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# **FUTURE CHALLENGES AND OPPORTUNITIES IN LABOUR LAW IN INDIA: THE ERA OF ARTIFICIAL INTELLIGENCE AND AUTOMATION**

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## **ABSTRACT**

This study highlights the profound transformation that the integration of artificial intelligence (AI) and automation is bringing to India's labor market, embracing the complex challenges and opportunities that they present. While AI and automation impact significant productivity gains and create new specialized jobs, it also offers insight into the threat of widespread job displacement. These complexities include the unclear legal status of gig workers, the risk of algorithmic bias, and serious data privacy concerns arising from AI-driven surveillance. Despite consolidated labor codes and new social security provisions, these laws lack clear AI-specific safeguards or clarity on automation-induced layoffs, leaving workers vulnerable to exploitation and regulatory loopholes. Amid significant forecasts of job displacement, the promise of a demographic dividend risks becoming a burden without robust reskilling, upskilling, and educational reforms focused on digital literacy, critical thinking, and emotional intelligence. Furthermore, the AI-driven employment landscape clarifies the need for ethical governance frameworks that underpin transparency, human oversight, accountability, and protection from discrimination. The study's international comparisons also highlight India's nascent regulatory stance compared to more mature frameworks, such as the European Union's Artificial Intelligence Act. To harness the potential of artificial intelligence for productivity and inclusive growth, the study recommends a dedicated artificial intelligence labor law, robust legal protections for gig workers, comprehensive data privacy regulations, extensive workforce skills enhancement, and multi-stakeholder policy dialogues that promote an ethical, just future of work. Ultimately, India's ability to advance this artificial intelligence-driven transformation depends on proactive, coherent policy reforms that balance innovation with labor rights, ensure social equity, and protect the dignity of workers in a rapidly automating economy.

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## Introduction

India's labour market is entering an era of radical change due to widespread Artificial Intelligence and Automation, this change is not just an extension of past industrial changes; it also presents a number of challenges for India. Impact of which is being seen in various areas. This has also been significantly contributed by the COVID-19 pandemic, which has encouraged companies to invest heavily in modern automation technologies, due to labour shortages and their reliance on ensuring business continuity. This shift has taken place in contrast to Western economies, leading to India facing "*premature industrialization*", where Western economies adopted automation after achieving high levels of industrialization, while India is losing jobs due to automation even before large-scale job creation in the manufacturing sector.<sup>4</sup> This transformation can be particularly seen in the IT services sector, where automation and AI technologies are making basic coding, testing and support tasks easier. NASSCOM estimates that 40% of India's 4.5 million IT employees will require reskilling within five years to remain relevant in the future. Automation technology has also revolutionised agriculture, where the invention of precision farming, automated irrigation and harvesting robots has reduced physical labour.

From an economic perspective, AI and automation are set to reshape employment in India. Forecasts suggest that AI could eliminate 38 million jobs by 2030, but the national economy is projected to add 2.61% to productivity growth.<sup>5</sup>

Generative AI, an updated version of AI, has the potential to automate 24% of tasks across industries and reduce 42% of other tasks, saving workers 8–10 hours per week. India is rapidly adopting AI, with 30% of enterprises already integrating AI into their systems, higher than the global average of 26% and The Indian AI market is projected to grow strongly. The Indian AI market is projected for robust growth, with an expected 45% Compound Annual Growth Rate (CAGR), reaching \$28.8 billion by 2025.<sup>6</sup> India is a country with a substantial “demographic dividend” with about 10-12 million individuals entering the workforce each year, representing

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<sup>4</sup> Saha, P. (n.d.). The Great Displacement: How automation is reshaping India's workforce. .

<sup>5</sup> "GenAI to transform 38 million jobs by 2030, boost productivity: EY India." (2025, August 3). The Financial Express.

<sup>6</sup> "India's AI Revolution - A Roadmap to Viksit Bharat." (2025, March 6). Press Information Bureau (PIB) Delhi.

a highly productive labour pool. However, this demographic dividend is coming against the backdrop of “premature deindustrialisation”, sadly with the manufacturing sector losing jobs to automation even before it has reached its full employment potential.

