

Economic Impact of US Visa Policy on Indian IT Sector

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Abstract: Trump's nationalist policies, especially the ones relating to H-1 B visas are seen to be creating an impact on India's \$150 billion information technology industry, which relies heavily on exports to the United States. Trump's policies regarding H1 B visas could slow down and make this sector less competitive. This paper tries to study this impact in detail and also explore solutions to this problem, from the point of view, of Indian IT industries.

Keywords: Information technology, H1 B visa, onsite, outsourcing, competitive.

Objective

The paper has two-fold objectives, as listed below:

- Firstly, to understand the impact of Trump's outsourcing policy related to H1 B visas on Indian IT sector
- Secondly, to propose solutions to the problem regarding revised H1 B visa rules to the Indian IT sector

I. INTRODUCTION

The outsourcing industry constituting of Software, Computer services & ITES accounts for a significantly high percent of India's exports of goods and services, and has helped millions of Indians in raising their standard of living. Indian IT sector forms a major chunk of this industry. India's \$150 billion information technology industry, which relies heavily on exports to the United States, is facing a wrath of Trump's policies regarding H1 B visas. These policies are in line with the Trump administration's intent to prevent foreign workers from taking up US jobs. As quoted by the US President, "Right now, H-1B visas are awarded in a totally random lottery, and that's wrong. Instead, they should be given to the most skilled and highest-paid applicants, and they should never, ever be used to replace Americans".

As per NASSCOM, India's IT-BPM industry is projected to grow at the rate of about 8% in FY 2017 to USD 154 billion. In light of the very disruptive emerging technologies, the industry is re-imagining itself to become the Digital Solutions Partner for the world.

Economics

As observed in the Table 1 below, it is noticed that there is an increasing percentage of growth in software and ITES during the period 2009-2012.

Table1: Software Services Export from India since 2009- 2012

| Software Exports (billion) | | | | Growth (%) | | |
|---|---------|---------|---------|------------|---------|---------|
| | 2009-10 | 2010-11 | 2011-12 | 2010-11 | 2011-12 | 2011-12 |
| A) Computer Services | 1266.6 | 1598.4 | 1867.1 | 3.9 | 26.2 | 16.8 |
| B) ITES/BPO Services | 570.3 | 571.7 | 617.2 | 25.9 | 0.2 | 8.0 |
| Total Export of Software Services (A+B) | 1836.9 | 2170.1 | 2484.3 | 9.8 | 18.1 | 14.5 |

Source: RBI Bulletin

In the same corresponding period it is observed from Table 2 that the major percentage share of export earnings is from the USA & Canada.

Table2 : Country-wise share of software exports

| (per cent) | | | | |
|--------------|---------|---------|---------|---------|
| Country | 2008-09 | 2009-10 | 2010-11 | 2011-12 |
| | (1) | (2) | (3) | (4) |
| USA & Canada | 61.5 | 61.9 | 65.0 | 64.3 |
| Europe | 27.0 | 26.5 | 23.5 | 23.3 |

Source: RBI Bulletin

It is observed from Table 3 that there is a significant drop in the total amount of International trade in Services, The Software and ITES, which is major contributor as export earner in this category, has therefore

witnessed a drop in the export earnings during the period July' 17 - Sept, 2017. The main reason can therefore be attributed to the proposed change in the US visa policy of H1-B

| (US\$ Million) | | |
|----------------|--------------------|--------------------|
| Month | Receipts (Exports) | Payments (Imports) |
| July-17 | 13,178 | 7,334 |
| August-17 | 13,701 | 8,658 |
| September -17 | 13,732 | 8,450 |

Source: RBI Bulletin

According to NASSCOM the forecast of the domestic market in India is likely to be 10-11% at constant prices. However the forecast of the export market for the FY17 is likely to grow by 7-8 % at constant prices, which is down by 8.6%. The sector is to add 1.3- 1.5 lakh jobs in FY18. This is to sum up as the slowest growth pace since FY10. Mr. R. Chandrashekar is to have stated "While uncertainties remain even today, we have a greater visibility of the direction and path ahead. We are reasonably confident of what we are talking about unless some brand new uncertainties spring up "

H1B visa is an employment-based, non-immigrant visa category for temporary workers in USA. An employer must offer a job and apply for an employee's H1B visa petition with the US Immigration Department. In 2014, 70% of total H-1B petitions approved were from Indian citizens.

A bill introduced in the U.S. Congress raises the minimum salary for positions granted under the H-1B visa scheme from \$60,000 to \$100,000 per year. Indian IT companies are among the biggest beneficiaries of the H-1B visa program, which allows foreign professionals to work in the United States. Many Indian techies are sent by Indian IT companies such as Infosys, TCS, Wipro and others to work onsite for high-skilled technology work on H-1B visas. These employees are paid much less than \$100,000 per year, thereby reducing the costs for Indian IT firms. These visa curbs will be coinciding with the pressure on traditional IT services sector due to automation and the shift in spending on newer areas such as digital and cloud.

As per Prabhudas Lilladher brokerage firm in Mumbai, "H-1B is a very important lifeline for the sector, and a tougher stand on these visas would mean substantial increase in local hiring."

