OPINION

Don't ignore small IT players

The information technology sector has been the backbone of India's growth last decade. However, there is now cause for worry, both on account of global factors, as well as indifferent policies.

Vivek Kulkarni

A large company in Bangalore had advertised for 300 positions. More than 15,000 engineers turned up at the walk-in venue, before the stipulated time. A stampede was reported recently in the engineering college where the candidates were interviewed. In a country which shows about 9 per cent growth, we see over 14,700 candidates not getting jobs. What is the ground reality?

According to Tushar Poddar of Goldman Sachs and Pragyan Deb of London School of Economics, India needs to find jobs for over 110 million youngsters, in the next 10 years. Can India create so many jobs? Japan, Taiwan, South Korea and China rode on manufacturing exports to provide prosperity and jobs in their countries. Can India now repeat the same feat, in services, particularly IT?

India has to absorb over 45 million in the services sector alone. The Indian IT sector that has been providing jobs to over six million engineers, and far more indirect jobs in leisure, transport, restaurants, etc., has been the backbone of India's growth last decade. However, there are now some reasons to worry, both on account of global factors, as well as indifferent policies back home.

The global reasons are slowdown due to the financial crisis and the consequent cut in IT spends, restrictions on visas and protectionist policies in the developed world. Local reasons are indifference towards small companies in favour of large SEZs and creation of local oligopolies.

Exports: IT dominates

(Rs crore)

Sector	2009	2010	Growth (%)
IT & ITeS	2,16,082	2,77,882	28.60
Gems and jewellery	1,17,430	1,20,617	2.71
Petroleum (crude & products)	1,15,597	1,14,277	-1.14
Manufacturing	2,33,892	1,99,675	-14.63
Drug, pharma & fine chemicals	66,847	67,955	1.66
Textiles	47,411	47,543	0.28
Others	1,93,410	1,93,657	0.13
Total	9,90,668	10,21,606	3.12

IT pays less tax?

(Rs crore)

	Steel	IT
Market capitalisation	59,600	1,51,100
Total sales	11,000	22,000
Employee cost as a % of revenue	2.5	50.0
Taxes paid		
Excise duty	1,100	-
Corporate tax	920	1,680
Employee income-tax	55	2,895
Total	2,075	4,575
Total tax paid as a % of revenue	18.9	20.1

POLICY INDIFFERENCE

The seeds of the success of IT exports were sown in the liberalisation of 1991, with the creation of Software Technology Parks of India (STPI) scheme. Several small companies took advantage of it and created lakhs of jobs. Almost 50 per cent of job creation in knowledge-based sectors was due to small companies. The STPI scheme has been copied by many countries around the world. The mission statement of Jinan, a Chinese province, is to be like Bangalore. Instead of encouraging this export growth engine that provides well-paying jobs to our youngsters, the government is indifferent to most IT SMEs.

Meanwhile, the global competitive environment is changing. There could be a decline in the sector and eventual loss of competitive advantage. China, Indonesia, Vietnam, the Philippines, Russia, Romania and other countries will gradually increase their market share.

China is fast catching up with India in terms of English-speaking manpower. They have 30,000 English training schools. They have made it compulsory for even taxi drivers to learn English.

Our politicians preach one thing and practice another. They don't want poor children to study English, despite their own children going to English medium schools. Once the Chinese acquire English fluency, many IT jobs may migrate to China.

India lacks the killer instinct and allows other countries to get better in software. Consider how China dominates the world in hardware. They have given subsidised loans, provided low cost labour, and maintained a low currency to capture world market in hardware. With a substantial market share, China could increase prices, say, 10 years later and extract a big premium from all countries.

None of the countries will be able to set up production facilities, nor will they have the skills to increase output in a short period. India's policy indifference towards IT, after encouraging it in 1991, will hardly help its cause.

India is giving up its competitive advantage in IT. With a sustainable market share in offshoring, India could have focused on dominating the entire world. On the contrary, the Government does not give high priority to the knowledge sector. It now feels that IT companies are given too many tax concessions, and has decided to withdraw the STPI benefits. In spite of tax concessions, IT industry continues to pay reasonable taxes.

IT is employment-intensive and salary expenses account for 50 per cent of its revenues. Steel is a capital intensive sector and pays just 2.5 per cent of its revenues to employees. Considering the tax paid by employees, the IT industry pays reasonable taxes.

The industry, however, has a few well-known personalities pushing for taxing the industry. While some CEOs are pushing for taxing the industry, their companies are accumulating land that can put any real estate developer to shame. Some of them have accumulated over 15,000 acres in SEZs, implying that large IT firms will not pay normal taxes for the next 15 years. Large IT players are comfortable and growing more rapidly than the medium and small firms, consequently creating oligopolies. The IT industry, led by middle-class, educated people, lacks any formidable lobby with the government, unlike real estate players who have profited from building commercial and residential space for IT.

The Government wants to help these developers and large IT firms with SEZs. Small firms with STPI status, which account for 45 per cent of the total employment in IT, would become non-competitive due to international pressures.

That would mean lower purchasing power and low growth overall. While the IT sector growth will be high in the first three years due to the past momentum, the growth will slow down later.

ECONOMIC CONSEQUENCES

Stock market analysts, who refused to see the linkages between IT exports and the rest of the economy two or three years ago, reduced their target price for IT companies, but were quite bullish on real estate, commercial space and retail. They felt all these sectors could do well, in spite of IT declining. All these sectors soon fell, when jobs in IT industry declined. The growth of many domestic sectors depends on discretionary spending by IT sector employees.

The slowdown in IT will create a huge problem for Indian society with its millions of unemployed youth in the coming decade. The structural inadequacies of our economy will then really start to hurt – the fact that domestic growth is hit by red tape, bottlenecks, slow movement of goods and lack of innovative liberalisation in real markets.

Politicians continue to stifle growth, due to bureaucratic methods in allotting land, change of land use, and countless permissions. Can our government and political leaders rise to the occasion, effect real liberalisation in the economy, encourage small and medium STPI companies, and keep up job oriented economic growth?

(The author is former IT Secretary, Government of Karnataka, and Founder Managing Director, Brickwork Ratings.)

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