At the same time, AI and automation are rapidly displacing low- and middle-skill roles across a variety of sectors, leading to displacement and unemployment. This was primarily seen in IT services, manufacturing, business process outsourcing (BPOs), and agriculture, but generative AI has expanded its scope to even more sectors. But new companies requiring AI skills have given rise to specialized jobs. But these specialized jobs create a deep mismatch between the demand for specialized skills and the supply of labor. Automation is shrinking the traditional knowledge and young workforce, while new opportunities are giving rise to high-skill requirements that the current training system and education are unable to provide to the majority of new entrants. If this training system continues into the future without significant intervention, the India we see as a demographic dividend and a major economic strength will turn into a demographic liability.

### **Research Problem-**

- (1) Present a study of the fundamental principles and current laws relating to labour law in India.
- (2) Examine the current and anticipated impacts of automation and artificial intelligence on job opportunities, job displacement and emergence of new work models in the Indian economy.
- (3) Assess the specific challenges posed by automation and artificial intelligence to current labour laws in India.
- (4) Determine the potential pathways through which automation and artificial intelligence (AI) may lead to new job creation, higher productivity and the need for certain skills in the Indian labour market.
- (5) Present an in-depth study of the strategies adopted by major international bodies or other economies, comparing India’s approach to regulating automation and AI in the workplace.

### **Research Methodology**

The present research paper is based on qualitative research methodology that presents a

comprehensive review, synthesis and study of current literature, reports and legal documents related to AI, automation and Indian labour law. The methodology mainly includes: Document Analysis and Literature Review, Official reports from government bodies like the NITI Aayog and the Ministry of Labour & Employment. Reports and analyses from industry associations such as NASSCOM and FICCI. Research papers and Academic studies, Legal analyses and articles from law firms and legal journals that explore the intersection of AI and Indian employment law, News articles from reputable sources like. The study includes a comparative analysis of India's legal framework with other major global bodies and countries such as the European Union, the United States and China, and contributes to highlighting specific deficiencies in India's current regulations and identifying international best practices and potential models for future policy development and integrating stakeholder perspectives. Analysis of ministerial and government bodies' statements and policy initiatives were used as research material to understand the official stance on the impact of artificial intelligence on employment.

### **Foundational Principles of Indian Labour Law and Recent Reforms**

Indian labour law is fundamentally based on the principle that employees cannot be treated as mere commodities or property to be transferred without their explicit consent.<sup>7</sup> This basic principle is the basis for various provisions for example according to Section 25FF<sup>8</sup> of the Industrial Disputes Act, provide that every workman who has been in continuous service for not less than one year in that undertaking immediately before such transfer shall be entitled to notice and compensation in accordance with the provisions of section 25F, Historically, India's labour landscape has been governed by a number of complex laws, primarily including the Industrial Disputes Act, 1947, the Employees' Provident Fund and Miscellaneous Provisions Act, 1952, and the Factories Act, 1948, etc. To de-complexify these laws, the Parliament of India consolidated 29 archaic labour laws into four streamlined Codes: the Code on Wages, 2019; the Code on Social Security, 2020; the Industrial Relations Code, 2020; and the Occupational Safety, Health, and Working Condition Code, 2020. These were enacted with the objectives of simplifying procedures for compliance, expanding employer responsibilities, and increasing penalties in cases of non-compliance.

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<sup>7</sup> Sumit Ghoshal et al, 'Employment & Labour Laws and Regulations Report 2025 India' (ICLG, 6 March 2025)

<sup>8</sup> Subs. by Act 18 of 1957, s. 3, for section 25FF (w.e.f. 28-11-1956).

