

Back to the Future? : Challenges and Opportunities for Indian Information Technology Industry in the New Economic Order

Dr. Bindu Chhabra

Professor

International Management Institute

Bhubaneswar – India

Email: bindu@imibh.edu.in

The seemingly inevitable march of Globalization has been put in a reverse gear by some recent political events. First Brexit and then the new political dispensation in the USA is likely to result in a paradigm shift from liberalization and free trade back to protectionism.

India's \$150 billion Information Technology (IT) industry, which gets over 60% of its revenues from the USA could be adversely impacted if the proposed "High-Skilled Integrity and Fairness Act of 2017" is enacted as a law. The provisions of this act will hit Indian IT companies as they are the biggest beneficiaries of the H-1B visa program. This program allows foreign professionals to work in the United States, and India accounts for over 60% of all such visas. The looming threat of visa curbs also comes at a time when the sector is already grappling with slowdown, with Industry body NASSCOM revising the growth rate down to single digits in 2016-17. It can however be argued that such measures will also affect USA negatively due to cost escalation and non-availability of local talent especially in the high skills category jobs.

Anticipating the challenges, the Indian IT companies have already started to consider a basket of alternate strategies which range from acquisitions of American companies and local campus hiring to enhanced use of automation, artificial intelligence systems and cloud services platforms. Adapting to the changed environment will create unique challenges as well as opportunities for the industry to evolve and execute new business strategies quickly and successfully. While the immediate fallout may be negative, diversification and innovation is the key to make the industry robust and resilient in the long run by avoiding over dependence on any one single market.

Introduction

“The Times they are A-changin’ ”. The somewhat prophetic lyrics of Bob Dylan song certainly ring true in the context of the new global realities. The seemingly inevitable march of Globalization has been put in reverse gear by some recent political events. First Brexit and then the Trump presidency in the USA is likely to result in a paradigm shift from liberalization and free trade back to protectionism. This reversal first became apparent in June 2016, when Britons – including those who benefit significantly from the existing open economic and financial system – voted to leave the European Union (EU), based on what might be called the sovereignty principle. EU institutions were perceived to be undermining Britain’s capacity to boost its own economy, regulate immigration, and control its destiny. A similar view has been animating nationalist and populist political movements across Europe, many of which believe that supra-national arrangements should come second to domestic prosperity. However the biggest blow to the system was dealt when the undisputed champion of the Liberalization - Globalization and the flag bearer of capitalism has chosen to elect Donald Trump, whose “America First” approach resounded with the voters.

Economic nationalism has struck back hard. The policy is now “Buy American, Hire American” and for this the two pronged strategy is to disincentivize manufacturing and services outsourcing on one hand and to ban or curb immigration on the other. This approach is likely to have adverse impact on the Indian IT industry as more than 60% of its \$150 Billion IT services sector revenue is from the US market. Any curbs on hiring of high skilled workers will hit India the hardest as it is the largest recipient (60%) of H1-B Visas every year. Following the U.S. election, the Indian industry body National Association of Software and Services Companies (NASSCOM), cut its growth forecast for the sector to 8%-10% for the fiscal year ending March 31. That is down from a previous estimate of 10%-12% and far below the industry’s 16.5% growth for the fiscal year ended in 2012.¹

¹ Purnell, N. (2017, January 19). Indian outsourcing firms fear curbs on H-1 billion visa workers under Trump. 4-traders. Retrieved from <http://www.4-traders.com/INFOSYS-LTD-9743342/news/Indian-Outsourcing-Firms-Fear-Curbs-on-H-1-Billion-Visa-Workers-Under-Trump-Update-23719949/>

