

**Report on High-Level ILO Roundtable on  
Labour Market Reforms**

**Report on High-Level ILO Roundtable on  
Labour Market Reforms:  
Towards Decent Work in a Globalized World**

7-8 December, 2006

Hotel Claridges, New Delhi

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## Summary

The International Labour Organization (ILO) and the Ministry of Labour and Employment, Government of India, organized a roundtable in Hotel Claridges, New Delhi on 7-8 December, 2006. The objective of this high-level round table was to examine relevant international experience in labour market reforms and to identify lessons which India might draw upon. At the global level, different countries have responded to the issues raised by globalization in different ways. Relevant experience from a range of countries was examined as, for example, that of the developed economies of Europe, China, South Asia, and other countries from Latin America, Africa and Asia and Pacific. Senior officials from governments, representatives from employers and workers' associations, academia, NGOs, and citizens and community groups attended the roundtable. This note summarizes some of the key issues discussed in each of the technical sessions in chronological order.

This was the first of two roundtables. The second roundtable, drawing upon international experiences, is proposed to engage in national level discussion on labour market reforms and related issues. Details for the second roundtable will be worked out with the constituents on the basis of recommendations of the first roundtable.

This roundtable started with an overview of the key features of the globalization process as observed across the world and the challenges facing nations in this context, such as balancing the goals of ensuring 'decent work' for its citizens as well as enhancing the competitiveness of the economy in the global marketplace. It was also mentioned that unlike other goods, labour is not a commodity and, therefore, deserves special treatment. Also, adequate attention needs to be paid to labour market reforms to ensure the success of the overall liberalization measures undertaken by the country since macroeconomic variables interact and influence labour market variables in areas such as wages and benefits, etc.

Next, the roundtable discussed European experiences and it was clear that it was possible to have a 'flexi-curity' model of labour markets. Most European countries have experienced slower growth in output and employment in comparison with the United States. The dominant reason, experts felt, was due to the rigidities in the labour market and, therefore, most European countries had initiated some form of reforms in this area. Countries that sought to balance the goal of security for workers with flexibility for business were the ones that were the most successful in fostering growth and investment as well as in achieving a more equal society.

Therefore, the flexi-curity model these countries adopted is an illustration of the way forward i.e., it was not necessary to go for completely free labour markets with no labour rights, or a rigid system of state regulations and control to ensure labour security. These two aspects could be combined efficiently as had been done by countries such as Denmark. Subsequently, the Indian approach to labour market reforms came up during discussions. The discussions focused on the fact that labour was on the concurrent list; this meant that both state and the central governments had jurisdiction. This made it a harder area to reform as each government had its own set of priorities. Therefore, the Indian approach had been one of building consensus among all stakeholders.

China's highly successful reemployment strategy of its public sector employees displaced due to industrial restructuring was discussed next. More than two-thirds employees found reemployment within three years. China was adopting a comprehensive social security system that would provide a safety net to workers for a wide range of eventualities, for instance, unemployment. It was also in the process of undertaking 'positive' labour market policies for training its workers to enhance productivity and the competitiveness of the economy.

This was followed by a discussion on the experiences of South Asian countries. They share common features such as accelerating growth with stagnant employment in the organized sector. Almost all countries have initiated some form of labour market reforms. While certain countries have enhanced labour rights, some others have attempted to de-regulate in the name of flexibility and employment generation.

For a global perspective on reforms through social dialogue, case studies from various countries from around the world were discussed, with the point being made that countries differed widely in terms of their background, culture, economic and social circumstances, etc. Therefore, no single solution would be adequate for all. When designing policies, such differences should be taken into consideration, failing which the same measures that had succeeded in one country can be an abject failure in another. Also, global experiences showed that labour market reforms were easier to initiate and had a higher chances of success when they were part of a comprehensive set of reform measures rather than in being executed in isolation. The UK experience was highlighted in more detail. The point that came across was culture plays a preeminent role in labour market outcomes. For instance, the number of working hours is largely influenced by broad societal trends and the government cannot simply legislate them away. Therefore, the need for consultations with workers and employers had to be pursued seriously by the government to design better policies that have a greater chance of success. Also, labour regulations such as the minimum wage do not

necessarily lead to rigid labour markets and lower employment as had been argued; the UK experience refutes this claim strongly as in recent times this wage had increased substantially along with higher employment. This measure had been good for employers as well as it put a stop to competition in terms of wages between producers.