Indian labour law distinguishes between “employees” and “non-employees”. The term “employee” primarily refers to workers employed in operational, clerical or manual roles, who are required to have better legal protections such as formal procedures for dismissal and access to grievance redressal mechanisms. “Non-employees” primarily include managers, supervisors or administrative staff, who are primarily protected by individual employment contracts and state-specific Shops and Establishments Acts.<sup>9</sup> This classification depends on the actual work performed. India does not operate under an “at-will employment” system. India requires a valid reason for termination of employment, advance notice or pay in lieu of notice, and the employee must be given a reasonable opportunity to respond.<sup>10</sup> A progressive aspect of the new framework is the Code on Social Security, 2020. The Codes provide social security benefits to unorganised workers, gig workers and platform workers, clearly define these categories for the first time and provide for the establishment of a social security fund dedicated to their welfare.<sup>11</sup> While the new labour codes represent a significant legislative effort towards modernising India’s labour law by consolidating disparate laws and formally recognising gig workers, their delayed and uneven implementation across states, as well as the notable absence of clear AI-specific provisions, create a fragmented and inadequate regulatory landscape for the AI era. The legislative exercise, though ambitious in its scope for integration and inclusion of gig workers, appears to have largely ignored the specific, complex and rapidly evolving challenges posed by AI and automation, such as algorithmic bias in hiring, AI-driven layoffs and widespread data privacy concerns arising from AI surveillance.<sup>12</sup> The laws were conceived before the full impact of AI on the workplace was widely understood or anticipated. This results in a significant regulatory gap, meaning that even after full implementation, the new codes will still try to keep pace with technological realities. This leaves workers vulnerable to new forms of exploitation or displacement and leaves employers without clear guidelines on ethical AI deployment.

### **Relevance of Indian Labour Laws in AI Era**

**Industrial Disputes Act, 1947-** The Act provides laws to govern industrial relations, including procedures for retrenchment, layoff, and termination, and the right of workers to notice and compensation in the event of a transfer or termination, but in the case of AI-driven layoffs, it

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<sup>9</sup> Oyster HR. (2024). Labor laws in India: An essential guide for employers.

<sup>10</sup> Oyster HR. (2024). Labor laws in India: An essential guide for employers.

<sup>11</sup> NM Law Chambers. (2024). Employment disputes in gig economy.

<sup>12</sup> Amlegals.(2023). Exploring the intersection of AI and employment laws in India.

does not explicitly classify AI-induced job losses as “retrenchment” under Section 25, opening the door for employers to circumvent worker protections and compensation.

**Code on Wages, 2019-** This Code provides regulation for wage purposes including minimum wages, timely payment and bonuses. But in the case of fair wages for AI-augmented roles and gig work, it is a challenge to determine fair wages for AI-augmented roles or gig workers, where it is more likely that their income may be inconsistent and unpredictable due to algorithmic management.

**Code on Social Security, 2020-** This Code Extends social security benefits for example provident fund, health insurance to all workers, including unorganized, gig, and platform workers. In case of Comprehensive Social Security for Gig Workers, while it defines gig workers and provides for a Social Security Fund, comprehensive protections are not compulsory, leaving many gig workers vulnerable to income instability and lack of benefits

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**Industrial Employment (Standing Orders) Act, 1946-** The act requires employers to formally define the terms of employment for workers. But this is not the case with algorithmic management systems. It prescribes working conditions, performance metrics, and task allocation, potentially leading to increased stress and a lack of human oversight.

It exemplifies the current scenario and also clarifies what are the main challenges in the age of AI and automation in terms of Indian labour laws.

### **Labour Law challenges in the age of AI and automation**

In the current scenario, the integration of AI and automation in Indian workplaces poses many complex challenges that the existing labour law framework is unable to address effectively. These challenges mainly relate to job security, worker classification, ethical concerns, and the nature of the employment relationship. Job displacement and skills mismatch are among the major problems posed by AI and automation at the moment, with several studies indicating that

low- and middle-skill roles are particularly vulnerable to decline. For example, the IT services sector, the cornerstone of India's middle class, is facing substantial automation pressure, with basic coding, testing, and support tasks increasingly being taken over by AI tools. The World Economic Forum's "Future of Jobs Report 2020" projected that AI will displace 85 million jobs globally by 2025. In India, some analyses suggest that 69% of formal employment jobs could be automated by 2030.<sup>13</sup> If we highlight AI skills, currently only 15-20% of the workforce has knowledge of AI skills, and AI job opportunities are expected to increase by about 1.5 to 2 times by 2027. The proportion of unemployed among educated youth has increased significantly in the last few years, from 35.2% in 2000 to 65.7% in 2022. This creates the risk that India's demographic dividend, which is the basis of youth power and economic gain, may become a liability tomorrow, so it is necessary that we educate young workers in the skills required today.