The Prevalent Economic Order

The present world economic order was largely driven by the USA incorporating the basic principles of Capitalism like free market economy, competition and free trade. With increasing advances in information technology and especially since the collapse of the Soviet communist model in late eighties, globalized free market capitalism has been the default economic model throughout the world and even the communist China is now practically capitalist. Globalization and multilateralism were till recently considered irreversible and the only way to move ahead. Experts have believed that the present world economic order established since World War II with USA as its leader has brought about unprecedented prosperity in the last 60-70 years throughout the world due to financial innovations brought about by free market (Karunaratne, 2012).² There is evidence to show that during this period there has been huge decline in absolute poverty levels throughout the world except may be Sub Saharan Africa (Shah, 2008). Countries such as China and India have reduced poverty levels hugely by abandoning the socialist policies and embracing the free market regime (Salvatore, 2004).³

Critics of globalization have however voiced their serious dissent on the rosy view of globalization and they highlight the fact that more than 1 billion people still live below the poverty line of less than one US dollar a day (Shah, 2008).⁴ They argue that globalization has increased the inequalities greatly and large populations have been left behind. The evidence clearly suggests that gap between rich and poor has greatly increased in last few years. As per latest Reuters reports from Davos, only 8 men now own more than 50% wealth of the world. In 2010, by comparison, it took the combined assets of the 43 richest people to equal the wealth of the poorest 50%, according to the latest calculations. Oxfam called in its report for a crackdown on tax dodging and a shift away from "super-charged" shareholder capitalism that pays out disproportionately to the rich.

² Karunaratne, N. D. (2012). The Globalization-Deglobalization Policy Conundrum. *Modern Economy*, Vol. 3, pp. 373-383.

³ Salvatore. D. (2004). "Growth and Poverty in a Globalizing World," *Journal of Policy Modeling*, Vol. 26, No. 4, pp. 543- 551.

⁴ Shah, A. (2008). "Poverty Facts and Stats," *Global Issues*.

While many workers struggle with stagnating incomes, the wealth of the super-rich has increased by an average of 11% a year since 2009. In India also, the rich 1% hold 58% of the wealth.⁵

The Noble Laureate economist Joseph Stiglitz, who has worked extensively in this area has concluded that globalization policies need to be implemented in a manner so as to mitigate risk. However, unregulated free market capitalism sowed its own seeds of destruction and resulted in the US subprime mortgage meltdown, which exploded as a full-blown global financial crisis in August 2007, engulfing the world in the worst global recession since the Great Depression of the 1930s. Karunaratne (2012) contends that the process of economic globalization that has occurred in “waves” over the past 250 year reveals that policies that promote globalization occupy the policy centre stage when the global economy is booming and gets cast on to the backburner when the global economy nose dives into a slump.

Globalization has clearly not benefitted everyone. It seems to be of advantage to educated, high skilled people who can take advantage of technology to get better mobility and wages whereas the less educated, technology illiterate workers tend to get left behind. Roughly speaking, the middle class and working class in the US, not to mention most of Europe, have barely seen wage increases in 20 years. Under such conditions, political support for globalization policies of free trade and cheap labor is waning fast. Achieving strong inclusive national-level growth to revive a declining middle class, kick-start stagnant incomes, and curtail high youth unemployment is now taking precedence. Mutually beneficial international arrangements governing flows of goods, capital, technology, and people (the four key flows in the global economy) are subservient to the perceived national interests. More than anything, it’s the fourth factor i.e. free flow of labour or people which is the stumbling block on which the globalization paradigm has tripped. Immigration has always been the most vulnerable link in the globalization chain as it provides an easily identifiable and weak target to those adversely affected.

The first few weeks of the new administration in the US has already seen scrapping of the Trans Pacific Partnership (TPP) and likely dismantling of the North Atlantic Free Trade Agreement (NAFTA). Hard stance on immigration and outsourcing of jobs, especially in manufacturing, are indications that the new administration is more concerned with “Fair” rather

⁵ The world’s 8 richest men are now as wealthy as half the world’s population. (2017, January 16). Fortune. Retrieved from <http://fortune.com/2017/01/16/world-richest-men-income-equality/>

than with “Free” trade. This protectionist approach is also reflected in the proposed “High Skilled Integrity and Fairness Act, 2017”, being considered by the congress. It seeks to curb the alleged “misuse” of the H-1B visa by companies bringing in high skilled employees from other countries at cheaper rates rather than employing American workers. The major beneficiary of this is India which accounts for around 60% of all H-1B visas.

