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May 6, 2014 8:15am by James Crabtree

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Narendra Modi gave a wide-ranging interview this morning to the Times of India. In between stirring the pot, by suggesting that a heavy defeat would see a challenge to the Gandhi family's control on the Congress party, the opposition leader made forthright remarks about reviving

manufacturing as the first economic priority of any future Bharatiya Janata Party-led government. Yet he made no mention of what many business leaders view as the most important step in that process: labour reforms.

Here is Modi:

To restore the health of the economy, a number of steps need to be taken. The first and the foremost will be to bring back the focus on infrastructure and manufacturing sector.... We are very clear that we have to focus on the manufacturing sector because that is where jobs are generated... The next war that is going to be fought globally is the "jobs war". We must prepare our country to face that challenge.

The "jobs war" line is striking, albeit not entirely new, having turned up in a few of his previous stump speeches. Even so, the prominence given to a manufacturing revival — as opposed to talking only about stalled investment projects or corruption — suggests that the BJP leader has grasped the grave challenges now facing Indian industry.

In the Financial Times this morning, my colleague Victor Mallet and I outline some of these problems, as India grapples with a manufacturing base that is actually shrinking, rather than gearing up to employ the tens of millions of young workers heading towards its labour market over the next decade.

The deeper worry is that India has now missed its chance to pick up jobs in labour-intensive industries that provided the basis for Asia's middle class growth, and which are now seeking new homes as labour costs rise in China .

Many of those Chinese jobs have moved already, heading to countries such as Vietnam or Myanmar. But those that have not are now less likely to move to India given extensive bad publicity over the country's falling growth and worsening reputation as an investment destination in recent years.

Put another way, Modi's task of attracting manufacturing investment is arguably

now harder than it would have been a decade ago. Certainly, there is scant evidence that major international manufacturers from countries like Japan and Korea are opening large new factories here, or indeed even considering the idea.

All of this brings the focus back to labour laws, which business leaders see as the crucial step in allowing India to make up lost manufacturing time. Trade-group FICCI is typical, having called in a pre-election wish list for “specific amendments in the Factories Act, Contract Labour Act and Industrial Disputes Act to align them with the international best practices and ensure faster employment generation.”

Modi didn’t mention any of this today, but his party’s manifesto did say it would review “outdated, complicated and even contradictory” labour laws. This heartened business observers, but doing more than reviewing, and introducing actual reforms, will be politically challenging.

Even were Modi to win a comfortable victory next week and emerges as Prime Minister, he is unlikely to come close to the sort of parliamentary majority that would allow him to force legislation, requiring delicate negotiations with regional partners.

There are other avenues: tweaking existing laws edges, for instance, perhaps by changing secondary legislation relating to laws like the Industrial Disputes Act – an idea backed by economist Arvind Panagariya. **Another option, suggested by Hemal Shah of the centre-right Takshashila Institution, would be to kick the issue down to state level, allowing at least some areas of the country to liberalise their approach.**

Yet even this could prove difficult. Trade Union opposition to even minors changes would be fierce, while Modi would face the prospect of industrial unrest if he pressed forward – as well as those on India’s left who question the argument that such reforms are needed in the first place.

“I think we need to question the lazy assumptions that labour laws like the Industrial Disputes act are the binding constraint on the growth of manufacturing,” says Siddharth Varadarajan, a senior fellow at Shiv Nadar University’s Center for Public Affairs in New Delhi. “Germany has onerous hire and fire laws, for example, as do many western countries. And every Indian factory owner knows how to downsize when he really needs to. But does he want to do the right thing by his workforce, or get away cheaply?”

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