AI has also revolutionised work arrangements, particularly among gig workers, often classified as “independent contractors”, who face a near-constant array of income instability, lack of legal protections and inadequate social security. The legal status of gig workers in India remains unclear, complicating dispute resolution and access to justice. While the Code on Social Security, 2020, has attempted to define this, it still fails to address the issue of their social security benefits, leaving many vulnerable. The gig economy's reliance on AI for work allocation, performance monitoring and even payment decisions is compounding these problems and hampering their security. Workers often question the transparency and ways AI measures their performance, leading to mistrust.

**Algorithmic bias** The growing use of AI systems in employment processes, such as hiring, promotions and performance appraisals, poses a significant risk of bias and discrimination. AI algorithms are trained on data that reflects existing human biases or historical inequalities, which may result in AI systems perpetuating and exacerbating these biases. In a country like India, where there is a lot of diversity in terms of class, religion, gender and wealth, this is a matter of concern as AI may exacerbate existing inequalities. The widespread use of AI technologies in the workplace has increased surveillance of employees, raising serious concerns about data privacy and security. AI systems can process vast amounts of data related to employee behaviour, work patterns and other personal information, which not only provides information but also has the potential to affect privacy rights. This includes monitoring emails,

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<sup>13</sup> Future of Jobs Report 2020

files, webcam use, typing patterns, calls and physical activities through cameras and trackable devices.

Although Parliament has passed a law to protect personal data, the Digital Personal Data Protection Act, 2023, which requires consent for processing personal data and sensitive information, this law is still in its infancy compared to labour regulations. Therefore, employers have a responsibility to create clear policies, adopt strong cybersecurity measures, and regularly inform and provide training to employees about AI use and data privacy risks to ensure responsible AI deployment. This will address current and upcoming challenges and help balance the efficiency gains from AI surveillance with the fundamental right to privacy.

### **Flourishing Careers in the Age of AI and Automation**

Despite the day-to-day challenges related to employment, the world of AI and automation has created new employment opportunities amid India's labour market problems by increasing productivity, creating new jobs and other new possibilities and improving labour law enforcement and skill development.

While AI and automation threaten jobs, it has also led to the emergence of new job types such as architect engineers, data scientists, visual communication specialists, discussion specialists, natural group (n seminar) specialists, and prompt engineers. The NITI Aayog (2023) report, projects 20 million new jobs in India in the future, especially in sectors such as IT, financial services, and high-tech manufacturing. AI is proving to be helpful in significantly increasing productivity and efficiency in various sectors. Automation is displacing traditional roles, especially those involving repetitive or data-driven tasks, new types of work centered on AI, data, and human-AI collaboration are rapidly expanding across diverse sectors<sup>14</sup> Sectors adopting AI and automation—such as manufacturing, logistics, and customer service—are experiencing substantial productivity boosts. AI-driven solutions optimize operations, streamline supply chains, and enable predictive maintenance, resulting in higher revenue per worker and business efficiency. Sectors that have adopted AI and automation, such as manufacturing, logistics, and customer service, are seeing significant increases in productivity. AI-powered solutions optimize operations, streamline supply chains, and enable

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<sup>14</sup> AI Job Displacement Analysis (2025-2030), <https://www.aicerts.ai/news/2025-ai-job-market-over-10000-jobs-lost-to-automation/>



predictive maintenance, resulting in increased revenue per employee and business efficiency.<sup>15</sup> Recent studies show that revenue growth has accelerated in industries exposed to AI, and productivity gains are projected to amount to trillions of dollars in the coming years.<sup>16</sup> Jobs most vulnerable to automation include customer service, data entry, and retail cashier roles, while new opportunities are focused on positions requiring creativity, decision-making, strategy, and oversight of AI technologies. As AI continues to transform the labor market, businesses and policymakers must implement adaptive strategies such as reskilling programs, public-private partnerships, and support for lifelong learning to ensure a successful workforce transformation.<sup>17</sup> The Indian government has allocated a substantial budget to the AI mission to boost computing power and foster innovation. This focus on developing AI infrastructure and funding innovation is critical for India to position itself as a global AI talent hub.

### **Policy and Regulatory Responses-**

The era of artificial intelligence (AI) and automation presents significant challenges and opportunities in the context of Indian labour law, requiring innovative, visionary policy and regulatory reforms that can help strike a balance between innovation and worker protection<sup>18</sup>.

