. With this, many repairing industry had also sprung up then.

During that time, iron and engineering industry made an important place in the economy of the Howrah district. After the establishment of some large iron and engineering industries, Howrah began to be called Birmingham or Sheffield of England. Under the shadow of these large industries there developed a remarkable aggression of small engineering establishments. On the eve of the II World War, a large number of industries
producing small engineering goods began to be established in Belilius Road, Narsingha Dutta Road, Grand Trunk Road, Kadamata and Dasnagar in the district of Howrah. They were producing or processing wide range of engineering products. It had been estimated in the year 1955 that of the small engineering establishments situated within the radius of 5 to 6 miles from a central point in Kolkata, more than 75% are located in the Howrah Municipality area (Bannerjee, 1955). They functioned in their own right and also served as feeders and ancillaries of the giant industrial machinery in Howrah, thus formed vital part of its economic organisation.

Howrah's competitive edge in this industry lies in the fact that there are a large number of job-working firms which specialise in individual production process viz. electroplating, heat treatment, surface hardening, material testing, precision grinding, shaping, turning, casting and gorging. The tool and die workshops carry out skilled and specialised tasks within the production chain. Not only that, some are engaged in repairing or modifying the second hand machinery.

Most of those engaged in engineering industrial cluster of Howrah are Bengali Hindus (UNESCO, 1959) although there is a sprinkle of outsiders from East Bengal, UP and Punjab. Unlike the large industries such as jute, cotton textiles and tea, engineering units here are established by local people. Most of the workers are also indigenous of Howrah and the adjacent areas.

A possible reason of the preponderance of the Bengalis in the small engineering factories in Howrah is the involvement of brainwork and not purely muscle power, therefore, it is higher in status in contrast to work in jute and cotton industries. The status consciousness of the Bengalis might have contributed to the predominance of the Bengalis in engineering works.

The presence of the Bengalis as entrepreneurs in the small engineering factories in Howrah is a possible outgrowth of the establishment and development in the 19th century by the Europeans of large iron and engineering works, which provided a valuable training
ground for the acquisition of skills. Such factories as Albian Foundry, Bern and Co., etc. appeared to have kindled native preference for these types of work and stimulated a spirit of business enterprise. With the requisite experience attained in them, the Bengalis seem to have become pioneers in establishing small engineering factories in Howrah. The cultural affinity probably led them to employ the Bengali workers, for kinship, in language and the ways of life was desired in small undertakings as these. The occupational history of the employers shows that erstwhile workers in such small factories in turn set up more units in recent years. The self-generating growth of small engineering industries appears to be significant in the Howrah engineering cluster (UNESCO, 1959).

The socio-economic and cultural background of these two industrial activities is quite different. In garment industry, all those engaged are the Bengali Muslims who have artisan background. As a result, their skill in tailoring art is high though their literacy level is very low. On the other hand, those who are engaged in metal product are the Bengali Hindus with comparatively higher level of literacy. The Bengalis as skilled and literate though not of laborious class are doing this latter type of work very well.

Moreover, the area of concentration of the clusters of two products is qualitatively different. Clusters of garments are rural based and relatively far from the city proper, whereas cluster of metal industry of Howrah is near to the city.

In metal industrial cluster, most of the employers are working under rented workplaces with three of four of them sharing the same workplace. On the other hand, most of the tailors work within their own residences.

In Howrah metal work cluster, workshops are within the same residential premises but they are under separate temporary shed. In tailoring activities cluster, except for few big tailors, they are all under same residential premises.
In the cluster of garments, both parent firms and subcontractors are informal units whereas in the cluster of metal engineering industry, parent firms are at the top of the subcontracting arrangements and mostly belong to the formal sector and remain outside of the metal engineering cluster.

In the cluster of garments making all unit owners and workers reside within the cluster whereas in the cluster of small engineering products, many unit owners and workers reside neighbouring village situated outside the cluster.