In conclusion, it was noted that the political and macroeconomic environment prevailing in the country played an important role in initiating reforms and their potential success or failure. It was also noted that success could only be achieved when there was a consensus regarding the necessity of reforms, which highlighted the need for a process of consultation with all stakeholders involved. Such negotiations were almost always contentious. Therefore, there was a need for realistic targets, a roadmap for the negotiations as well as sequencing reform measures. In the Indian context, such negotiations appeared to be hard to undertake. However there was no alternative to finding some compromise that ensured labour rights and security along with some flexibility as companies desire.

### *Main points*

1. In recent years, there had been considerable economic growth all over the world. However certain indicators of economic well-being are deteriorating, such as inequality, or improving only gradually such as poverty eradication in most countries. The same trend could be observed in South Asia.
2. It was also well documented that the impact on labour in many countries had been detrimental with stagnating employment in the organized sector. Most of the growth in output and employment comes from the informal sector where labour typically has fewer rights and regulations are weaker, even when they exist.
3. Globalization was a “fact of life” whose challenges must be faced. It was a process which produced both winners and losers, but adverse impacts could be minimized by applying a balanced approach.
4. Considerable apprehension remains regarding the impact of globalization and the liberalization measures undertaken by countries.
5. There was a need to balance the twin goals of security for workers and flexibility for businesses. Therefore, labour market reforms should aim to combine the two and it should not be used as a euphemism for unpopular measures that infringe on hard-won labour rights.
6. Labour market reforms currently under discussion were about consolidating, updating existing laws and regulatory measures to reflect current needs of workers and employers, ensuring effective enforcement,

- extending the reach of such mechanisms to those sections of the population who were currently unprotected, and streamlining efforts to bring national regulatory structures in line with ILO's core conventions.
7. It may be improbable that other countries, especially poorer ones, could achieve the balance between flexibility and security that had been achieved in some European countries like Denmark. However, there could be home-grown versions of flexi-curity.
  8. The importance of social security cannot be debated. Coverage also should be extended to workers in the informal sector. Globalization and the resultant economic environment has meant that the world has moved from a system of job security to employment security and finally towards labour market security. In the latter, active and passive labour market policies play the role of safety nets in an otherwise more insecure environment.
  9. The Chinese economy which went through significant structural reforms in the last two decades offers some interesting insights in this context. The sheer size of the labour force, the challenges of global integration with the entry of China into WTO, urbanization with millions migrating from rural to urban areas and industrial restructuring whereby the role of public sector units was reduced and economic activity shifted to the private sector, presented significant challenges which it coped with successfully.
  10. Two key insights derived were the role active labour market policies could play in enhancing re-employment, particularly for those laid-off due to industrial restructuring and; promotion of growth and exports through SEZs does not necessarily mean a curtailment of labour rights. In fact, experience from China there suggests the exact opposite. SEZs in China have been instrumental in promoting tremendous growth in output and employment and have taken the lead in initiating progressive labour market policies and regulations to enhance worker rights and security. In the South Asian context however, SEZs have often been associated with limited labour regulation and enforcement.
  11. Building a consensus among all stakeholders on the issues of labour market reform was extremely important and could only be done through a free and open social dialogue. Several features of successful dialogue in different countries were discussed. Only this could ensure a sense of ownership among all participants so that the reforms were actually implemented and stated goals were achieved.
  12. Labour market reforms had a greater chance of being initiated and succeeding when they were a part of a broader package of reforms being undertaken and there was consensus regarding their necessity.
  13. Based on the experience of other countries, an effective dialogue could start by mapping all issues that were currently under discussion, build

- consensus on issues that are less controversial and keep the dialogue alive no matter how difficult the process was.
14. It should also be recognized that each country faces a unique set of circumstances and there could be no single solution applicable to all countries. Therefore, countries need to experiment and find their own way based on their set of priorities. The political process had an invaluable role to play.
  15. In the Indian context, it was important to acknowledge the forces unleashed by globalization, to ensure competitiveness of domestic producers in world markets through labour market reforms that promote flexibility for the employers without jeopardizing labour rights or security for the workers. For social stability it was, therefore, imperative to balance the goals of flexible labour markets and fair and decent work for all.