Foreign direct investment in China is almost ten times that in India. Rather than looking at the cause of this huge gap, the Indian government is now pushing labor reforms to make this country a more attractive destination for foreign investment. The Indian Ministry of Labor supports strongly the China model as one of the ‘doable options’ for making the labor market more flexible and attractive. The purpose is to turn India into a ‘preferred FDI destination.’ The so-called experts say India needs its prohibitive labor policies, which are designed to protect the weakest members of the society against unrestricted exploitation by the private-sector employers. These experts, taking their lead from the World Bank, is saying that India is lacking is an ‘exit policy’ that makes it easier for unprofitable ventures to sack workers.

There are many restrictions on foreign investors in China. They must have a Chinese partner company; they have to export a substantial part of their production; they cannot raise finance from China; they in many cases supply defense technology to China in return for permission to invest in China. Still the foreign companies are going to China as they can use the Chinese workers as they please. Chinese workers have no trade union rights or any basic human rights. Workers who have tried to form independent unions or lead labor protests have been imprisoned for many years, and have been severely punished or killed (www.chinalaborwatch.org and www.amnestyusa.org/business/chinaprinciples.html). As Friedrich Engels (1892) wrote (in Socialism: Utopian and Scientific), ‘the appropriation of unpaid labor is the basis of the capitalist mode of production and of the exploitation of the worker that occurs under it.’ China is not a socialist country but a capitalist country with its economy driven by the foreign capitalists with an insignificant private sector of its own.
China gives complete freedom to employers to sack workers as they want, without any restrictions. The Indian government now wants to follow China by doing away with inspectors for industries and enabling units with fewer than 300 employees to sack workers on payment of higher compensation – 45 days' average pay per completed year of service as opposed to the existing 15 days. Currently, units with 100 workers or more require prior permission – under the Industrial Disputes Act 1947 – from the ‘appropriate’ government to effect layoff, closure, or sacking (www.oecd.org/dataoecd/24/39/42740165.pdf). The government also makes out a case for the easier route – of ‘public interest’ – for waiving application of the Contract Act to any establishment, class of establishments, or contractors. Under the existing provisions, such exemptions are predicated on ‘emergencies.’

What kind of situation would these new measures create? If we look at China, it is clear that exploitation of the workers are the basic elements of Chinese economic policy. As a result, increases in foreign investment do not add to the social welfare of the people of China, but to the economic welfare of a small minority of people in China who are connected to the government, army, and above all the Chinese Communist Party. China is no longer a socialist country, but a fascist state which is using the state power to suck the blood of the workers to enhance its attractiveness for foreign investors. Should the people of India emulate China to increase economic growth, which would not benefit the people at large, but only a small elite of India? This is the fundamental question one should ask.

The Indian government has already moved a step toward implementing the so-called ‘labor reforms’ by amending Chapter V-B of the Industrial Disputes Act to enable the factory owners employing up to 1000 workers easier retrenchments, lay-offs, and closures of their units (www.amrc.org.hk). The new law will cover 75 percent of the total Indian workforce employed by 99 percent of the country’s factories, offices, and establishments of various kinds. Under the old law, employers engaging more than 100 workers have to follow a tough procedure and receive prior approval of appropriate government authority to shut down their establishments or to effect retrenchment and lay-off (www.rgics.org).

The ‘exit policy,’ or the right of the employers to retrench, is a part of the so-called ‘flexible labor market policy.’ The flexible labor market includes some other characteristics as well: temporary job contracts instead of permanent jobs, outsourcing of most activities, contract laborers, hiring of home-based workers, and so on. The idea is to save money by not paying pensions, medical benefits, or leave entitlements,