Indian Information Technology Industry

The Indian IT and ITeS industry is divided into four major segments i.e. IT Services, Business Process Management (BPM), software products and engineering services, and hardware. The IT-BPM sector is currently valued at USD 143 billion in FY 2016 and grew at a Compound annual growth rate (CAGR) of 8.3% year on year (YoY). Exports in FY2016 stood at USD 108 Billion, a 10.3 % (YoY) growth and the domestic market value estimated at USD 35 Billion, a 3.2% annual growth (YoY). The industry employs 3.7 million people directly and provides indirect employment to 10 million people. India's cost competitiveness in providing IT services, which is approximately 3-4 times cheaper than the US, continues to be the mainstay of its Unique Selling Proposition (USP) in the global sourcing market. However, India is also gaining prominence in terms of intellectual capital with several global IT firms setting up their innovation centers in India.

The sector is expected to triple its current annual revenue by FY 2025, as per NASSCOM. The top six Indian firms contribute around 36% to the total industry revenue. The major markets for IT services exports for India include U.S. (62%), U.K (17%), Continental Europe (11%) and Asia Pacific (8%).⁶

History and Growth of Indian IT

The Indian IT Industry was started by Bombay based conglomerates who entered the business by supplying programmers to global IT firms located overseas. Its overseas presence can be traced back to 1974, when the mainframe manufacturer, Burroughs asked Tata Consultancy services (TCS) to export programmers for installing system software for a US client. In light of the modified immigration laws in USA in 1965, a lot of Indian professionals migrated to USA for the research

⁶ Retrieved from <http://www.nasscom.in/indian-itbpo-industry>

opportunities as the restrictions on immigration were reduced considerably. Further, due to the fast growing IT sector in USA, there was a need for IT professionals from countries other than USA. Since India had a large population of English speaking, technically qualified people, the outsourcing work started gaining momentum. The IT revolution during 80s and 90s could not have been possible without the work of these migrant Indians. Today, IT companies in India such as TCS, Infosys, Wipro etc. are well known in global market for their IT competency.

Take Off - Economic Reforms of 1991

Due to the economic reforms introduced by the then Finance Minister Dr. Manmohan Singh, huge restrictions imposed on overseas business were lifted and foreign investments were welcomed, making international integration possible. As a result, the IT industry in India became free and the business of outsourcing finally gained momentum. The first major IT reform by the Indian government was the creation of Software Technology Parks of India (STPI) in 1991. This corporation provided satellite links to major IT developers enabling them to transmit the work done in India directly abroad. This reduced the costs and built the trust of US clients in Indian industries and go for outsourcing. The Indian IT industry has helped provide a national GDP of 6% since these economic reforms took place about 25 years ago and today India is known as the IT hub of the world. India's IT sector has become a boom industry in recent years with companies especially in developed nations, subcontracting work to organizations such as TCS, Infosys, Wipro etc., taking advantage of the country's skilled English-speaking workforce. About 60% of the revenue of this industry comes from USA and these companies are the biggest beneficiaries of H-1B visa program.⁷

H-1B Visa Program

The H-1B visa is a non-immigrant visa that allows US companies to employ foreign workers in specialty occupations that require theoretical or technical expertise in specialized fields. Under the H1-B visa program, US-based companies hire highly skilled foreign workers, up to a maximum of 85,000 a year. Of these 65,000 are hired from abroad and 20,000 from foreign nationals studying

