India reacts with dismay to recent US legislation on outsourcing

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The ruling elite and media in India have reacted with a mixture of dismay and anger to the spate of legislative activity in the United States aimed at banning overseas outsourcing or offshoring of government contracts. Several states, such as Colorado, Wisconsin, Indiana and Minnesota, have introduced legislation to ban the offshoring of such contracts. The latest was the recently passed US Senate bill banning private firms from outsourcing federal government contracts overseas. This measure, attached to a $328 billion omnibus appropriations bill, was sponsored by Ohio Republican Senator George Voinovich in a transparent attempt to bolster the Bush administration during an election year. Not to be outdone, Democrats have introduced a “Jobs for America Act” in the Senate that requires corporations to warn employees and communities before moving jobs overseas.

None of the bills introduced in any of the state legislatures has garnered enough votes for approval. Despite the public outcry over the loss of information technology (IT) jobs, this lack of approval implicitly demonstrates the support US corporations enjoy among the legislators. The only bill to succeed so far is the one introduced in the Senate. Even this bill, however, is scheduled to expire at the end of the current fiscal year on September 31, 2004.

Despite the public rhetoric by both Republicans and Democrats, important sections of both parties are big supporters of offshoring, as it increases the profits of major corporations. The US Chamber of Commerce and many corporate backers of both major parties such as IBM, Dell, HP and Sun oppose such legislation. In fact HP/Compaq CEO Carly Fiorina went so far as to arrogantly declare that “There is no job that is America’s God-given right anymore.”

The Bush administration in its annual economic report praised overseas outsourcing as a benefit to US economy. It should also be remembered that the Bush administration, with the support of the US Congress, has plans to outsource 425,000 out of 1.8 million federal jobs to cut labor costs, the precise argument used by US corporations to justify offshoring.

In addition, despite the loss of many IT jobs in the US following the 2000 crash of the technology sector, Congress increased the annual allocation of H1-B visas—intended for temporary importation of skilled foreign workers when US workers are unavailable—from 65,000 in 1997 to 195,000 in 2003.

The loss of jobs due to offshoring has become a central political issue in the presidential election. The Democratic Party, with the support of the US labor unions, is trying to utilise the terrible reality faced by displaced workers for political gain. It wants to posture as the defender of US workers by trying to erect legislative barriers.

Unsurprisingly, the Indian ruling elite reacted very negatively to the Senate bill, even though the immediate impact of the legislation is minuscule. US federal government contracts amount to a very small percentage of total Indian IT industries’ export revenue.

The Indian IT industry representative, the National Association of Software and Service Companies (NASSCOM), posturing as a new champion of free trade, stated: “In an era of global free trade, protectionist measures in any country are unlikely to last long, as witnessed in the recent lowering of customs tariffs by India (far more than those agreed upon at the WTO) or the withdrawal of anti-dumping measures on steel by the US.” Referring to future Word Trade Organisation (WTO) negotiations, India’s Information Technology Minister Arun Shourie reacted by saying, “I feel this would worsen prospects of multilateral negotiations in trade.”

The major Indian daily newspapers uniformly editorialised against both the legislation and any further moves in that direction. The *Economic Times of India* stated somewhat confidently, “Now that most companies realise the huge savings that can be squeezed out of outsourced operations, the rush to move some jobs out of high-cost US to places like India can only increase, irrespective of what senators may think or do.” The *Hindu*,on the other hand, advised Indian companies to “play hardball” and weaken the resistance by improving the quality of work performed.

During the recent visit of US trade representative Robert Zoellick to India to garner support for the reopening of the previously collapsed WTO Doha negotiations, India bluntly told him that the prospects for these talks were set back by the actions of the US Senate. For his part, Zoellick informed his Indian hosts that they have no right to complain, as India has not become a signatory to the agreement on government procurement of goods and services. This was an agreement that the US and Europe tried to ram down the throats of other countries during the September 2003 WTO negotiations in Cancun, Mexico. Zoellick further demanded that India open up its financial and agricultural sectors to foreign competition if it wants to gain US technology jobs.

Realising the importance the Indian elite attaches to the technology sector, the Bush administration undoubtedly plans to use the domestic backlash against offshoring to wring concessions from India in areas where the US corporations hold a distinct advantage. The opening up of the agricultural sector in India to US agro-business is especially sensitive, given its potential to bankrupt millions of impoverished marginal farmers, forcing them to migrate to already overcrowded cities.

The Indian IT industry, whose US revenue amounts to 71 percent of total Indian IT exports, is concerned that this bill may set a precedent. The Indian ruling elite’s anxiety with legislative developments in the US is palpable given its great ambition to transform India into a global giant in knowledge-based industry. They hope to duplicate China’s success in attracting manufacturing capital by becoming the destination of choice for global investment in information technology and R&D.

From modest beginnings as “bodyshops” supplying cheap Indian IT labor to major US corporations, the Indian IT industry has now become a global contender for software services. The frenzied investment in the technology sector, especially in the latter half of the 1990s, created a “shortage” of labor in the technology sector.

To meet this shortage, US corporations, such as IBM, Microsoft and

Sun, signed contracts with Indian IT corporations, which brought over their Indian employees, using the greatly expanded H1-B visa program, for the duration of projects. Since these programmers were employees of Indian companies, the US corporations were not required to pay Social Security taxes and other workers' benefits, thereby realising massive labor cost-cutting. Some estimates place these "savings" to US corporations as high as 80 percent of the amount they would have spent using US programmers.

