

Labouring for investment

Tamil Nadu walks back a key labour law amendment introducing flexibility in work hours that would have benefited foreign manufacturers with export targets, such as Apple's vendors



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It came as a bolt from the blue. On Monday, confronted by stiff opposition from trade unions and political parties of all hues, from the Congress to the Communist Party of India and Communist Party of India (Marxist), Tamil Nadu Chief Minister M K Stalin announced that his government would withdraw the contentious amendment to the Factories Act that the Assembly passed a few weeks ago.

The changes to the Act were aimed at providing flexible hours mainly to niche global electronics companies such as Apple Inc to ramp up production for exports.

Top state officials went into a huddle on Tuesday. Though the amendment can be withdrawn only by the Assembly in the interim period of a few months before it is convened, officials are hoping to allay concerns raised by political parties and trade unions. It is possible, for instance, that the scope of the Act would be limited to niche areas in electronics manufacture.

Unions allege that they were not consulted and that the law would only force them to work more. Also, a similar Bill has also been cleared earlier by the Bharatiya Janata Party-ruled

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- The amendments to the Factories Act broadly provide option to workers to voluntarily work more and get paid more
- These restructured hours help companies like Apple increase productivity without increasing the workforce because the states are wary of large China-like factories as potential centres of labour unrest
- Both China and Vietnam — the other key hubs for Apple's vendors — have adjusted factory working hours
- Unions and political parties in India fear that the amendments would force workers to put in more hours and be exploitative
- State governments that want to implement similar changes believe it is applicable only to niche industries like electronics

Karnataka government, which is awaiting presidential assent, since labour laws come under the concurrent list.

Why is the relaxation in the work hours so crucial for companies like Apple Inc, which has bet big in the state? For the Cupertino, California-headquartered company, lack of flexibility in work hours could stymie its ambitious plan to ramp up its production to \$20-25 billion by FY26 — a three-and-a-half-fold increase in the next three years. That is far higher than its minimum commitment under the production-linked incentive (PLI) scheme of \$15 billion by which it

has promised to generate 110,000 jobs.

The game plan after CEO Tim Cook's visit is now at a different level. The government says it expects 25 per cent of iPhone's global production to take place in India by FY26, the last year of the PLI scheme. To achieve this objective, analysts said, Apple needs to double its direct workforce and make bigger factories.

Tamil Nadu is key for the company because two of the three major Apple vendors, Foxconn and Pegatron, which produce the bulk of the iPhones, are based in the state. Its domestic supplier of enclosures for the iPhone, the Tata group — with

which there are ambitious plans — has its unit in Hosur.

The two contract manufacturers have over 50,000 employees out of a total of 63,000 among the three vendors. They produce over 70 per cent of all iPhones for Apple in India. Only Wistron is in Karnataka.

The key to Apple's global success has been to build huge economies of scale on the Chinese model. But doing so requires flexible labour laws and larger factories.

In China, where 90 per cent of all iPhones are assembled, Apple's vendors collectively employ over 10,00,000 workers in just four large factories with the biggest in Zhengzhou boasting 350,000 workers. They produce phones worth over \$100 billion in free on board (FOB) value.

In India the vendors have set up three factories with over 63,000 workers that assemble only 7 per cent of the global production, the largest of them being Foxconn with 35,000 workers. They make \$7 billion worth of phones (in FOB value).

Most Indian states are wary about allowing factories with more than 40,000 workers because they think such large numbers could cause law and order problems. Also, unlike China, dorms within the factory premises for women workers are still not permitted under law — although 70 per cent of the workers in Apple vendor factories are women. Apple is currently holding discussions to change the law. The stiff labour laws were one key issue that Cook discussed with Prime Minister Narendra Modi during his recent India visit.

The Factories Act amendment would have helped Apple's vendors ramp up production with the same number of workers. That is because the cap on the maximum hours they can work (normal plus overtime) would have gone up by 12 per cent. For workers, overall wages would have risen 20 per cent every month and their overtime earnings would have doubled. A spokesperson of Apple Inc did not respond to issues related to the impact of the amendments. The average age of the workers is around

21 and they have passed Class X.

The broad changes in the Factories Act in Tamil Nadu and Karnataka are similar. The amendment extends the total number of working hours in each shift to 12 (two shifts a day) for four days instead of the current system of three eight-hour shifts for six days. The cap of 48 hours a week is unchanged in both cases. The option of which one to choose remains with the worker — a message, government officials say, that has been missed by the unions. It also allows women to work on night shifts.

But the bigger change is in doubling the cap on overtime from the current 75 hours per quarter to 150 hours, which means that additional overtime hours can potentially go up from six hours earlier to 13 hours now.

This regimen is not unusual in countries with an export focus. Apple's two other manufacturing hubs, China and Vietnam, have already obliged. Vietnam, for instance, has amended laws in 2022 to increase the cap on overtime from 200 hours a year to 300 hours (with a monthly limit of 60 hours).

In China under the new regulations on labour, the employing unit has been allowed to increase working hours in consultation with the union and the workers for one hour a day and for special reasons three hours a day, but with the proviso that the increase should not be more than 36 hours.

Without flexibility in labour laws Tamil Nadu could see Apple vendors shift capacity to other states. That is already happening. For instance, Foxconn has announced investment of \$200 million in Karnataka and intentions to set up factories in Telangana (where the government is looking at changing the Factories Act) generating 100,000 new jobs. Sources said some of its supply chain vendors are considering Gujarat and Uttar Pradesh as alternatives. Also, as most of the production is for exports (70 per cent by FY26) they can continue in China or look for other alternative destinations in South East Asia.

The option of full automation, which is the route other global mobile makers are exploring, is tricky. Apple uses about three to four times more labour per phone as a large part of the quality checks are done physically. But this option would be out of sync with a key objective of the PLI scheme. Flexibility of labour laws could well become a double-edged sword for states that want to attract more foreign direct investment.