

## **India: Reality Check On IT Masters or cyber-coolies?**

*By Praful Bidwai [July 7 2003]*

The success of India's information technology (IT) industry and related businesses has produced such a euphoric and exuberant reaction that some of its more enthusiastic celebrants have already declared India a "knowledge-based society" and "information superpower" which qualifies it for a special global status. This "knowledge-based" description sounds odd, to put it mildly, in a society in which almost half the population is illiterate, the general level of skills very low, and transmission of knowledge severely restricted by the hierarchies of class, caste and gender.

India's computer software export boom has admittedly been an impressive success story, with annual growth rates of 40 percent or more over the past decade. It has contributed significantly to India's foreign exchange reserves. But euphoria over it could be misplaced--not only because growth has now slowed down to 26 percent, according to the latest figures.

IT certainly contributes in growing measure to the Indian economy, but it remains an "island" phenomenon. It cannot drive the entire country into another epoch or "stage" of development. There are three reasons for saying this. First, the computer software business remains extremely (80 percent-plus) export-dependent. This is even truer of information technology-enabled services (ITES) like call centres and medical transcription, and business process outsourcing (BPO), which are now growing at twice the speed of software exports.

The best or most informed estimate of the size of India's indigenous information technology sector, including hardware and domestic software, is that it accounts for less than 2 percent of GDP. By contrast, trade and hospitality alone account for 15 percent of GDP. Even in external sector accounts, software exports (\$7.2 billion) still contribute less than remittances, mainly from poor workers in the Gulf (\$8.1 billion). Even if the ITES/BPO business grows five- or eight-fold over the coming five years, as optimistic projections estimate, its contribution to India's GDP will remain relatively small.

Second, despite their meteoric rise, most IT companies are puny even by Indian corporate standards, with their sales turnover usually within some hundreds of crores of rupees, or in the top range, a few thousand crores--as compared to tens of thousands for manufacturing sector majors. It is only now, this year, that India's largest IT company, Tata Consultancy Services, joined the "One Billion Club", with revenues exceeding Rs. 4,800 crores. Other IT giants, like Infosys and Wipro, have even lower revenues (Rs. 3,323 crores and Rs. 4,334 crores respectively). Only four IT companies figure in the Economic Times list of India's top 100 corporations (rated by sales). IT companies' profits are high, share prices stellar, and market capitalisation spectacular. But their economic size and influence are rather limited.

And third, the geographical distribution of India's IT business is extremely uneven. The maldistribution bears no relationship to the uneven spread of literacy, education and other human development indicators, or to infrastructure development. For instance, of the total exports of computer software and electronics hardware, the South alone accounts for over

50 percent, with the North coming a distant second (26 percent), and the East lagging at a pitiable 2 percent. If Delhi and adjoining parts of Uttar Pradesh and Haryana are excluded, the North's share falls to an embarrassing 4 percent.

The South has always taken the lead in IT, with Karnataka alone claiming half the region's share. Yet, there are no signs that these huge disparities are narrowing. This too does not speak of a national-level driving force or "growth engine". There are other basic constraints on IT growth too, such as poor infrastructure, low telecom density (just 5 out of 100 Indians are connected), and one of the poorest levels of penetration of computers (less than 6 machines per one thousand people, as compared to China's 19).

Many IT strategists pin their hopes on the relatively rapid recent expansion of IT-enabled services. Their growth spurted last year by 59 percent to touch Rs. 11,300 crores (of a total of Rs. 46,100 crores for the IT sector as a whole, which grew by 26 percent). ITES-BPO now contributes a quarter of India's IT exports and has created 160,000 jobs. ITES boasts of a 65:35 female-male employment ratio and also a fair amount of indirect job creation. According to the National Association of Software and Service Companies (Nasscom), ITES "has the potential of creating one million direct jobs by 2008" largely through outsourcing or farming out of business from the West.