1. Government initiatives and policy framework India currently lacks a specific and comprehensive law specifically addressing AI; however, several existing legal instruments address important aspects. The Law on Information Technology, 2000, provides the basis for data protection and electronic transactions related to AI-controlled employee data. More recently, the Digital Privacy Act of 2023 protects personal and sensitive employee information in the context of artificial intelligence. The Ministry of Electronics and Information Technology (MeitY) has issued guidelines regulating non-reliable AI models and generative artificial intelligence, stressing transparency, bias prevention and the labelling of content produced by AI in order to counter disinformation. The IndiaAI mission represents a major government investment in the infrastructure and development of artificial intelligence. In addition, an advisory group, led by chief scientific advisor, is working on an AI-specific regulatory

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<sup>15</sup> In the workplace: Empowering people to unlock AI's full potential, By Hannah Mayer, Lareina Yee, Michael Chui, and Roger Roberts

<sup>16</sup> The Fearless Future: 2025 Global AI Jobs Barometer, June 03, 2025, Superagency

<sup>17</sup> Over 97 Million Jobs Set to be Created by AI, <https://edisonandblack.com/pages/over-97-million-jobs-set-to-be-created-by-ai.html>

<sup>18</sup> Chandru S "The Growth of AI and Its Impact on Indian Labour Laws" [www.ijrpr.com](http://www.ijrpr.com) ISSN 2582-7421

framework to guide the deployment of ethical artificial intelligence. Labour Minister Mansukh Mandaviya posits that AI will create rather than eliminate jobs, emphasizing a human-AI complementarity. Conversely, other stakeholders, including influential voices like RSS chief Mohan Bhagwat, warn of job losses and advocate for labour-centric policies, especially for the vast informal sector, highlighting a tension within policymaking circles. circles.<sup>19</sup>

2. In the industrial and academic landscape, we have seen that industry leaders generally view AI as a growth engine, increasing productivity and creating new job categories, while recognising the challenges. NASSCOM predicts that the Indian market for artificial intelligence will reach USD 7.8 billion by 2025, making India the world leader in adopting AI. They point out that AI enhances human capabilities, not substitutes for them. However, there is a significant skills gap: only 3 percent of the Indian companies surveyed have AI talent within their own ranks. Resistance to the adoption of artificial intelligence among the workforce is also noted, but is expected to be overcome by initiatives in the field of re-skilling and upskilling. Academic research, such as that of the Indian Institute of Management Ahmedabad, shows widespread concern among employees, with more than two-thirds expecting to be soon replaced by technology-driven automation. Educational reforms aimed at critical thinking, creativity and emotional intelligence are being promoted to adapt the skills of the workforce to the changes driven by artificial intelligence.<sup>20</sup>
3. Labour perspective - Indian labour unions are moving towards a pragmatic but protective position. The Mazdoor Sangh advocates adapting work models to the technological environment of the times, without compromising core values of work and dignity. Unions of workers, particularly in the information technology sector, are actively opposed to mass redundancies as a result of automation and are demanding legal protection and career support for affected workers. Globally, unions are calling for transparency, human oversight, protection from intrusive surveillance of artificial intelligence, and legal safeguards to protect workers against algorithmic bias and unfair intensification of work. Indian trade unions see the potential to use AI tools themselves, such as predictive analytics, to improve advocacy and redress. Their main objective

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<sup>19</sup> "AI Regulations in India: Balancing Innovation and Accountability," Millipixels, 2025

<sup>20</sup> "Global AI Governance Law and Policy: India," IAPP, 2024

remains to ensure that AI serves the interests of society and workers, not just the interests of the corporation.<sup>21</sup>

4. International comparison - At international level, the EU has set a high regulatory standard with its AI Act, which classifies AI in the workplace as high risk, requires transparency, human supervision and bans such practices as emotional inference or biometric surveillance at work. They are aligning AI regulation closely with data protection legislation and are imposing heavy fines for infringements. The US presents a fragmented model, with national regulations dealing with discrimination and transparency in the use of artificial intelligence, in addition to existing civil rights frameworks that apply to AI decisions. China emphasizes content regulation and AI-generated content labelling, along with tight controls on misinformation. Compared to these, India's regulatory framework remains nascent, with neither a comprehensive AI law nor sector-specific mandates addressing AI in employment contexts. This signals the pressing need for India to enhance its AI labour law architecture to include auditing for biases, mandate human oversight, and ensure workers' rights in AI-driven workplaces.<sup>22</sup>