⁷ Retrieved from <http://www.indianmirror.com/indian-industries/information-technology.html>

in the US. The Immigration Reform and Control Act of 1990 created the H-1A visa for nurses, to cope with a nationwide shortage, and the H-1B for skilled people like scientists and engineers. In 1998, during the tech bubble, the US Congress amended the law to allow more H-1Bs to be issued for computer workers. The Senate passed an immigration reform bill in 2013 that would have raised the annual H-1B visa limit to 135,000 from 85,000. It stalled in the House of Representatives because some republicans didn't like that it included a pathway to citizenship. In 2014, President Barack Obama used executive authority to expand a program that allows foreign graduates in Science, Technology, Engineering and Math (STEM) to work in the US for 29 months. Indian companies including Tata Consultancy Services (TCS), Infosys and Wipro have long used H-1B skilled worker visas to fly computer engineers to the US, their largest overseas market, temporarily to service clients.

In January 2017, California Congresswoman Zoe Lofgren introduced High-Skilled Integrity and Fairness Act in US House of Representatives which calls for more than doubling the minimum salary of H-1B visa holders to USD 1,30,000 from USD 60,000. If the legislation is passed, it will become very difficult for the American companies to use H-1B visas to **hire foreign workers**, including IT professionals from India.

Likely Impact of New Policies on Indian IT Industry

If this proposed act is enacted as a law, it could turn as a major catastrophe for Indian IT industry as it would make it financially unviable for the Indian workers to be hired in the US. It needs to be seen that increasingly high percentage of H-1B visas are cornered by Indian IT workers. In 2014, the US Citizenship and Immigration Services (USCIS) reported that more than 65% of H-1B visas went to Indian technology workers. According to an IANS report, in 2016, 72% of these visas issued went to Indians. This is because of the fact that Indian IT workers are seen as a source of cheap labor compared to American workers and companies could derive competitive edge by hiring them. With the new proposed mandated levels, the Indian workers need to be paid even more than the American workers, making them a costly proposition.

However, it is not just the individual IT engineers whose work prospects are at a risk. The Indian IT sector as a whole depends strongly on the H-1B visa regime to maintain profitability of the offshoring model. According to a Reuter report, the top 10 companies receiving H-1B visas were all outsourcing firms. With Infosys, for instance, 60% of its US employees were H-1B visa

holders. Indeed, MoneyControl estimates that the cost increase for Tata and Infosys could reach up to USD 2.7 billion as a result of the new rules.⁸ According to Business Standard, the Indian IT industry derives about USD 65 billion of export revenues from the US alone.⁹ This means that a sizeable part of the Indian IT sector's profitability is dependent on the H-1B visa regime. There is growing concern that India's \$150 billion information technology industry, which relies heavily on exports to the United States, could slow and become less competitive if the Trump administration tightens rules on hiring skilled foreign workers.

Industry insiders point out that Indian technology employees are flexible and can be easily moved from city to city. Accustomed to the Indian work culture, they often work long hours to coordinate with teams at home without extra pay. Those advantages will not be available with American hires.

Likely Impact of New Policies on US

However, it's not just the Indian IT industry which will be negatively impacted by President Trump's policy, the US economy will also have some serious ramifications if he fulfills his promise of "Buy American, Hire American".

Impact on other Industries:

Skilled foreign workers who come to work in the United States on H-1B visas don't just directly supplement the US IT industry with specialized skillsets, they also contribute indirectly to other industries in the US. Often H-1B workers bring their families along and thereby bring additional business for other industries like real estate, Banking, hospitality, to name a few. The effects of this announcement will impact the GDP and the overall business economy and growth of US. The

⁸ Asthana, S. (2017, January 31). H-1B visa issue: TCS, Infosys stare at \$ 2.7-bn cost increase. Moneycontrol. Retrieved from http://www.moneycontrol.com/news/business/h-1b-visa-issue-tcs-infosys-stare-at-3627-bn-cost-increase_8382341.html

⁹ No cheap labour please: How the new bill on H1-B visas can impact Indians. (2017, January 6). Business Standard. Retrieved from http://www.business-standard.com/article/economy-policy/no-cheap-labour-please-how-the-new-bill-on-h1-b-visas-can-impact-indians-117010600324_1.html

higher wage level would have ripple effects for many other industries including nursing, engineering, life sciences, and others.

