# CONTRIBUTION OF IT & ITES SECTORS IN THE GROWTH OF INDIAN ECONOMY

**Dr.E.Jalaja**

## Abstract:

India being a highly connected and digital ready economy remains a high potential market worldwide offering multiple opportunities. India presents a large and burgeoning end user market being world's second largest population in world. India is all set to leapfrog into the digital world with 937 million mobile subscribers, 278 million internet users, an USD 14 billion e-Commerce market. Indian IT industry has grown many manifolds since 1980s. The industry has contributed considerably to the economy in terms of GDP, employments and foreign exchange earnings. IT industry is also responsible for increasing the competence and productivity of almost all sectors of the economy like services at banks, post offices, railways, airports etc. e-governance has increased the efficiency of government offices. In this paper we have analyzed different ways in which IT industry has contributed to India's growth.

**Keywords**: Information Technology; Indian Economy; Digital World; E-Commerce market.

## Introduction:

IT (Information Technology) industry is one of the fastest growing industries in India and includes the software industry and Information Technology Enabled Services (ITES), which also includes the Business Process Outsourcing (BPO) industry. India has a niche position for itself as a software developer and a desirable destination for ITES services.

When it rains, it pours as they say, and so it did in 2010. The global economic downturn of the past year had a lingering effect on the GDP growth and employment in developed markets. However, based on pent-up demand from the corporate sector and return of discretionary spending, there was a surge in the IT spending across markets, both traditional and emerging. And not all of it was customer-led – service providers did their part too, by providing new business models that encouraged first time buyers, and re-invented value propositions for existing ones. Further, with sector focus shifting from

basic outsourcing advantages of cost and talent, to higher value added services, innovation and transformation, global sourcing is now evolving from being tactical to being of strategic benefit to clients.

The IT & ITES sector has become one of the most significant growth catalysts for the Indian economy. In addition to fuelling India's economy, this industry is also positively influencing the lives of its people through an active direct and indirect contribution to the various socio-economic parameters such as employment, standard of living and diversity among others. The industry has played a significant role in transforming India's image from a slow moving bureaucratic economy to a land of innovative entrepreneurs and a global player in providing world class technology solutions and business services.

The Indian **Information Technology industry** accounts for a 5.19% of the country's GDP and export earnings as of 2009, while providing employment to a significant number of its territory sector workforce. More than 2.5 million people are employed in the sector either directly or indirectly, making it one of the biggest job creators in India and a mainstay of the national economy. In 2010-11, annual revenues from IT - ITES sector is estimated to have grown over US$ 76 billion compared to China with $35.76 billion and Philippines with $8.85 billion. India's outsourcing industry is expected to increase to US$225 billion by 2020.

The annual growth rate of the Indian domestic IT-ITES market growth rate is expected to reduce down from an average of 24% recorded during 2003-08 to 14.6% over the next five-years to 2013. This relatively slower growth will witness enhanced competition leading to a rapidly changing strategy and continuous market re-alignment on the part of ICT vendors and suppliers. Banking, Financial Services, and Insurance (BFSI), Hi-Tech and Telecom, Manufacturing, and Retail are the industry verticals where majority of the activities are centered.

The software products segment achieved turnover of Rs. 198 billion or US$4.3 billion during 2009. Software products form the fastest growing segment of the global IT industry, with the software spends forecast to grow from US$315 billion in FY2009 to US$537 billion in FY2015. The growth is likely to be in the areas of Business Intelligence (BI), Enterprise Resource Management (ERM), Storage, Security, BFSI, Telecom, Healthcare, Retail, Search Engine Marketing, Mobile Applications, Social Networking, and Online Gaming.

**Objectives of the study:**

- To know the present status of IT & ITES industry
- To understand the growth of IT & ITES industry in India
- To know the Contribution of IT & ITES industry to the Indian economic growth.

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**Evolution of IT & ITES industry:**

**Pre 1995:**

- By early 90s, US-based companies began to outsource work on low-cost and skilled talent pool in India

**1995 – 2000:**

- IT industry started to mature
- Increased investment in R&D and infrastructure started
- India increasingly seen as a product development destination

**2000 – 2005:**

- The number of firms in India grew in size and started offering complex services such as product management and go-to market strategies
- Western firms set up a number of captives in India

