

DEEP REFORM CAN GET FOREIGN FIRMS TO MAKE IN INDIA

Relevant for: Indian Economy | Topic: Issues relating to Planning & Economic Reforms

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Several states have undertaken factor market reforms, including labour reforms, to attract firms exiting China. Critics caution against the move, citing marginalization of labour in the absence of these laws. Mint explains the implications for India's manufacturing sector.

What's wrong with India's labour norms?

The overarching complexities of India's labour laws are said to have a dampening effect on the ease of doing business. These laws, in an atmosphere of unmindful bureau-cratic control and corrupt officials, have led to the exploitation of factory owners, which has in turn come at the cost of the welfare of workers. The Centre had tried to simplify these norms and compile 44 such laws into four draft labour codes—on wages, industrial relations, social security and safety, health and working conditions. As labour is on the concurrent list, both state and central governments are competent to enact legislation on this.

How have the laws impacted industry?

The labour norms in force have often been considered a key reason for India having a large informal sector and the overall small size of companies. One such norm is the Industrial Disputes Act (IDA) that prevents companies with more than 100 employees from firing people without government permission. This has led most companies to prefer being small or rely on the informal sector. Such norms have often prevented large-scale global corporations from setting up their plants in India. The small size of companies has also resulted in them not being competitive in several sectors.

Why have these outdated laws not been changed?

The Rashtriya Swayamsevak Sangh-affiliated Bharatiya Mazdoor Sangh and the Left-backed Centre of Indian Trade Unions have opposed any change to IDA, thus preventing an overhaul of the regulatory architecture. Successive state and central governments have not addressed the problems with the labour laws because of political considerations.

What changes have states proposed now?

States including Uttar Pradesh, Madhya Pradesh and Gujarat have temporarily suspended all labour codes. The only ones that will apply in UP are the Building and Other Construction Workers Act, Section 5 of the Payment of Wages Act, Workmen's Compensation Act and the Bonded Labour System (Abolition) Act; 13 laws have been suspended for three years. Gujarat has exempted new industrial units from all related laws for 1,200 days, except the Minimum Wages Act, Industrial Safety Rules and the Workmen's Compensation Act.

What's keeping foreign firms away from India?

Five areas of concern have kept foreign firms from investing much in India. These are land

acquisition problems, labour norms, high tax levels, high cost of power and red tape. The Centre has cut corporate taxes and proposed a new draft electricity code; states have enacted labour reforms. States' ability to address issues on land, power and cost would determine how many firms come to India. Manufacturing may well take off in India after these reforms.

Karan Bhasin is a Delhi-based policy researcher.

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