Most US-based Fortune 500 organizations are deeply invested and dependent on IT services providers using H-1B visas to source skills:

In midst of all this, it's critical to remember that most US-based companies (including many Fortune 500s) are highly dependent on IT Services Providers. These companies actively outsource for both skills and cost advantages – important to note, it's not just the latter that drives the decisions. Changes in the H-1B visa arrangement will add immense cost pressures on these organizations.

Minimum salary requirement of US \$130,000 is not too far from the current average and hence not a prohibitive figure to match:

The current average salary of a skilled foreign worker employed via H-1B visa is \$100,000. The newly announced minimum salary requirement of \$ 130,000 is not prohibitive and can be managed by way of creative salary restructuring and including Per Diems, benefits and other allowances as part of base package. As per Greyhound Research estimates, upon this restructuring the average margin hit for an IT Services provider will be in the range of 5-10 percent year-on-year depending on the total base of employees currently on H-1B, the existing compensation and need for onsite in near-term. Critical to note, a hit beyond this number will force these firms to either renegotiate contracts with existing clients or else the street will act ruthless and these firms stand to lose potential ground on market capitalization.

While onshore and nearshore contracts will see a surge, transition cannot be managed overnight and will give rise to the Coopetition economy:

With the prevailing protectionist sentiment and newly imposed restrictions, the US business ecosystem will see a sharp rise in on-shoring and near-shoring arrangements. However, it is critical to remember that these cannot be built overnight and need-based handshake between IT Services providers and sub-contracting to local IT Services providers will be the routes most choose to take, giving rise to the Coopetition Economy.

Shortage of STEM-skilled workers in US:

According to US Labour Department, there is a shortage of skilled professionals in the industry and the requirement for STEM-skilled workers is likely to increase by 12% from 2014 to 2024. The bill does nothing to address the underlying shortage of STEM-skilled workers, which has led all companies to have a calibrated strategy of hiring locally and bridging the skills gap by bringing skilled workers on non-immigrant visas including H-1Bs.

Ashok Soota, a renowned IT entrepreneur, Ex-president of WIPRO and a former president of the Confederation of Indian Industry, points out there are an estimated one million jobs vacant in the US in the IT sector that American companies have not been able to fill. Unemployment rate in this sector is almost negligible. "They need the skills, they need us. The net impact will drive up costs within the US, as they have a talent crunch," says Soota. According to NASSCOM president R Chandrashekhar, these restrictions would create uncertainty and leave US businesses short of the skilled workers they need. "It's a myth that these workers replace American workers," he told news agency AFP.

Strategies to Cope with Change

The victory of Donald Trump and his protectionist policy prescriptions have sent the Indian IT industry scurrying to come up with coping mechanisms to minimize the imminent damage and to adapt to the evolving environment in the long run. On its part, the Indian government has been quick to respond to the potential fallout and has initiated a series of moves engaging the new administration and voicing their concerns. India is now a strategic partner with USA and it is leveraging its position to minimize any adverse outcomes. Some say that assurances have been obtained that all aspects will be considered by the new administration before taking any final decision. Others point out that the immigration of High skilled workers is not imminent on the agenda and that the focus is presently on stopping immigration from Mexico and Middle Eastern nations. However, this may only delay the inevitable and already priority visa granting under H-1B has been stalled. Anticipating a more protectionist regime and other challenges, the Indian IT companies have already started to consider a basket of alternate strategies.