**2005 – 2016:**

- Firms in India became multinational companies with delivery centres across the globe (670 centres in >78 countries, as of 2015)
- Indian IT-BPM revenue is likely to reach USD160 billion in FY16
- Employment in IT sector is expected to increase and reach 3.7 million people directly and over 10 million indirectly, as of FY16
- India's IT sector is at an inflection point, moving from enterprise servicing to enterprise solutions
- The industry is third largest start up base
- In FY16, the IT industry supported over 4,200 new start ups

**The Global IT and ITES Industry:**

The global technology spending on hardware and Information Technology (IT) related services is estimated to be about US $ 1.7 trillion and growing at a CAGR of about 7% in the last two years. Over and above this, the Engineering and R&D spend accounts for about US $ 800 billion. The spend in IT Services and IT Enabled Services (ITES)/Business Process Outsourcing (BPO) was expected to touch over US$ 500 billion and US $ 450 billion in 2008 respectively, with IT Services recording a growth of 6.3% and ITES Services recording a growth of 12% globally. IT Services is expected to grow at a CAGR of 6 to 7% till 2012 and ITES is expected to grow at 10 to 12% over the same period. Despite the economic slowdown, technology spending has sustained and picked up after the next 4 to 6 quarters. Given this background and the context of India's 'IT story', it has to be put in perspective that India still accounts for only about 4.5% of this market. This indicates that there is ample room for India to tap the potential for growth in this market in the years to come.

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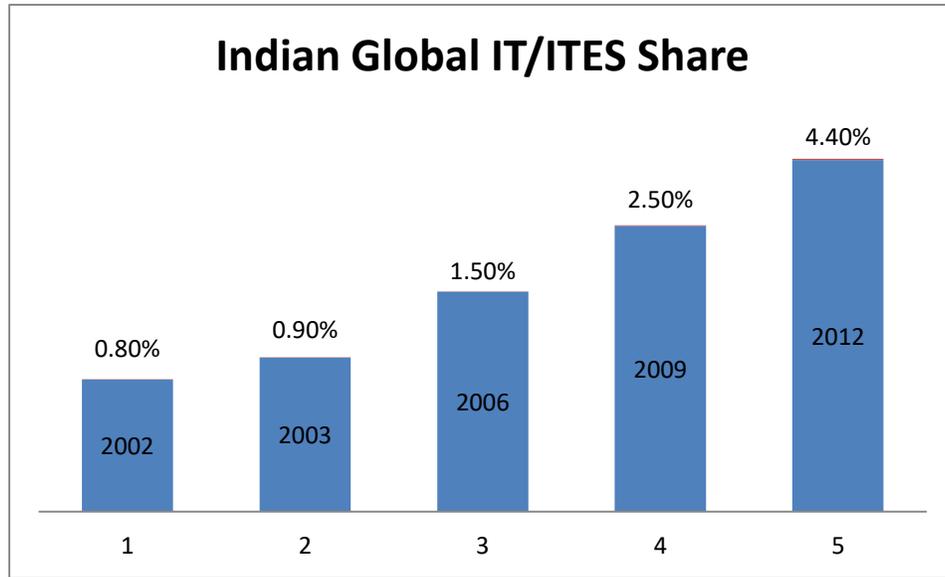
Source: Nasscom KPMG Study.

As per the NASSCOM - KPMG Study, India's share of the Global IT & ITES services and IT spending has significantly increased, with further growth potential from 0.8% in 2002 to 4.4% in 2012. India's Offshore services is expected to increase even higher.

### *Southern IT & ITES Industry*

In Indian Mythology, south is often drafted as Dravidian. A sect in itself probably sidelined from the 'fair' Aryan sect which was assumed more human like. With times, many have come to realize the potential [32]. History has learnt a lesson today. Not just in IT, this sect has shown the world what triumph means in true sense.

South India is the area encompassing India's states of Andhra Pradesh, Karnataka, Kerala, Goa, and Tamil Nadu as well as the Union territories of Lakshadweep and Puducherry, occupying 19.31% of India's area.

South India forms the backbone of India's comparative advantage in the services sector. The state has led the in producing the 'knowledge workers' by creating the centers of excellence. Most of the India's H1-B visas are issued to South Indians, according to CII study.

Although Agriculture is the single largest contributor to the region's net domestic product, Information Technology (IT) is rapidly growing industry in the region, which has higher literacy and per-capita income than the rest of the India. The average literacy rate in this region is approximately

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73% - considerably higher than the Indian national average of 60%, kerala leads the nation with a literacy rate of 91%.

The recent boom in the economy of South India has been attributed mainly to the growth of Information Technology. Bangalore, the Silicon Valley of India, India's premier IT hub, is home to over 200 Software companies. If you observe the regional distribution of the software companies, there are over 1250 companies operating in India in the IT and ITES sector. Among them 92 companies have registered office in South India.