In addition to minimum salary norms, several norms are under consideration by Trump administration, as described below:

- Earmark 20% of H-1B visas for small and start-up employers
- Remove 'per country' cap for employment visas to ensure equal distribution
- Firms hiring H-1B visa holders need to make a "good faith" effort to recruit Americans first
- Give preference to students educated in the US for H-1B visas rather than computerized lottery system
- Crack down on outsourcing companies that import workers for temporary training and then send them back home to do the same job
- Prohibit spouses of H-1B visa holders from working in the US
- Prohibit companies with more than 50 employees, of which at least half are H-1B or L-1 holders, from hiring additional H-1B employees
- Strict audit and vetting by Department of Labor to clamp down on fraud or misuse

(Source: Hindustan Times)

Major concerns

Changes in H1 B Visa norms

Many Indians working at client's site on H-1B visas earn less than the \$100,000 per year. "So, this bill, which states minimum salary for positions granted under the H-1B visa scheme to increase from \$60,000 to \$100,000 per year, will significantly increase the cost structure of India IT firm's. Thereby, the cost advantage that Indian IT firms had in comparison with other regional and global IT firms will be eroded.

Human resource

Employees in Indian IT firms are flexible. They can be easily moved from city to city and are accustomed to working long hours to coordinate with teams at home without extra pay. These advantages will not be available with American workforce.

USA as revenue generator

As per the Annual reports of several Indian IT companies, US generates nearly 60 percent revenues for them. With increasing cost structure, retaining clients in these markets will become difficult.

Loss of revenues

The Indian IT companies stand a risk of losing their clients in USA and UK as the cost advantage that was available with cheap labor erodes away. Even in case of new avenues like China and Japan, though Indian IT companies have a presence there, majority of the hiring is of local populace, and not of Indians coming to work on-site.

As per reports of several brokerage houses, this move could dent revenues of Indian firms by as much as 10 per cent.

Job losses for Indian IT sector employees

These rules are also supposed to mean less number of jobs for Indian nationals, who are already facing the heat of automation. As quoted by Vishal Sikka, CEO of Infosys Ltd., "A strong focus on local hiring, on local contributions to the economy, will be needed to mitigate the impact of regulatory tightening".

Shrinking margins

The profit margins for Indian IT firms will be reduced with increasing costs of hiring onsite, as these costs may not be fully passed on to end clients. Though the Indian IT companies have already been boosting local hiring in anticipation of tighter visa regime, margins are likely to be hit. The day the bill was to be presented saw the shares of India IT companies plunging by nearly 9%.

Unionization

IT Sector has never witnessed unions, which are common across manufacturing sectors. However, with job losses in plenty; IT employees are approaching some unions, such as FITE, NDLF-IT and ITEC.

ET has reported that The Forum for Information Technology Employees (FITE) will be getting itself registered formally as the first union for IT employees in India. Moreover, National Democratic Labour Front-IT, has filed a public interest litigation seeking directions for the Tamil Nadu government to ascertain if labor protection laws applied to the IT sector. The state has responded favorably stating that the sector had all along been under the purview of the labor laws. With unions, the workforce productivity gets reduced. Moreover, fearing unionized environment, some IT firms might move their offices outside India, which will further add to employment problems.

Solutions

New avenues

The software services industry body - National Association of Software and Services Companies (Nasscom) is now trying to tap countries closer home, starting with China (Source: Economic Times). To achieve this purpose, the Consulate General of India in Shanghai and Nasscom co hosted an event with the Nanjing government earlier in January to promote trade ties between Chinese companies and Indian IT firms. As quoted by Gagan Sabharwal, director of global trade development at Nasscom, "China and Japan are the second largest economies and the second largest IT spenders in the world. We need to shift from our over-reliance on the US and UK." As per him, China is not a closed economy as believed traditionally.

Negotiations within and outside USA

Several negotiations have to be made with the Trump administration explaining them the importance of outsourcing with respect to America's interest. Such negotiations should take place by USA lobby groups as well. To this effect, Nasscom, India's software lobby group has asked IT majors in USA such as Apple, Microsoft, Google and IBM to lobby with Trump, to explain that more jobs would be generated by US companies if they outsource to India.

Sanchit Vir Gogia, chief analyst at Greyhound Research makes a point in this regard. As per him, "Skilled foreign workers who come to work in the US by the route of H1-B visas don't just directly supplement the US IT industry with specialized skill sets; they also contribute indirectly to other industries in the US. H1-B workers bring their families along and thereby bring additional business for other industries like real estate, banking, hospitality and others. The effects of this announcement will impact the GDP and the overall business economy and growth of US".

Role of Nasscom

The role of the software services industry body - National Association of Software and Services Companies (Nasscom) will be crucial with regards to lobbying for the interests of Indian IT firms through various channels and finding new opportunities. They have hard pressed the fact that Indian IT industry contributes to about 4 lakh direct and indirect jobs in the US, contributing for about USD 5 billion in taxes annually.

Diversification

Indian IT firms should gradually move towards a path of acquiring clients from other geographies such as Middle East, Asia and Africa. This will diversify their client portfolio and eliminate the business from the risk of huge client concentration.

Tapping Domestic market

As India is undergoing a digital wave, Indian IT firms must seriously look for domestic markets, especially the SME's (small and medium scale enterprises) and help them with the technology solutions. This will help Indian IT firms to reduce their dependence on American clients.

Urbanization of Workforce

Urbanization of Workforce aka Gig economy is the one wherein talent works along a demand-supply model, moving across projects and organizations as per the demand and their interest areas. This trend is prevalent in USA, wherein freelancers and consultants work on a short-term project. It has to pick up in India,

for Indian companies to control costs and avoid legal hassles associated with full-time employment. Also, it will allow companies to add or reduce workforce as per the projects.

II. CONCLUSION

It is true that Trump's protectionist policies will have at least effect on the Indian IT sector. However, solutions such as diversification of markets, adoption of Gig economy with a positive attitude and adapting to new technology such as Cloud Computing, to replace additional manpower requirement, is now the order of the day for Indian IT Companies. The major IT companies in India and those in USA can lobby and put pressure on Trump administration in order to optimize the scale of economy by minimizing the cost.

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