Hiring the Locals and Fresh Recruits from American Universities:

In response to the anticipated tougher visa rules, the companies are seeking to hire more local people close to the client locations. Tech Mahindra has less than 5% of its total workforce on H-1B visa at present and Infosys, the second largest Indian IT firm, is hiring more and more people locally in US to engage better with the clients and foster innovation on the ground, notwithstanding the potential visa restrictions. The largest company in India, TCS, has also begun to address these concerns proactively, fully aware that it will have to operate in a restrictive visa regime. According to Pravin Rao, Chief Operating Officer, Infosys, “We have to accelerate hiring of locals if they are available, and start recruiting freshers from universities in US.” Infosys typically recruits 500-700 people each quarter in the US and Europe, around 80% of whom are locals.¹⁰ This trend is set to accelerate.

Acquisitions

In light of the present scenario, buying US companies would help Indian IT firms build their local headcount, increase their on-the-ground presence in key markets and help counter any protectionist regulations. Indian software services companies have invested more than \$2 billion in the United States in the past five years. North America accounts for more than half of the sector’s revenue. “We have to accelerate acquisitions,” said Rao at Infosys, which in the past two years has bought companies including US-based Noah Consulting and Kallidus Technologies. Jatin Dalal, Wipro’s chief financial officer, said his growth strategy is to buy companies that offer something beyond what Wipro already does, or new, disruptive firms—such as Appirio, a US cloud services firm. The chief executive of Tech Mahindra, C.P. Gurnani, said his firm, which two years ago bought network services management firm Lightbridge Communications Corp, is on the look-out for more US acquisitions, particularly in healthcare and fintech - financial technology firms that are disrupting traditional banking services.

¹⁰ Phartital, S. & Rocha, E. (2017, March 10). Indians IT firms on hiring spree over Trump’s tighter US visa regime fears. Livemint. Retrieved from <http://www.livemint.com/Politics/pBEulqJWDC0CVTCck8wmNP/Indians-IT-firms-on-hiring-acquisition-sprees-over-Trumps-t.html>

Offshoring and Automation

In a broader shift from labor intensive onsite projects, Indian IT firms are also turning to higher-tech services such as automation, cloud computing and artificial intelligence (AI) platforms. With better technology and faster networks, IT firms are encouraging Western clients to adopt more virtual services. Infosys CEO Vishal Sikka says that he has focused on automation and AI as growth drivers since 2014. “The AI platform is 5-6 percent of our revenues,” he told Reuters. “Three years ago, it was zero.”

More automation would mean fewer onshore developers. “The ‘Plan B’ would be to accelerate the trend and reduce their reliance on people and increase their focus on delivering automation, leveraging the cloud for their clients,” said Partha Iyengar, Gartner’s head of research in India. However, moving work offshore will not be easy, especially with new clients. They tend to prefer onsite work to gain confidence before moving work offshore. With Artificial Intelligence platforms becoming more viable in future, there will be a move towards hiring less staff which has complex ramifications like retrenchments with all its attendant economic, social and political consequences both in USA and India.

Looking Beyond US

America continues to be the largest market for India-centric outsourcers. While companies have made some progress in expanding their businesses in Europe, the next big market, knowledge of local languages has been a constraint (except for United Kingdom). However, many recognize exploring other markets in Europe, South America and Asia is a key to long term success, and even survival. The Indian IT companies are also trying to tap countries like China and Japan. Visa reforms in the US will push Indian IT firms to move in this direction.¹¹ The Indian companies will be forced to diversify the market. While it may have positive effect on the industry in the long run, the short term pain is not likely to be avoided.

¹¹ Alawadhi, N. (2017, January 30). As Trump locks down the US market, Indian IT industry starts tapping neighborhood countries for business. The Economic Times. Retrieved from <http://economictimes.indiatimes.com/industry/tech/ites/as-trump-locks-down-the-us-market-indian-it-industry-starts-tapping-neighbourhood-countries-for-business/articleshow/56866052.cms>

Increase utilization rates

IT companies tend to include unbilled employees (people who are assigned to a project, but not charged for) in ongoing projects to provide a cushion, and for projects in the pipeline so they can hit the road running. So, the utilization of resources is never hundred percent. Utilization rates, measured as a percentage of total employees, could vary from quarter to quarter depending on hiring season (when IT companies onboard a large number of freshers) and sales targets. However, with a broader base of employees and efficient allocation of resources, it's still possible for IT companies to improve utilization rates. It would help in compensating for the higher wages onsite.

