

India labour law reform catches unions and business off-guard

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Indian businesses and states are rushing to adapt to the sudden introduction of what Prime Minister Narendra Modi hailed as one of the biggest overhauls of labour rules since the country's independence from Britain in 1947.

Unions organised demonstrations in several states and New Delhi after the government suddenly enacted four new legislative codes, compressing and updating 29 laws — some of which date to the colonial era — late last month.

The regulations seek to formalise the vast informal sector, slashing gig contracts, expanding coverage of social security to include India's more than 10mn gig workers and establishing the right to minimum salaries with a benchmark "statutory floor wage". The rules will also erase restrictions on hiring women for certain jobs and grant free annual health check-ups for employees.

But by making it easy to hire and fire workers — it raises the threshold for companies requiring prior government approval for lay-offs from 100 to 300

workers — Tapan Sen, general secretary of the Centre of Indian Trade Unions with 7mn members, said the reform will "totally demolish labour rights".

"We are going into a head-on confrontation with the government on this," he said, warning unions could call for a general strike.

The Joint Platform of Central Trade Unions, a leftwing and opposition grouping of Indian unions, called it a "deceptive fraud" by Modi.

With Modi focused on helping the economy withstand punitive US tariffs, his government is billing the reform — first passed in 2019 and 2020 but whose implementation was delayed because of opposition — as an opportunity for India's workforce.

"We will now start receiving the benefit of social security schemes," said Shaik Salauddin, the founder of two gig workers' unions with more than 70,000 members.

The updated rules — shrinking existing regulations from 1,400 to 350 and replacing compliance paperwork with a single licence — could raise costs for small and medium-sized companies.

Rajiv Chawla, chair of the JaiRaj

Group, a manufacturer of plastic components for cars, said the reform eases compliance for big companies but "for the SME sector it has a financial impact". The new rules "will add to the cost of entrepreneurs".

"This will be good for the informal sector but it will be too expensive for the formal sector, not much for the big guys

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but the small and medium ones," added a manager at an auto parts maker.

The government's hope is that the overhaul could provide an economic boost. Despite high-profile "Make in India" investments from companies such as Apple, manufacturing's share of GDP has remained at about 14 per cent since Modi took power in 2014, well short of the 25 per cent target he set then for 2025.

Ashwin Chandran, leader of the Confederation of Indian Textile Industry,

said that "further simplification, reduction in compliance costs and more alignment with international labour norms and wage costs" will be crucial because "states with more industry-friendly provisions will attract more investment and jobs".

Chandrajit Banerjee, the head of the Confederation of Indian Industry, said the reform "strengthens the foundations for higher productivity". Business leaders are hoping for a "smooth transition" to the new rules, according to Nasscom, the IT industry trade body.

UBS economist Tanvee Gupta Jain estimates that as many as 25 out of 29 Indian states have incorporated provisions of the reform. Some, such as Kerala, which is run by the Communist party of India, are not yet complying with the new rules.

"At this point of time, except for Kerala, the majority of states have devised rules under the new codes," said Vasudevan Sivankutty, Kerala's labour minister. "The Kerala government reassures that the rights of the working class shall be unassailable."

Additional reporting by Jyotsna Singh in New Delhi