



India

TRADE UNION RISK TO PRIVATIZATIONS

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India's trade unions asserted themselves with a partially successful general strike on 8 January 2020. We examine here how trade union activism could affect reforms such as the easing of labour laws and privatization.

- The government's determination to push privatization and labour law reforms is provoking a strong trade union reaction that will continue into 2020
- The government should eventually prevail, but trade unions and opposition parties could impede and delay key privatizations, making projected revenues in FY20 and FY21 seem optimistic
- Internal opposition from Hindu nationalist trade unions could contribute to the toning down of the more ambitious labour law changes
- There is some risk that trade unions could join forces with the student-led protests to generate a broader movement, but we believe it is more likely they will maintain a narrow focus on opposing reforms

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Trade union opposition to reform hardens

A nationwide general strike called by ten major trade unions on 8 January was a partial success. There were demonstrations across the country and public services – banking, transport and hospitals – in several states were affected. Trade union demands included that the government roll back its proposed labour reforms (described below), stop the privatization of firms like Air India, Bharat Petroleum and the Shipping Corp. of India (as explained by Shumita Deveshwar in our 31 October 2019 report [Stake sales to test Modi's reform will](#)) and halt public sector bank mergers.

The unions – ranging ideologically from centre-left to far left – also expressed their support for those agitating against the controversial Citizenship Amendment Act (CAA) and the proposed National Population Register (NRC – see our 19 December 2019 note [Citizenship protests presage a volatile 2020](#) for more).

India's economic slowdown has increased pressure on Prime Minister Narendra Modi to deliver on tough reforms that his government had shied away from in its previous term. Although trade union opposition to labour reforms and privatization was anticipated and even discounted, it is coming at a time of increasing political vulnerability for a government that was once seen as near-invincible, only seven months after its re-election with an increased majority.

Increased trade union activism brings three risks:

- **Privatization delays.** India's trade unions are powerful in the public sector and could impede privatization through non-cooperation and industrial action. On their own, they have not generally been able to stop privatizations: a 67-day strike in 2001 by workers at the state-owned Bharat Aluminium failed to stop its sale to Vedanta Resources. In the current environment, however, the government is already facing delays in its privatization schedule and will fall significantly short of its FY20 projection of Rs1.05 trillion in privatization revenues. A vigorous trade union campaign supported by political parties could cause further delay and affect public finances. For instance, the Indian National Congress considers Bharat Petroleum a strategic asset and would likely support trade union action to counter its privatization.
- **Dilution of labour reforms.** Proposals to facilitate fixed-term labour contracts and to increase labour market flexibility face opposition not only from the political left but also from regional parties and left-leaning Hindu nationalists. The Bharatiya Mazdoor Sangh (BMS), India's second largest large union, did not participate in the strike since it is affiliated to the BJP parent body, the Rashtriya Swayamsevak Sangh (RSS), but its economic ideology is similar to the Left's (see our 22 July 2019 note [A turbulent second innings](#) for an analysis of growing RSS influence on economic policy). Strong opposition could give the government cold feet and force it to dial back the most contentious reforms, since the bills have to pass the Rajya Sabha (upper house).
- **Political links.** One tail risk is that worker protests against privatization and labour reform dovetail with the CAA-NRC protests and further raise political uncertainty. India's trade unions remain influential in the public sector, and derive part of their power from their political affiliations (see table below).

Furthermore, we believe that economic weakness is contributing to social strife, which in turn puts added pressure on the government to revive the economy – and possibly take a big gamble by pushing through a fiscal stimulus in its forthcoming budget at a time when it is already strapped for funds (see our 13 January 2020 [EM Watch](#)).

Top five national trade unions

Trade Union	Claimed membership	Political affiliation
Indian National Trade Union Congress	33.3 million	Indian National Congress
Bharatiya Mazdoor Sangh	17.1 million	Rashtriya Swayamsevak Sangh, Bharatiya Janata Party
All India Trade Union Congress	14.2 million	Communist Party of India
Hind Mazdoor Sabha	9.1 million	Formerly with socialist parties
Centre of Indian Trade Unions	5.7 million	Communist Party of India (Marxist)

Source: News reports.

