

India is seeking to codify the rules on outsourcing

By **Anand Giridharadas** International Herald Tribune
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MUMBAI, India It may be the gravest challenge mounted by developing economies against the developed, but it will languish on the periphery of this week's trade talks in Hong Kong, silenced by the fury over fruits and vegetables.

The phenomenon answers to many names, from "outsourcing" to "offshoring" to "BPO." It is "global sourcing" in the euphemistic parlance of corporate chieftains, and "délocalisation" in the blunter phrasing of the French. Regardless of what you call it, it threatens to transform where, and how, much of the world's work is done.

Experts say one-ninth of the world's service jobs can be done from anywhere - from taking orders at a drive-through to researching stocks, from designing aircraft cockpits to vetting medical X-rays. (All four are already being done remotely.) But for work and workers to migrate, the rules of global trade must be changed.

Now India, among the pioneers of outsourcing, is pressing wealthy countries to give services like call centers and offshore software development legal sanction that cannot be revoked. It is also urging them to make it easier for outsourcing companies to send employees to the West on temporary visits to manage customer relations and to sell, install, maintain and service their products.

"Nobody is going to give you work to design software if they know you can't even get a visa to come install it," Kamal Nath, India's commerce minister and its principal trade negotiator, said in a telephone conversation.

As in agriculture, negotiations on services prior to Hong Kong have dashed hopes of a major agreement. In exchange for easing restraints on outsourcing, rich countries want India to open more widely to foreign investment, particularly in retailing and banking - two sectors jealously protected by the trade unions allied to India's coalition government. But Nath went further than he had previously gone in hinting at a possible deal.

"They are not off the table," he said, referring to retailing and banking. "It needs to be negotiated. I cannot spell out my negotiation. But I'm flexible on this, provided I get some movement on Mode 1 and Mode 4," the bureaucratic terms for outsourcing regulations.

Whether or not a deal is reached, India's proposal of the new rules is a symbolic turning point in international trade. At one level, it signals a profound reversal of fortunes for India, which has proposed the new rules. Once teamed with other poor nations, including former colonies, in resisting what it saw as the neo-imperialism of Western companies, India appears to have crossed to the other side on outsourcing, as a reverse imperialist knocking on Western doors.

At another level, for those at the receiving end of the trend, India's proposal adds to mounting evidence of a different kind of shift: the looming demographic reality that the West's aging populations will require developing-world labor.

"The developed economies are going to face acute shortages of working-age people - they will have either import people or export work," said Kiran Karnik, president of the National Association of Software and Services Companies, an Indian industry lobby shop. "The further you project the time horizon, the more inevitable it gets."

And India's proposal, including sending sales executives and relationship managers westward, also reflects the escalating challenge of India's back offices. They once served as white-collar factories doing repetitive work at bargain-basement costs. But, increasingly, they compete on innovation and skills; many are gaining global recognition as cutting-edge mini-multinationals with cheap back offices here and savvy front offices in the West.

"Emerging markets are well known for their role in activities such as assembling consumer electronics products and providing low-level customer support through burgeoning call centers," John Seely Brown, the former chief scientist of Xerox, and John Hagel 3rd, a former McKinsey consultant, wrote in a recent article adapted from their book "The Only Sustainable Edge."

"They will become even more significant as catalysts for product and process innovation. The disruptive impact is now confined to developing countries, but 'blowback' from this surge of innovation could quickly be unleashed on the rest of the world."

The world is already feeling the impact of developing-world services.

From 1990 to 2002, low- and middle-income nations increased their share of global services exports - exported work and imported workers - by 50 percent, and high-income countries saw their share decline.

According to the World Bank, India's and China's services exports expanded by more than 15 percent a year in the 1990s, compared with a figure of less than 6 percent worldwide.

Those statistics hint at what economists say is a realignment of comparative advantages - the specializations of what each country does best. In India's case, opening the economy to world competition in the 1990s brought its advantage starkly into light. From 1996 to 2000, India's comparative advantage in exported services like software making grew 327 percent, according to the World Bank, while its advantage in manufactured goods declined by 15 percent. The statistics reflect whether a country is more or less likely than its peers to export a particular good or service.

India's services exports have created an economy within an economy, a first-world enclave in third-world environs that has attracted criticism for supplementing gross domestic product without spurring considerable employment.

India's services exports also provoke criticism in the West, where the transfer to India of jobs like network engineer, software code writer and medical specialist is an existential threat far graver than the outsourcing of factory work.

The blog <http://www.nojobsforindia.com> casts the threat in urgent terms: "This isn't a shirt or a toy. This is your bank accounts, credit and personal information in a foreigner's hands. How easy would it be for terrorists to get this information?"

The site urges readers to ask their leaders: "Why companies are allowed to import cheap labor on L1/H1 visas when there is an American needing that job. Ask why American workers are being forced to train their cheaper replacement and then laid-off."

India's proposal is trapped between those domestic and foreign criticisms. Rich countries are reluctant to further open their markets. And the only way they will do so is in exchange for the further opening of India to foreign investment in sectors like retailing and banking - something not playing well in India as politicians come under fire for ignoring the 390 million people living on less than a dollar a day.

What India wants from rich countries is twofold.

The first is a legal promise not to erect barriers against outsourcing, as some have threatened. The second is an easing of regulation for professionals like accountants and information-technology professionals to travel to their foreign clients for short-term projects on nonimmigrant visas.