Increase revenue per employee

Indian technology majors, including TCS and Infosys, have been talking about non-linear revenues for several years now. However, revenue per employee has remained more or less constant. What once seemed like a good thing to pursue, increasingly appears to be a necessary thing to do. As in the case of increasing non-American revenues, it cannot be achieved overnight. It would demand more investment in automation, and in products and platforms. Such investments could result in lower margins and demand a higher risk appetite. This is the direction that the management would push their companies going forward.

Look for low-cost resources

Recent surveys by Mercer, as well as Willis Towers Watson, indicated that salaries in India are set to increase by 10% in 2017. IT sector, which has paid some of the highest salaries across sectors, has also seen higher than average pay hikes. However, increasingly, IT companies are setting up centers in smaller cities and towns to benefit from lower rents, and to hire employees at lower salaries for specific kinds of work. Salaries account for roughly 70% of cost of sales, and reducing it could have significant impact on margins. As a net impact this may lead to diffusion of the IT companies in smaller cities in India and beneficial in the long run only.

Opportunities for Indian IT Industry

Every crisis also carries the seeds of opportunity within. The Indian IT industry had become used to a comfort zone of easy accessibility of and US market and maybe this scare can lead to reworking of the business strategies to ultimately become a stronger and more evolved industry.

What does not kill you, makes you stronger. Confronted with this situation the industry might start looking at adapting itself to the changing environment so as to survive and become stronger. Some positives which can come out of this crisis are:

Diversification of Market

The old adage of not keeping all your eggs in one basket is squarely applicable here. The Indian IT industry has been for long overly dependent on the US market and consequently there was inertia in looking for other opportunities. With the access to that market likely to be restricted, the industry will be forced to look for market elsewhere if only to survive. Other nations especially EU, Australia and even China may also sense an opportunity to take advantage of this situation and many companies have started to plan moving their businesses to places outside US. Many European nations provide excellent business environment and can match the facilities and salaries at par with or even better than US. Indian IT companies need to aggressively leverage their skill sets, experience and cost effectiveness to make up for the loss of business in the US. China has a lot of pent up demand for such skill sets and the nascent markets of Latin America and even Africa are also open to exploration. Obviously, such shift can only take place over a period of time and some pain is inevitable in the short run. However, there is potential for the industry to become truly global and stronger in the long run.

Strengthening of Domestic IT Industry

The Indian IT industry has for long been too focused on the outside especially on the US market. The domestic market is also a huge one and growing very fast. Often the best talent was geared to be sent abroad and consequently there is a dearth of quality manpower at home. With the space now squeezing, many such talents will have to be utilized at home and the benefits can accrue quickly. Despite the income difference, the Indian middle class population alone is bigger than the entire population of USA and Europe. This massive market is set to explode and there is a lot of opportunity for growth. Ashok Soota, former president of Wipro and Executive Chairman of Happiest Minds Technologies, mentions that more work will now move offshore. "The effect will be two-fold: We will bring more of the work offshore, which is a long-term advantage for the Indian IT industry. Besides, it will drive Indian companies up in the value chain, because the kind of people who we send will be premium people, people who are consultants and highly experienced

and skilled,” he said. That could well mean, again, that US companies lose out on cost-effective work that Indian engineers do for them. The gain will of course accrue to the Indian companies.

