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An Alternative to Curbing India's IT Imports

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Punit Paranjpe/Agence France-Presse/Getty Images

Students held the Aakash-2 tablets at the Indian Institute of Technology, Mumbai, June 28, 2012.

An Indian technology industry body has come up with an alternative to the government's proposals to curb the import of technology products.

India's government recently drafted proposals that would force foreign companies to manufacture high-tech products like cell phones and laptops in the country. It says the rules are needed to create jobs and boost manufacturing, which currently accounts for only 16% of gross domestic product.

The proposals, which still need to become law to go into effect, has caused a backlash from foreign businesses that say it is against the spirit of free markets.

Now, the Manufacturers' Association for Information Technology, an India-based trade body that includes some of the biggest U.S. tech firms as members, has come up with a proposal it hopes will change the government's mind.

The association has proposed setting up a mechanism through which Indian companies could get better access to foreign technology to help them boost manufacturing of hi-tech products. This, the association says, is more important than mandating that products have to be made locally.

The problem with the government's approach is that it assumes foreign companies can quickly set up local factories and that Indian companies have the IT to produce components for high-tech products. Foreign companies say finding land and red tape make the former difficult. And Indian companies lack the technology to adequately supply foreign manufacturers.

The association's proposal says the government, instead of banning imports, can boost local production by making it easier for companies in India to access the technology they would need to manufacture products.

The proposal would set up a marketplace for foreign companies to sell technology to Indian firms. The government would not intervene on pricing the technology but instead offer incentives to encourage the

transfer of technology. These could include tax benefits on income and royalties earned from licensing IP through this platform, according to MAIT's proposal. The government can also provide IP owners incentives like reimbursing a part of the costs incurred in developing the technology.

The government can give IP buyers incentives like soft loans and grants to acquire the IP and set up manufacturing facilities, the proposal says.

The association's members include companies that could get impacted if the ban on imports goes through. The group, which counts as its members Cisco Systems Inc., Dell Inc, Lenovo Group, and Microsoft Corp. as well as several Indian companies, plans to present its proposal Thursday to the Department of Electronics and Information Technology within the Ministry of Communications and Information Technology.

The Wall Street Journal has seen a draft of the proposal which cites examples of such technology marketplaces in China and the U.S.

"The government wants to reduce its dependence on imports and that's a fair thought," said Anwar Shirpurwala, the association's executive director. "[But] in electronics we're nothing but traders, or at most we have screwdriver technology where we import parts and assemble products.... Through such a platform we want to create a pool of IP that can be used."

While Indian companies can buy technology they need in the open market, it's not an easy process as they as they're not always abreast with the latest developments and it's not available in one spot. The association says IP owners can list their IP on this platform and buyers can buy what they need at a market-driven price, when they want.

Mr. Shirpurwala says such a platform will especially help small and mid-sized Indian companies access IP they need and can also be a route for them to make their own IP available to a big audience.

MAIT wants the Indian government's role to be restricted to providing incentives to potential sellers and buyers to use the platform.

"There should be no government diktat, especially on setting pricing," said Tabrez Ahmed, chairman of MAIT's Intellectual Property Rights committee.

But not everyone is convinced the concept will work.

"Indian or other manufacturers could indeed use a platform like this, but the platform's relevance is likely to be very limited, so its impact would be minimal," said Siddharth A. Pai, partner and president Asia Pacific region at Information Services Group, a U.S.-based firm that consults to the technology sector. "They would need to continue to buy everything else they needed for a manufacturing process on the open market," Mr. Pai said.

MAIT's Mr. Shirpurwala is hopeful that the government will accept the proposal.

"Nothing of this sort exists in India," he said. "We need R&D and innovation."

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