*Regional Distribution of IT and ITES companies:*
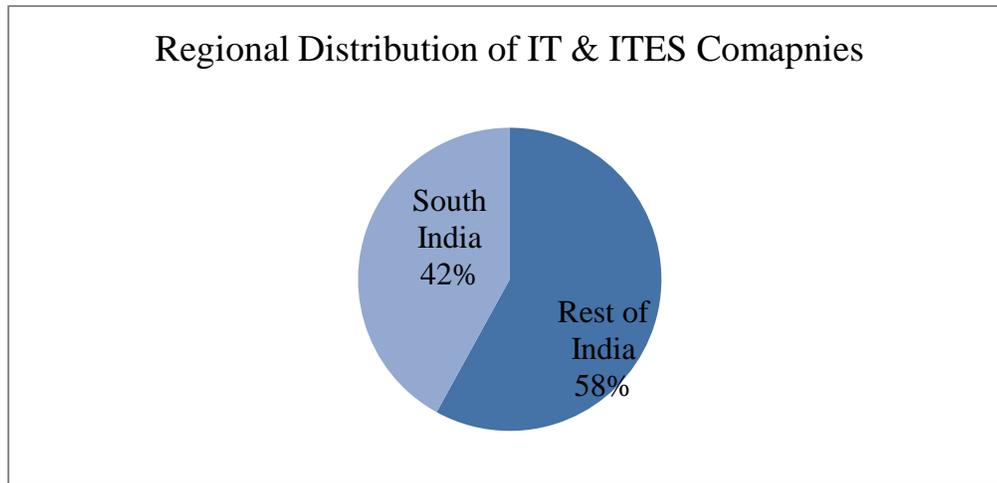


Source: STPI

From the above figure we can see that 42% of the IT and ITES companies have their registered offices in South India. In South India, most number of companies has their registered offices in Andhra Pradesh followed by Tamil Nadu and Karnataka.

**India's GDP and IT industry Growth:**

| Years | GDP Growth (USD Billion) | IT Growth (USD Billion) | %age share of IT Industry in GDP |
|---|---|---|---|
| 1997 -98 | 411.570 | 5.0 | 1.2 |
| 1998 -99 | 440.597 | 6.0 | 1.4 |
| 1999 – 00 | 461.914 | 8.2 | 1.8 |
| 2000 – 01 | 473.050 | 12.1 | 2.6 |
| 2001 – 02 | 494.997 | 13.4 | 2.7 |
| 2002 – 03 | 573.167 | 16.1 | 2.8 |
| 2003 – 04 | 669.442 | 21.5 | 3.2 |
| 2004 – 05 | 783.141 | 28.2 | 3.6 |
| 2005 – 06 | 877.224 | 37.4 | 4.3 |
| 2006 – 07 | 1098.945 | 47.8 | 4.3 |
| 2007 – 08 | 1232.946 | 64.0 | 5.2 |
| 2008 – 09 | 1150.0 | 69.4 | 6.0 |
| 2009 - 10 | 1198.36 | 73.1 | 6.1 |

**Conclusion:**

The ITsector has brought about revolution in India particularly since 1990s. This is because it has reduced intermediation in business and society, provided solutions across sectors like agriculture sector or manufacturing. It empowered individuals by providing them with more information and is increasingly becoming an important tool for national and rural development through E- governance, E-Banking & E-Commerce programmers. The export performance of India's software and service sector during the last decade is unprecedented. As a result, the software and service sector is accounting for over 20% of India's total exports and 2.6% of the GDP. In addition, the marked decline in the shares of onsite services and 60% of India's software and services export takes the form of off shore services. The undifferentiated and service nature of Indian software firms proved that human capital has acquired an important role in financial and physical capital in Indian industry. In an extremely competitive international market for software services, Indian firms have emphasized the quality of procedures and human resources used by them to gain competitive advantage. Information technology is rapidly changing economic and social activities by providing opportunities and challenges for accelerated growth and poverty reduction in India. Indian IT industry is one of the key industries to contribute its significance in the growth variables of GDP of India, exports, revenue and employment. The emergence of Indian information technology sector has brought about sea change in the Indian job market by proving plenty of employment opportunities. So in conclusion it can be said that the growth of India's IT industry has been instrumental in facilitating the economic progress of India. To conclude, it can be said that India is now an integral part of the Global Village, thanks to the developments witnessed in Information Technology

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