

October 2012

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### Recommended Citation

Swapna, N. (2012) "Trends of IT Industry in Indian Economy – An Analysis," *International Journal of Computer Science and Informatics*: Vol. 2 : Iss. 2 , Article 16.

DOI: 10.47893/IJCSI.2012.1082

Available at: <https://www.interscience.in/ijcsi/vol2/iss2/16>

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# Trends of IT Industry in Indian Economy – An Analysis

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**Abstract** - The Indian Information Technology and Information Technology Enabled Services (IT-ITES) industry has been contributing its role in the economic development of India since post liberalization era. The pace growth of this industry is considered as a growth driver for the economy. India has become as “IT Super Power”. The performance of IT industry can be revealed with the evidence of its contribution to the GDP (Gross Domestic Product) of the country, provision of employment opportunities all over the country, IT services and software exports and revenue to the country. This paper examines how does the IT industry is playing its predominant role in Indian economy with its various trends in the contribution to the GDP of India , IT exports, IT revenue trends and employment opportunities.

**Keywords** - *IT-ITES, Contribution to GDP, Employment, Exports and Revenue.*

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## I. INTRODUCTION

The Government of India has identified IT industry as one of the major industries in India and it plays an important role in achieving the policy objectives like economic development. Top companies like Microsoft, IBM, Motorola Oracle, Dell, Nokia, Google, Sathyam, Infosys and Wipro set up their operations. Information Technology has made the information access at gigabit speed. Internet services have made the revolutionary changes in all the daily activities like e-filling income tax returns, e-seva, applying for passports and ticket bookings ect. Hence, it is impossible to look at the country without the services of Information Technology. So, in 2005, the Ministry of Commerce, Government of India has enacted the Special Economic Zone (SEZ) Act, with an objective of providing the competitive environment for exports. A SEZ is defined as a "specifically demarked duty-free enclave and shall deemed to be foreign territory (out of Customs jurisdiction) for the purpose of trade operations and duties and tariffs". The SEZ Act, 2005, supported by SEZ Rules, came into effect on 10th February, 2006. It provides drastic simplification of procedures and a single window clearance policy on matters relating to central and state governments. In SEZ Scheme the exemption from income tax is tapered down over 15 years from the date of commencement of manufacture. There is 100% exemption of export profits from income tax for the first five years, 50% for the next five The SEZ policy aims at creating competitive, convenient and integrated Zones offering World class infrastructure,

utilities and services for globally oriented businesses. The SEZ Act 2005 envisages key role for the State Governments in Export Promotion and creation of related infrastructure. A few salient features of SEZ scheme are as under:

Special Economic Zones (SEZs) are being set up to enable hassle free manufacturing and trading for export purposes.

Sales from Domestic Tariff Area (DTA) to SEZs are being treated as physical export. This entitles domestic suppliers to Drawback/ DEPB benefits, CST exemption and Service Tax exemption. 100% Income Tax exemption on export profits available to SEZ units for 5 years, 50% for next 5 years and 50% of ploughed back profits for 5 years thereafter.<sup>1</sup>

<http://www.sezindia.nic.in/> (External website that opens in a new window)

## II. OBJECTIVES:

- 2.1 To analyze the trends of contribution of IT industry in the total GDP.
- 2.2 To know the revenue trends of IT industry in the total revenue.
- 2.3 To know the exports of software and software services.
- 2.4 To reveal the employment level of IT industry of India.

### III. CONTRIBUTION TO GDP:

IT industry is contributing Rs.63 billion in 1994-95 in the GDP of India and it has increased to as Rs.1276 billion in 2004-05. the contribution in the various years is given below.

Contribution of IT sector to India's GDP

Table. 1

year	GDP at current prices (in Rs. Billion)	IT sector revenue (in Rs. Billion)	IT revenue to GDP ratio ( in % age)
1994-95	10128	63	0.62
1995-96	11880	99	0.83
1996-97	13682	137	1.00
1997-98	15224	186	1.22
1998-99	17409	253	1.45
1999-2000	19296	362	1.88
2000-01	21043	566	2.69
2001-02	22929	658	2.87
2002-03	24661	780	3.16
2003-04	26954	978	3.63
2004-05	29380	1276	4.34

Source: <http://mospi.nic.in> and <http://www.nasscom.org>

Note: GDP figures are at market prices.

### IV. REVENUE :

The IT-ITeS industry has been growing at a outstanding pace since 2001-02. The total IT-ITeS exports and domestic industry revenue is estimated as US \$ 10.2 billion in 2001-02. It has reached to US \$ 58.7 billion in 2008-09, the CAGR of about 26.9 per cent.

