

# Arbitrage vs Labor Arbitrage

Even now rupee hardening and its impact on outsourcing; textile exports etc are making news. No doubt, these are important issues. But I feel that Indian IT industry and media have overlooked some of the important developments that are unfolding, which will have big ramifications on



Asoke K Laha  
President and MD, Inerra  
IT

the Indian IT landscape. Nobody is talking about it, but everybody is feeling the pinch.

Let me place before you some facts, which are revealing. TPI, an internationally renowned consultancy firm, has recently published that the number and value of outsourcing contracts awarded during the first half of this year had declined in comparison with the same period in last year. Further, it stated that the total value of contracts awarded in the last six months was the lowest since 2001 (July 28, 2007 issue of Economist). The figure quoted, no doubt, suffers from a lot of infirmities. First, it does not include

deals contracted for less than US \$ 50 million, not taking cognizance of the deals entered by the public sector companies etc. There could be arguments and counter arguments as to why the outsourcing value has come down. Even in the previous years also outsourcing figures would not have taken cognizance of these deals. Therefore, one has to believe that there is a drop both in the value and number of contracts awarded in outsourcing.

Let us introspect on the factors, which have affected the tempo of outsourcing. The reason, which one would rush to is the US electoral build-up. Strange stories are afloat, concocted by rival groups to take advantage of the outsourcing milieu. Economist reports that Barack Obama- Democratic contender for the presidential post has dubbed Hillary Clinton-another contender from the same party as “Hillary Clinton (D-Punjab).” Taking a potshot at her pro-outsourcing stand. Media hype against outsourcing is also building up, though there is no conclusive proof that political parties motivate them. In one of my earlier columns, I had referred to the concept of phantom GDP, a theory propounded by a group of scholars to debunk the theory that outsourcing leads to better bottom lines and increase in US GDP. According to them, the fallacies in the computation of GDP are very clear and visible. Innovations that take place in the country where the work is outsourced, cost cutting and economies of scale take place are

erroneously treated as wealth creation in the US. That also may have a different view. But, one should not forget that these views expressed in open by a group of acknowledged experts and published in world rated newspapers and magazines are making strong impacts among the policy makers and even among the industry.

Sooner or later, I believe, outsourcing is going to be a hot subject to be discussed in US, not necessarily during the election season. Already, the semantics of outsourcing is attacked and it is projected as something thrown over the wall. Implied in this argument is the perceived poor quality of output of outsourcing. There is a near convergence to the idea that labor arbitrage in the outsourcing has to be replaced by the intellectual arbitrage. But there are groups, which believe that outsourcing should give way to partnerships in the conceptual sense, where the parties-both outsourcing and vendor- should form partnership and any gain from the partnerships should flow to both parties-so also the losses. Viewed against this, rupee hardening demands a re-look at the contractual obligation so that the Indian partner is compensated for the loss suffered by the currency volatility. Reverse also could be true if the rupee depreciates against dollar. It is time that we have to seriously think about changing conventional outsourcing to another paradigm. That not only helps us to value add but also address to extraneous factors like

currency flotation.

The current vicissitudes also instruct us to change our business model. We have to follow what Accenture or IBM has taught us. They are competing with TCS, WIPRO and Infosys in Indian soil relocating the base from high cost environments. We also have to set up units abroad to service companies, which want to do work outside the precincts of their operations. It could be in US, Japan, Germany, China etc. That will give us a comfort that we are creating jobs in countries where the work is outsourced. I am not referring to the top layer IT companies in India, which have cross-country operations, but 100s of small and medium enterprises, which are reeling under the pressure from rupee appreciation.

I also believe that the proliferation of IT companies in India is working to our disadvantage. There are many options for an overseas company to look at. They can go for a hard negotiation and fix a price to their advantage. What I am driving at is not folding up or mergers of these companies but a broad and mega understanding among them for negotiating the deals to our collective advantage. The understanding should also address to the need for moving up in the value chain, permeating code of ethics and grapple with secrecy and security concerns being experienced by the IT segments. That could be perhaps, an answer if not a retort to the ongoing accusations. ■