India has emerged as the preferred ITES outsourcing destination ahead of China, Russia, and many other countries because of advantages like low costs, language, scalability, and stability of policy, according to investment banking research firm Brean Murrery Research. In its report, "Secular Megatrends: India -- Software Outsourcing Superpower", the firm says India should adopt the outsourcing model as a "strategic necessity". This projection is based on the fact that top firms like Infosys and Wipro have recently signed large contracts in the \$20 million to \$100 million range with big US manufacturing companies.

However, even here, hope is running up against social obstacles. The greatest of these is rising awareness in the Western countries that India's ITES has grown largely because of outsourcing and transfer of jobs. For instance, well-known consultant Forrester Research estimates that 3.3 million service-sector jobs will have left the US by 2015, perhaps half of them to India. Another firm (Deloitte) predicts that ITES operators in the First World will move two million jobs to low-wage countries over the next five years, again mostly to India.

Similarly, in Britain, The Sunday Times carried the "shock and horror" headline: "Banks prepare to shift 200,000 jobs to India". This has so alarmed British trade unionists that they have decided to launch a campaign against India's call centres and software industry which, they feel, are big "job-snatchers".

These are not all "crying-wolf" scare stories. In the US, Silicon Valley programmer Kevin Flanagan recently shot himself to death, because he couldn't face the prospect of losing his job to outsourcing. Ironically, before being given the marching orders, the programmer helped train the very same Indian workers who were supposed to take over his job. Flanagan's suicide was an extreme step. But his circumstances were by no means exceptional. He was one of some 800,000 Americans who have lost their jobs to outsourcing in the past year alone. No wonder this has prompted legislators in New Jersey to ban the export of IT-related state contracts to other countries. Other American states (Missouri, Connecticut,

Washington, Maryland) are also moving in that direction. It won't be easy to prevent such curbs--despite US rhetoric about "free markets". Livelihoods are at stake.

The basic reason why India is seen as an outsourcing "threat" is simple. In the US, it costs \$43,000 to hire a full-time employee in the ITES business. The cost of an Indian employee is \$6,180, or seven times lower. Because of time-zone difference, India can provide round-the-clock service on all days of the week. (There need be no closures on weekends). The average Indian employee's productivity is high. Big companies like General Electric report 85 to 92 percent-plus "satisfaction" ratings for its Indian employees. There is a relatively large pool of English-speaking low-skilled manpower in India. All this makes India a Western corporate attraction--and an IT worker's nightmare!

The crux, the key, is low wages. That's the bottom-line! India's ITES-BPO, like its computer software business, is heavily concentrated in low-paid jobs and low value-addition segments. Indian companies have developed very few finished, marketable software products, selling which generates the cream. They tend to develop components or sub-packages/assemblies/programmes that go into the final products made and marketed by US companies. Thus, a good proportion of the sub-programmes in Windows 95 and 98 were developed by Indian engineers. But it's Mr Bill Gates who skimmed off the profits!

The situation is even worse at the level of call centres. Here, young women and men work painfully long hours practising cultivated American accents to sell products they have never seen or give invisible customers information they don't remotely comprehend (e.g. about a restaurant's location in Memphis, Tennessee)--all for a pittance. This disembodied, alienating relationship to work, and low levels of skills and wages--lower than even a bank chaprasi's—are turning these people into almost mindless cyber-coolies.

This is not something we should be proud of--no more than the Chinese should be proud of producing low-cost goods thanks to repressed, non-union, low-wage labour. If we want to get into high-end, high-value-added services, which alone can upgrade our people's skills while raising their incomes and redistributing new wealth, we must set our sights high. That implies ambitious goals for manpower training, skill generation, backward-region development (through the conscious creation of new jobs in Bihar or Punjab), export content rules, etc. We can't let Western companies do that for us. Setting our goals in accordance with our people's needs and resources is the only way we can move from being cyber-coolies with no rights and little security, to dignified, respected workers who control the labour processes they work under.