The Indian IT industry had a crucial advantage over its rivals from other countries. It had a large pool of English-speaking engineering graduates, which other countries such as Russia and China lacked.

By paying its employees Indian salaries of less than $200 per month supplemented by a modest US living allowance, the Indian IT industry was able to rake in huge amounts of profit. Its revenue increased from a modest $150 million dollars in 1994-1995 to more than $5.3 billion dollars in 2000-2001. Its revenue per employee also exhibited a similar growth rate, increasing from around $10,000 per employee to as high as $50,000 today. This massive growth in overseas revenue has now spawned a large Indian IT industry comprising 5,000 companies employing more than 700,000 employees.

Despite the Indian IT sector's amounting to less than 3 percent of Indian gross domestic product (GDP), it enjoys unparalleled political support from the Indian Government. This sector has exhibited dramatic growth rates of more than 45 percent per year from 1999 to the present. NASSCOM projects Indian IT industry revenues to increase from the current $16.5 billion for 2003 to more than $70 billion by 2008.

Following the collapse of the technology sector in 2000-2001, many US corporations desperately sought to cut costs. While previous post-recessionary periods resulted in an increase in domestic employment, the current period, by contrast, has resulted in a loss of high-paying domestic jobs, many of which have moved overseas. Indian firms have especially gained from this move by US corporations, and consequently, Indian IT firms such as WIPRO, Tata Consultancy Services (TCS) and Infosys have grown into large corporations.

Offshoring extends to diverse services including call centres providing technical support and credit card services. Many US financial corporations including Citigroup and Bank of America have offshored financial services such as clearance/settlement of credit/debit transactions. These jobs, termed "Back Office Operations," have been growing in India at an exponential rate from $565 million in 2000 to $2.4 billion in 2003. By 2006, it is estimated that Indian call centres will employ a million workers.

With an estimated 50 million to 100 million workers unemployed in India, call centres are among the only jobs open to young educated workers. The long and irregular working hours as well as continuous monitoring of performance make these jobs especially stressful and have resulted in a high job turnover rate.

The Indian IT industry has a huge pool of engineering and computer science graduates from which to recruit. The salary of an Indian graduate with an advanced engineering degree from a top university such as the Indian Institutes of Technology does not exceed $12,000 per year. India annually churns out up to 151,000 engineering graduates and around 100,000 information technology graduates from its 900 colleges affiliated with 250 universities.

Given this huge pool of graduates, the competition for technology jobs in India is fierce, and Indian companies exploit this gratuitous gift fully. Most of the entry-level graduates are paid as little as $300 per month and are frequently expected to work longer hours without compensation for six days a week. During job interviews, these young workers are bluntly informed that they are expected to put in extra hours despite having been hired for eight-hour workdays. If they demur, they are informed that others will take their place. Many of these young workers log in more than 16 hours a day and frequently burn out in a few years, requiring hospitalisation. Once uncommon, depression now afflicts many young workers, whose average age is only 26.5 years.

Many large US corporations have also started moving highly skilled research and development jobs to India. GE has opened the $80 million John F. Welch Technology Centre in the southern city of Bangalore. This centre in India's Silicon Valley has an army of 1,800 engineers, a full quarter of them holding doctorates. They are performing research in such advanced fields as computational fluid dynamics, electromagnetics, power electronics and composite materials. This is the largest of such facilities belonging to GE Global Research outside the US.

Similarly, Intel Corp. has opened a $40 million dollar facility in Bangalore and plans to design the next generation of both Xeon and Centrino processors. Other corporations doing large-scale research include Oracle, IBM and SAP.

Despite the Indian financial elite's focus on the technology sector, the vast majority of the Indian population lack access to even good drinking water. Seventy-five percent of India's population is rural, and the growth in the technology sector has brought an increase in social polarisation between the relatively narrow proportion of the population that is urban and the predominant rural masses.

The offshoring wave is accompanied by several ominous statistics and does not augur well for the future of even highly skilled jobs in the US. The Indian software industries' exports amounted to close to $10 billion dollars in 2003—70 percent of these earnings coming from the US. The US consulting firm Gartner has estimated that around 500,000 of 10.3 million US technology jobs will move offshore in 2003 and 2004.

Deloitte Consulting estimates that $356 billion worth of financial services will be offshored within the next five years, with savings of $139 billion dollars. This is estimated to result in a loss of around 2 million jobs. NASSCOM estimates cost savings to US corporations from offshoring to India will be more than $10 billion.

Loss of high paying jobs across the US is now an indisputable fact, with many workers facing a bleak future. Workers in both the manufacturing and technology sectors previously earning relatively high wages are now unable to find jobs.

The legislation against offshoring and other protectionist demagogy by politicians and union bureaucrats will do nothing to halt this process. No solution is possible outside of a political struggle waged by the working class against the profit system as a whole.

Workers around the world must counterpose their own perspective for the development of the productive forces, in a rational and socially progressive way, to the rapacious strivings of the financial elite for their own further enrichment. In the end, only the democratic control and ownership of production by the working class of all nations can utilise the wealth from this immense global productivity of human labor to benefit all.