

Competitive Exams: General Studies Economics Growth of IT and ITeS Sector

Growth of IT and ITeS Sector

1. Till three decades ago, Indian economy was considered as a rural and agriculture based economy. It was a distant dream at that time to think that India would move from the agro-based economy to a world class knowledge based economy. One of the main reason of India becoming a leading knowledge based company, is its strong IT (Information Technology) and ITeS (IT enable Services) sector.
2. During the past decade, the IT and ITeS sector has become one of the most significant growth catalysts for Indian economy. Take any sector, it has made direct or indirect impact on almost all sectors. Rather it has also 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.

Contribution to Country's Growth

1. The ratio of an industry's output to the Gross Domestic Product (GDP) of a country is an important indicator of the impact of that industry on the country's economy. Nearly two decades ago, the contribution of IT and ITeS industry to GDP was almost negligible. In late nineties it touched 1 percent of the total GDP. And today it is around 6.4 percent-almost six times increase in country's GDP. The sector continues to be on a constant high growth path and the revenues have grown over fifteen times from the financial year 1998 to financial year 2009.
2. The immense contribution of the sector has also made major impact on the country's foreign exchange earnings, contribution to exchequer and employment generation. Besides contributing to the country's growth through direct channels, it has also played a key role in driving the growth of other sectors including real estate, telecom, and retain sector, by creating demand for the output generated by these sectors.
3. According to study conducted by NASSCOM, IT and BPO employees spent almost Rs. 76, 000 in various areas which indirectly helped the country's growth.
4. During the past one decade, the IT-BPO sector is at the forefront of investment activity and has played a key role in bringing the attention of Private Equity and Venture Capital (PE/VC) investors to India as an investment destination. The ROI (Return on Investment)

in IT-BPO sector has further made a positive impact on the perception of the international investor community.

Domestic IT and ITeS Sector

1. So far the general impression is that IT and ITeS industry mainly caters to USA and Euro countries and has little contribution from the domestic industry. However, in the past one decade the trend is changing and domestic industry is also emerging as a major consumer of IT and ITeS sector. The IT-BPO sector is growing at around 16 percent annually.
2. The revenue from domestic IT and ITeS is expected to grow at Rs. 501 billion financial year 2011. Even IT experts admit that domestic IT sector is also the fastest growing segment and is driven by localized strategies designed by service providers. Besides private players, government sector would also become a key catalyst for increase IT adoption through sector reforms that encourage IT acceptance, National E-Governance programmes, and the Unique Identification Development Authority of India (UIDAI) programme that creates large scale IT infrastructure and promotes corporate participation. Export, employment, and revenue generation:
3. Export comprises two third of the revenue generated from India IT and BPO industry. The IT and BPO export has grown faster than total Indian export during the past five years and account for the 14 percent of the total export. According to a rough estimate export from IT and BPO sector is more than the combined value of exports from traditional export sectors gems and jewellery and textiles. For the fiscal year 2011, export revenue is expected to cross USD 59 billion/
4. The steady growth in this sector has further created large number of employment not only of IT professionals, but also of those who are indirectly assisting the sector. The employment provided by the sector has increased more than eight times during the past decade. For the year 2011, it is expected to give employment to nearly 2.5 million professional directly and another 8.3 million people indirectly.
5. Presently the sector has made impressive impact in tier 1 cities, however, due to price competitiveness and spread of broadband, the sector is now moving to tier II and tier III cities. The expert in the industry are even trying to explore the advantage of operating centres in rural areas. Some players have even started their small units in rural areas though on an experimental basis.
6. IT-BPO sector is also making a significant contribution to the tax collection of the Government of India. It contributes almost Rs. 15, 000 crore in direct taxes. This all is when the industry receives benefits in terms of lower effective tax rates and tax holidays for select units.

History of IT Sector in India

1. How India reached the number one position in IT sector is no one day's job. The roadmap to build the country's large scientific workforce was prepared by Prime Minister, Mr. Jawaharlal Nehru and the then Union Education Minister, Mr. Maulana Abdul Kalam Azad. Mr. Azad built IITs modelled after the Massachusetts Institute of Technology. It is their vision that India today produces nearly 5, 00, 000 engineers every year.
2. The first IT service industry was born in Mumbai in 1967 with the establishment of Tata Group in partnership with Burroughs. The first software export zone (SEEPZ) was set up in Mumbai in 1973, and till eighties more than 80 percent of country's export was confined to SEEPZ. In 1975 the National Informatics Centre was constituted followed by Computer Maintenance Company (CMC). In mid eighties, the Rajiv Gandhi Government created three wide-area computer networking schemes: INDONET intend to serve the IBM mainframes in India, NICNET (The network for India's National Informatic centre), and academic research oriented Education and Research network (ERNET).
3. In 1991, the Department of Electronics broke this impasse, and created a corporation called Software Technology Parks of India (STPI). These parks provided satellite links to companies working in STPIs and this was the beginning of the exponential growth of Indian IT sector.

Future

1. The Indian IT and ITeS sector suffered slightly during the two year recession period. It was the time when the worldwide GDP had declined by 0.6 percent. But immediately after the recession was over, global GDP grew by 5 percent. Worldwide IT spending was benefited from the accelerated recovery in emerging markets. The growth has generated more demand for IT and ITeS sector. NASSCOM in a study observes that the year 2011 will see a major surge in the use of private and public cloud and mobile computing on a variety of devices and through a range of new applications.
2. NASSCOM further says that worldwide IT services are expected to grow by about three & half percent in 2011, four & half percent in 2012. Worldwide packaged software revenue is estimated to reach USD 297 Billion in 2011 with a year to year growth of 5 percent, led by emerging regions, such as Asia Pacific and Latin American Countries.
3. And since India is one of the main leading player in this sector, it is the one which would be most benefitted out of it. However, to retain its number one position globally, the IT-ITeS industry has to invest in training its employees and aiding the expansion of talent pool. Presently Indian IT-ITeS companies spend nearly Rs. 6, 450 crore on training their employees 45 percent of which is spent on training it toward skill development of new recruits. At first glance the investment seems impressive, but going by the fact that

Indian industry is growing at 22 percent annually and need around five lakh professionals annually the investment needs to be increased.

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