### **Suggestion and Recommendations -**

1. To address the unique impacts of AI on employment, a dedicated AI-specific labor law framework is needed, or the legislature must define AI-driven layoffs under laws like the Industrial Disputes Act, 1947, ensure legal protection for affected workers, address job losses caused by misuse of automation in jobs, and ensure necessary financial compensation for violations of workers' rights due to AI or automation.
2. The Code on Social Security, 2020 needs to be expanded to provide social security, mandate minimum wages, and define and protect the legal status of gig and platform workers, bringing transparency into AI-driven earnings and job allocation to protect these precarious workers.
3. Mandatory regulatory standards related to AI ethics and fairness and independent audits of AI systems used in hiring, promotion, and performance evaluation are needed to

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<sup>21</sup> "AI Regulations in India: Balancing Innovation and Accountability," Millipixels, 2025

<sup>22</sup> AI Regulations in India 2025: Complete Compliance Guide," American Chase, 2025

mitigate algorithmic bias and discrimination, and to provide employees and workers with the right to challenge AI decisions, while guaranteeing human intervention where necessary.

4. Implement specific provisions in labor regulations complementing the Digital Personal Data Protection Act, 2023, to not only strengthen data privacy and surveillance rules but also regulate interference with AI-enabled employee surveillance, ensuring policies clarify data collection, storage, and use, and requiring employee consent to prevent intrusive surveillance.

### ***Workforce Development and Skill Ecosystem***

5. Government and public-private initiatives focused on AI-related training for both new employees and existing workers, such as comprehensive upskilling and reskilling programs. wherefrom should be launched to develop future-oriented skills such as critical thinking, creativity, adaptability, emotional intelligence, and data literacy.
6. Incorporate comprehensive changes into the education system in schools, vocational institutions, and universities, focusing on integrating AI topics and practical applications into the curriculum to enhance professional and AI-related skills along with technology awareness among students and youth.
7. The government should encourage work designs that promote human-AI collaboration, enabling AI to further enhance employment opportunities rather than replace labor, thereby significantly increasing productivity, work quality, and employee engagement.

### ***Social Safety Nets and Ethical Governance***

8. Social security funds need to be strengthened to ensure the effective establishment and operation of social security schemes targeted at unorganized, gig, and platform workers and to provide protection against technological infrastructure disruptions.
9. Promote multi-stakeholder dialogue between government agencies, industry bodies (such as FICCI, NASSCOM), trade unions, and civil society to facilitate continuous engagement to collectively develop balanced and ethical AI labor policies.

10. Maintain human accountability in AI-driven employment decisions based on the human-in-command principle to prevent punitive or inhumane workplace practices through automated systems.

### **Conclusion-**

The integration of AI and automation into India's labour market marks the beginning of a revolutionary transformation in the technological age, promising to dramatically enhance the country's economic growth and productivity. Along with these positives, this era also poses significant challenges, including significant risks to labor rights, social equality, and job security. Given these novelties and complexities, the government consolidated these into four labor codes. However, India's existing labor legal framework still fails to address the challenges of new AI-driven employment realities, such as algorithmic decision-making, gig and platform work, and digital workforce management, potentially exacerbating numerous inequalities and undermining worker dignity and future security. Looking at employment, AI-driven displacement primarily affects routine and manual jobs, necessitating the urgent need for legal provisions to protect workers and provide for retraining and compensation to prevent widespread unemployment. The widespread lack of laws exposes unregulated AI systems to the risk of algorithmic bias, discriminatory practices, and invasive surveillance. These requirements, if met, will help address concerns such as stringent regulatory oversight and ethical safeguards to protect worker rights and privacy. Successfully navigating this AI era requires strategic workforce skills development and responsive AI governance to foster an inclusive digital economy. Governments must implement proactive and balanced policies to address AI challenges and accelerate technological advancements, while ensuring the dignity, well-being, and safety of the vast workforce.

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