Diversification of Domestic Market

Another aspect which needs attention is that so far the Indian IT industry is also concentrated in few places within India. Bengaluru is the hub with Hyderabad and Gurgaon accounting for most of the rest. The cost overheads are very high in these places and the urban infrastructure is woefully inadequate. Bengaluru especially has been struggling with expansion of required infrastructure and consequently costs have soared. The slowdown may force the companies to look at the smaller cities in order to reduce costs and source local talent cheaply. Recently Hyderabad, a hub of cyber activity has recovered from political instability and has declared itself ready to challenge Bengaluru as the IT capital of the country. The Apple Corporation has finalized Hyderabad as its proposed location in India. This will then result in diffusion of the IT services industry in the hinterland with beneficial results. There are many smaller cities like Chandigarh, Pune, Bhubaneswar, Vadodara, Vizag etc. which are vying to share a piece of the IT pie. However, much will depend on the urban infrastructure and the business environment provided by the various states to ensure ease of business. This internal diversification is as essential as the external one to ensure a balanced growth.

Reverse Brain Drain

This isn't the first time India has stood on the throes of a potential historic homecoming of talent. The burst of the dotcom bubble in 2001 led several non-resident Indians to return home, many of them tech workers. The global economic crisis beginning in 2008 forced many to relocate. After that, the startup boom in India successfully tempted many back home. It is easy to see why optimists think the Trump scare may finally do for India what the country has been trying hard to do since ages – bring back its engineers and scientists. There are some green shoots as well. Indians living in the US have started to make cold calls to headhunters exploring opportunities here. One such headhunter Kris confirmed that he has received about 30 such queries only in one month.¹²

¹² Verma, P. & Basu, S. D. (2017, February 1). In panic mode, US based Indian professionals hunt for jobs back home. The Economic Times. Retrieved from

Typically, he would receive that many calls over three months. Neil Shah of Counterpoint Research says that if skilled manpower is forced back to India, the tech sector could finally fill its huge talent gap, especially in product development, hardware, and upcoming technology such as artificial intelligence and natural language processing. K Sudarshan, global vice president of executive search firm EMA Partners, says “Some of our best brains are in the US, as residents or on on-site projects. Their exposure to advanced and specialized technology can be utilized here. It will help the sector in hiring good talent within the country,”¹³

India’s Narendra Modi-led government has taken measures to woo back and retain scientists. The government is offering fellowships and opportunities to work in reputed organizations to ensure that scientists return home. It’s also encouraging large Silicon Valley corporations like Apple to set up manufacturing in India. India’s union minister for science and technology Harsh Vardhan recently noted the rise in the number of scientists returning to the country. “Around 175-180 scientists have returned to India in the recent past.” What really seems to be working in the country’s favor is a combination of new opportunities, better infrastructure, and government impetus on startups. “There is ample opportunity here now, for them [NRIs] to come back. It will mostly be the middle-rung of employees who will come back. They can create jobs here with new and innovative ventures,” says Ravi Gururaj, founder of QikPod and chair of NASSCOM’s product council.

Conclusion

Summing up, the old world economic order is being dismantled while the new one is yet to take shape fully. There is a lot of uncertainty which is bad for any business, but one thing is clear-that the USA is moving away from multilateralism, globalization and free trade and towards protectionism and stricter immigration regimen. The Indian IT industry, heavily dependent on the US market will find it tough to maintain viability unless it adapts to the changing environment

<http://economictimes.indiatimes.com/industry/jobs/in-panic-mode-us-based-indian-professionals-hunt-for-jobs-back-home/articleshow/56901328.cms>

¹³ Gosh, D. (2017, February 6). The potential H-1B visa curbs won’t change shit for India. This is why. TechInAsia. Retrieved from <https://www.techinasia.com/trump-h1b-india-talent>

quickly and develop counter strategies like diversification and innovation based business models. Many experts point out that such policies will harm the US interests as the high skilled Indian workers fill a vacuum due to dearth of such skill sets in the US and that this move will raise costs and ultimately the impact will be borne by American public. These factors may hopefully prompt a rethink. From an Indian perspective, pain in the short term seems inevitable but in the long term the industry will benefit if it can leverage technology & innovation, develop infrastructure and provide conducive business environment.