Table. 2

Year/ Item	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	CAGR (%)
IT-ITeS Exports	7.6	9.5	12.9	17.7	23.6	31.1	40.4	46.3	28.6
IT-ITeS Domestic	2.6	3.0	3.8	4.8	6.7	8.2	11.7	12.4	22.2
Total (US \$billion)	10.2	12.5	16.7	22.5	30.3	39.3	52.0	58.7	26.9

Source:<http://www.nasscom.org>

### V. EXPORTS :

The exports of IT industry have grown year by year since 2001. The share of IT-ITeS exports to total IT-

ITeS revenue of Indian Software and Services industry have contributed from 74.5 % in 2001-02 to 78.9% in 2008-09. They are estimated as US \$ 7.6 billion to US \$46.3 billion in 2008-09 with a CGAR of 28.6%. The contribution of ITES-BPO exports has increased from US \$ 1.5 billion in 2001-02 to US \$ 12.7 billion in 2008-09 a CGAR about 39.2 per cent. BPO now accounts about 27 per cent of total exports. However, the fastest growing segment is software products. It is growing at a CGAR of 48.5 percent.

Segment wise exports Revenue Trends in IT-ITeS Industry

Table. 3

Year/ Item	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	CAGR
IT Service	5.8	5.5	7.3	10.0	13.3	17.8	23.1	26.5	23.2
ITeS-BPO	1.5	2.5	3.1	4.6	6.3	8.4	10.9	12.7	39.2
Software Products, Engineering Services	0.3	1.5	2.5	3.1	4.0	4.9	6.4	7.1	48.5
Total IT-ITeS	7.6	9.5	12.9	17.7	23.6	31.1	40.4	46.3	28.6

Source: Nasscom

### VI. DOMESTIC MARKET :

The domestic market is also significant in the contribution of total revenue of IT industry. The revenue from the domestic software & services market is estimated to have grown from US \$ 2.6 billion in 2001-02 to US \$ 12.4 billion in 2008-09 with a CGAR of about 22.2 per cent. The sector of software products and engineering services is dominating in its domestic revenue, but its share however, is declining from US \$ 0.4 billion in 2001-02 to US \$ 202 billion in 2008-09.

Segment wise Domestic Revenue Trends in IT-ITeS Industry

Table. 4

Year/ Item	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	CA GR
IT Service	2.1	2.4	3.1	3.5	4.5	5.5	7.9	8.3	19.5
ITeS-BPO	0.1	0.2	0.3	0.6	0.9	1.1	1.6	1.9	44.5
Software Products, Engineering Services	0.4	0.4	0.4	0.7	1.3	1.6	2.2	2.2	23.7
Total IT-ITeS	2.6	3.0	3.8	4.8	6.7	8.2	11.7	12.4	22.2

Source: Nasscom

## VII. EXPORT DESTINATIONS :

USA and UK are the major markets for the IT and software exports. The share of USA has declined from 68.3 per cent in Financial Year 2005 to 60 percent in Financial Year 2008. Whereas Europe has increased from the same period. The markets across the Asia Pasific Countries are also growing year-on-year growth as 8.60 in the Financial Year2005 to 9 per cent in Financial Year 2008.

Table. 5

Market	FY05	FY06	FY07	FY08	FY05
Americas	68.30%	67.18%	61.40%	60%	68.30%
Europe (incl. UK)	23.10%	25.13%	30.10%	31%	23.10%
Rest of the World (incl. APC)	8.60%	7.69%	8.50%	9%	8.60%

Source: Nasscom

## VIII. EMPLOYMENT :

Table. 6

Year/ Item	2001 - 02	2002 - 03	2003 - 04	2004 - 05	2005 - 06	2006 - 07	2007 - 08	2008 - 09
IT Services & Exports	0.17	0.21	0.30	0.39	0.51	0.69	0.86	0.92
BPO Exports	0.11	0.18	0.22	0.32	0.42	0.55	0.70	0.79
Domestic Market	0.25	0.29	0.32	0.35	0.38	0.38	0.45	0.50
Total Employment	0.52	0.67	0.83	1.06	1.29	1.62	2.01	2.21

Source: Nasscom

The total IT Software and Services employment was estimated as 2.20 million in the year 2008-09 and it was only 0.52 million in the year 2001-02. The direct employment contribution in the estimated employment is about to 8.0 million in 2008-09. This translates to the creation of about 10.20 million job opportunities attributed to the growth of the sector.

## IX. CONCLUSION:

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. India's IT software and services exports have been rising rapidly. The annual growth rates range between 20-20-22% in IT services and near about 55% in IT, IT enabled services (ITES) such as call centers, Business

Process Outsourcing (BPO) and other. IT industry is spreading its services in various sectors as airline information, insurance, banking sector and mortgagage companies.

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