

India's outsourcing outlook continues to remain positive

BY INVITATION



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SHOULD President Barack Obama's latest stand on off-shoring and outsourcing worry India Inc? Or are we over-playing its cause and impact?

My answer is yes we are and let me share why? The dramatic increase in the number of companies using offshore outsourcing has contributed, in part, to the transformation of India over the last 10 years, creating a \$50 billion export industry for India and has been an area of growing concern to many American workers. With three million job losses already in the US, the off-shoring concern is now elevated to a strident vocal opposition.

Off-shoring gets blamed for the economic vows of the US along with the greedy bankers. Populist demand is forcing politicians, including President Obama, to verbalise and partially initiate a whole range of HR, tax and labour relations policy changes in the US such as non-tariff barriers against offshore outsourcing, restrictions on H1B visas, information privacy laws and state government initiatives.

These are all facts. However, there is some hyperbole on its impact on India's GDP and job growth/slowdown and I believe it is not going to be as much as many reports and articles may purport. There is a growing obsession that the business in India is dramatically slowing down as a result of such US regulations. Here are few things to consider:

Export IT and BPO off-shoring account for less than 7% of India's GDP and USA accounts for 60% of that. So, off-shoring exports to the US contribute to 4% of India's GDP.

America's banking and financial services industry has been gutted and ravaged by irresponsible decision of bankers. This sector accounts for over 40% of the BPO/IT export industry in India and the actions of the bankers will have a much

bigger and lasting impact on the BPO industry growth vs President Obama's rhetoric.

The housing and banking crisis has rippled through every sector of the US economy, resulting in layoffs and reduced projected hiring plans. The natural consequence is if US companies need less people going forward you hire less people whether offshored to India or in the US.

The systemic downward pressure on the US dollar and declining input factor cost in India for off-shoring will continue to make it a compelling cost saving proposition for US companies that mere fiscal efforts may not be able to counteract on a sustained basis.

Last but perhaps the most significant phenomenon that will drive job growth in India and will not be a zero sum game in terms of our US counterparts is India's internal market opportunity, which the US politicians cannot impact significantly (the Indian politicians can).

Driven by the imperative to offset slower growth in US and Europe, US multinationals will continue investing and growing their operations in India, seeking newer markets to sell.

Let me share two specific situations. The recent price deregulation in the insurance industry has led to price declines that is forcing insurance companies in India to rightsize their operations. Perhaps not the best time to see multinational companies to India in this space.

Surprisingly, three new property and casualty insurers have entered India in the last six months and will generate 10,000-15,000 new jobs. A leading technology company continues to expand and invest in India not because of lower cost delivery capabilities but because of market and growth opportunities. When I asked their head of

HR in India why they were investing so heavily in India, he told me that they have won five major contracts worth over \$1 billion each from places, which are within two and a half hours of flying radius from India.

The current crisis triggered by one nation's irresponsibility is deplorable and is impacting every nation and most people. However, the impact of President Obama's and the US politician sentiment about off-shoring will have minimal impact on India's GDP growth and job creation, but will create significant headwind which will diminish growth for IT and BPO companies.

India's job and GDP growth is decoupled from Obama rhetoric, loosely coupled with the revival-

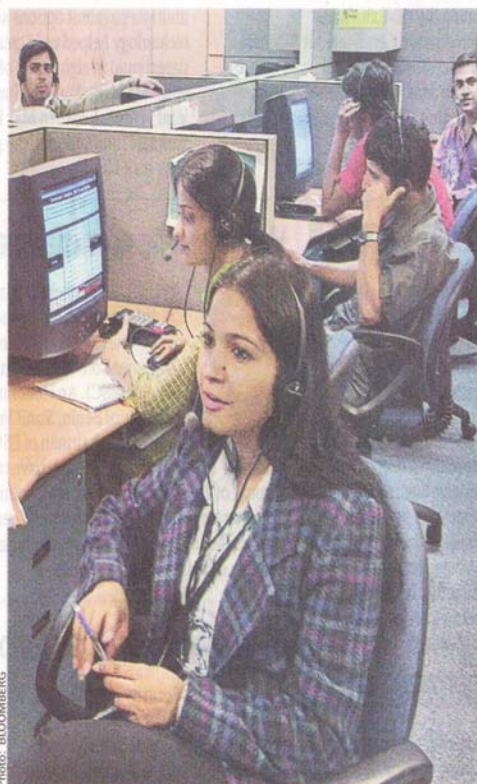


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isation of US companies that need to grow and coupled with our own belief in our potential of our people, business leaders, politicians and resources.

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