Large numbers of public sector employees are also members of non-politically affiliated trade unions such as the All India Bank Employees Union, National Federation of Indian Railwaymen, All India Power Engineers' Federation, All India Port and Dock Workers Federation and the National Federation of Post and Telegraph Workers that strongly oppose government policies but do not have direct political affiliations. However, many of them supported the 8 February general strike.

Government grasps labour law nettle

Many economists argue that inflexible labour laws explain why labour-intensive manufacturing in India lags countries including Bangladesh, Cambodia and Vietnam, contributing to India's unemployment problem. Critics of this view point out that labour laws only apply to a small portion of the organized workforce, and that the bulk of labour in manufacturing consist of contract workers who receive lower pay, fewer benefits and little job security.

In 2019, rising unemployment and slowing manufacturing growth compelled the government to introduce new labour codes, especially as the ruling coalition came closer to an upper house majority. These included bills on wages and on occupational safety introduced in the June-July monsoon session of the parliament, and on industrial relations and social security brought in during the November-December winter session. The Code of Wages has been enacted in August 2019, but the remaining bills are pending in the parliamentary committee stage (see table below).

New labour laws

Bill	Status	Replaces	Features
Code on Wages	Enacted	1936 Payment of Wages Act, 1948 Minimum Wages Act, 1965 Payment of Bonus Act, 1976 Equal Remuneration Act	Simplifies and rationalizes definition of wages and employees, enables fixing of a national floor wage, allows state governments to fix minimum wages subject to floor
Industrial Relations Code	Pending with parliamentary committee	1926 Trade Unions Act, 1946 Industrial Employment Act, 1947 Industrial Disputes Act	Makes trade union registration more stringent, allows easing of hire-and-fire limits in future via government notification rather than legislation
Code on Social Security	Pending with parliamentary committee	Eight acts including 1952 Employees' Provident Fund Act, 1961 Maternity Benefit Act, 2008 Unorganized Workers' Social Security Act	Government given power to exempt establishments from social security obligations
Occupational Safety, Health and Working Conditions Code	Pending with parliamentary committee	Thirteen acts including 1948 Factories Act, 1952 Mines Act, 1986 Dock Workers Act, 1970 Contract Labour Act, 1979 Interstate Migrant Workers Act	Applies health and safety laws only to establishments with 10 or more employees, bars civil courts from hearing disputes under the code forcing complainants to approach state high courts

Roots of trade union opposition

The bargaining power of India's trade unions has declined since the 1991 economic reforms. One reason is a shift from permanent to contract labour. Organized manufacturing today accounts for about a third of the total jobs in manufacturing. The share of contract employees in organized manufacturing rose from 15.5% in FY01 to 27.9% in FY16 while the proportion of permanent employees fell from 61.2% to 50.4% in the same period, according to economists Radhicka Kapoor and PP Krishnapriya of the Indian Council for Research on International Economic Relations.

During this period, real wages for permanent employees were stagnant while they grew at 1.9% per year for contract workers although contract wages remained considerably lower. Kapoor and Krishnapriya interpret this trend as representing a decrease in the bargaining power of permanent employees.

Indeed, one of the trade union objections to the proposed labour reforms is that the Industrial Relations Code formalizes fixed-term contracts, which unions believe undermines their objective of having more permanent workers. That said, some labour economists argue that regulating contract employees' working conditions and giving them benefits and social security on par with permanent employees is desirable.

Conclusion

A determined push by the government may still get most privatizations and labour law changes through. But trade unions have a lot of influence in India's public sector and together with political parties have the ability to block and delay the most ambitious parts of the government's agenda: whether it is the easing of hire-and-fire or the privatization of the oil behemoth Bharat Petroleum.

Unions will aim to roll back some of the labour law reforms such as the clause in the Industrial Relations Code allowing the government to change via notification (rather than legislation) the size threshold beyond which a firm needs government permission for layoffs. This threshold is currently 100. Increased political uncertainty also seems likely to contribute to lower-than-expected privatization revenues in FY20 and FY21, as the government grapples with an energized opposition, trade unions and – at the moment – a student-led movement against the CAA and NRC.

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