IT beats pessimists, again

TECH-IT-EASY

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WAS IT not Mark Twain, who famously quipped: "The reports of my death have been greatly exaggerated"? I am reminded of that every time some pessimism surfaces on India's information technology-business process management (IT-BPM) industry, which now employs close to 3.5 million people, and is India's largest private sector employer.

Last week, when I met Noshir Kaka, the managing director of McKinsey India, as the global consultancy revealed its outlook for the industry — its third such since 1999 — I joked with him that when the first outlook came, the disbelief in India bordered on hysterical, while the achievements now were historical.

In 1998-99, India's software exports totalled a teeny \$2.6 billion (₹16,900 crore at current prices), when McKinsey's report for industry body Nasscom stuck its neck out and predicted an export figure of \$50 billion by 2008. Despite hiccups such as US visa restrictions on outsourcing, the 9/11 attacks and the global economic crisis that hit in 2008, India's IT-BPM exports reached \$47 billion in 2009 – nearly there.

At that time, McKinsey predicted \$225 billion in revenues by 2020, with \$175 billion of that coming from exports. But there is a new wave of pessimism centred largely around rising wages in India and competition from low-cost centres in emerging markets, barriers to outsourcing in the US, and, of course, the downturn in the global economy.

In 2014-15, exports were \$98 billion, and domestic revenues were \$48 billion, indicating that growth was largely on track. Despite the global crisis, India has added 1.3 million jobs in the sector in the past 5 years. Nasscom places the sector's contribution to the GDP at 9.5%. Last week's new report upped the revenue estimates to \$350 billion by 2025 as McKinsey reaffirmed things were on track.

THE NEW PESSIMISM IS BASED ON COMPETITION FROM LOW-COST MKTS, RISING DOMESTIC WAGES AND BARRIERS TO OUTSOURCING IN THE US

But there is a twist in the tale – in fact, many. While numbers say a lot, they do not reveal enough. In 2009, McKinsey's analysis was largely based on demand growth. The new optimism is mixed with caution because the next wave of growth will come from new technologies. That is no surprise to me. I recall a conversation with the then Infosys CEO Nandan Nilekani about a decade ago when he explained now mainframe computers gave way to mini computers and then personal computers and networks, ushering in a new wave each time.

Reinvention is not new to the industry but the next one — even by its own standards — involves huge changes. That's another story.

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