

Impact of Globalization on Indian I.T Industries- A Survey

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Abstract

The rapid globalization of the software industry in recent years has focused a great deal of attention on India whose software industry is now a small but a growing part of the international division of labor. Our study had two major objectives: To understand and describe the main features of the Indian software industry, especially its competence and weaknesses; and to understand its links with the China software industry and with the China economy more generally.

From the perspective of the China industry and economy, our most important conclusion is that the Indian software industry is largely complementary to the China industry. Indian firms provide essential maintenance and development services, enabling US & China firms to use their scarce in-house IT staff for higher value added work, such as design and develop new types of applications. In so doing, Indian firms often act as sub-contractors to established China and other developed nations like U.S software services firms and systems integrators. In addition, many of these firms rely on Indian programmers and have significant India based operations. Many firms are likely to increase their business involvement in India

through outsourcing, directly setting up subsidiaries, and establishing software development center.

The rise of the Indian software industry has provided substantial benefits to U.S. firms, both users and developers of software. U.S. firms benefit because Indian software firms compete fiercely among themselves for contracts. As a result, users enjoy most of the gains from trade. They can tap a source that is flexible, cost effective, and willing to work on mundane tasks, freeing up in-house staff for more creative work.

Introduction

The Indian information technology (IT) industry has played a major role in placing India on the international map. The industry is mainly governed by IT software and facilities for instance System Integration, Software experiments, Custom Application Development and Maintenance (CADM), network services and IT Solutions. The birth of software Industry in India began in 1970 with the entry of TCS into the domain of outsourced application migration work. While the initial development of India's software industry was based primarily on *bodyshopping* work onsite at U.S firms, in recent years the trend has been increasingly for Indian firms to conduct software

development for U.S Clients “offshore” in India. This era is also called as “outsourcing”.

India's software and services exports have been rising rapidly. The annual growth rate ranges between 20 -22% in IT services and nearly 55 % in IT-enabled services (ITES), such as call centers, Business Process Outsourcing (BPO) and other administrative support operations. Together they are predicted to grow at 25% pa till 2010. The Indian BPOs (ITES) are moving up the value chain, handling high end data for airline information, insurance, banking

sector and mortgage companies, enterprise resource planning, among others. Software exports make up 20 % of India's total export revenue in 2003-04, up from 4.9 % in 1997. This figure is expected to go up to 44% of annual exports by 2010. According to research and analytics firm Evaluateserve, the booming IT industry is expected to account for 8.05 per cent of the country's GDP by 2015-16, compared to 2.86 per cent in 2007-08. Table1 below shows growth of Indian IT & IT-Enabled Services (ITES) from year 1999-2010

Table1: Growth of Indian IT & ITES Industries

Year	Industry Size (US \$ bn.)	Export Market (US \$ bn.)	Domestic Market (US \$ bn.)
1999	8.2	4.0	4.2
2001	13.8	7.7	6.1
2003	16.1	9.8	6.3
2005	21.5	14.4	7.1
2007	28.2	17.8	10.4
2009	30.3	19.4	10.9
2010	32.4	21.8	10.6

India has built itself on traditions of mathematics and science. Today, it has the world's largest technical workforce with over 3 million engineers, scientists, and other technologists and the second largest English speaking technical workforce.

The Indian software industry is a prime example of globalization. The industry has been characterized by large cross-border mobility of its skilled labor force. Figure 1 shows the IT percentage in the total Export's Output in year 1991-2009.

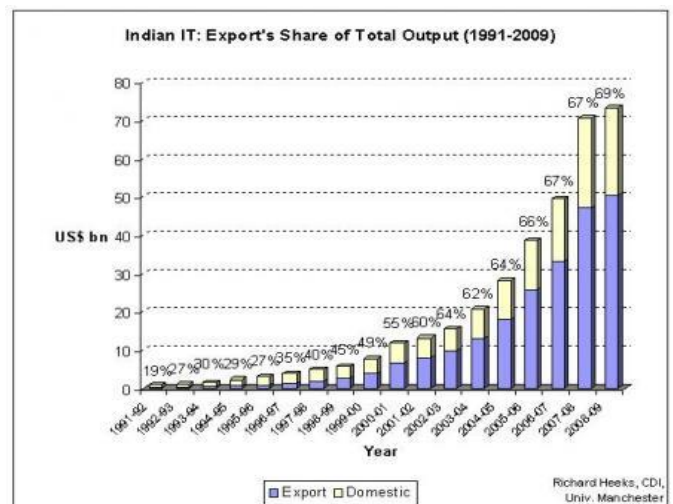


Figure 1: Share of IT Companies in total Export from India.

What is Globalization?

The term Globalization means International Integration of the business and it is a process through which diverse world is unified into a single society. It spread of, manufacturing, services, culture, lifestyle, capital technology and ideas across national boundaries and around the world. It facilitates the opening up of the world trade and this all happens because of advance in communication, internationalization of financial market, growing importance of MNC's and mobility of people, goods, capital, data and ideas.

Measures of Globalization

1. **Devaluation:** The first initiative towards globalization had been taken the moment there was an announcement of devaluating the Indian currency by a hoping 18-19% against all the major global currencies. This was a major initiative in the international foreign exchange arena. The Balance of payment crisis could also be resolved by this measure.
2. **Disinvestment:** The core elements of globalization are privatization and liberalization. Under the privatization scheme, bulk of the public sector undertakings have been/ and are still being sold to the private sector. Thus the concept of PPP (public private partnership) came up.
3. **Allowing Foreign Direct Investment (FDI):** Allowing FDI inflows is a major step of globalization. The foreign investment regime has been quite

transparent and thus the economy is getting boosted up. Various sectors were opened up for liberalizing the FDI regime.

Impacts of Globalization on Indian IT industry

Due to faster growth of IT industry and Globalization, following are the important impacts on Indian IT industry:-

- The India's Economy is growing at rapid pace which can be easily seen by figures of GDP which was only USD 590 billion in 2006 & is expected to be USD 1.36 trillion in 2012.
- The contribution of IT services in the total GDP is also growing rapidly and it is expected to contribute 62% in 2012.
- The export market of India is also growing at rapid pace.
- India is well liked by the FDI's and there contribution in total economy is growing rapidly.
- Steadily increasing Forex Reserves offer adequate security against any possible currency crisis of monetary instability.
- Increasing per capita income which is expected to reach USD 2000 in year 2016-17.
- Culture of India is rapidly changing.
- Easily access of facilities like internet, cinema halls etc. in rural areas of India also.

Dark Sides of Globalization

- Industrialization did not take place as per expectation.

- Share of Agriculture in the GDP went down drastically to 24% and further to 22% in 2006-07.
- The gap between rich and poor has rapidly increased with the globalization.
- Corruption, lack of efficiency in work and ineffective management became the common features of public sector.
- Because of recession the share of FDI has decreased by 20% in 2007.
- The progress in education has slowed down and it is superficial.
- Exploitation of labor and resources.
- MNC's rules the country instead of Govt.
- Environmental and health problems and the major example is the Bhopal Gas tragedy.
- During year 2008-09, India faced a major problem in IT-Sector that is Recession and during this period companies had decided to decline in the employee numbers which is shown in the figure below:

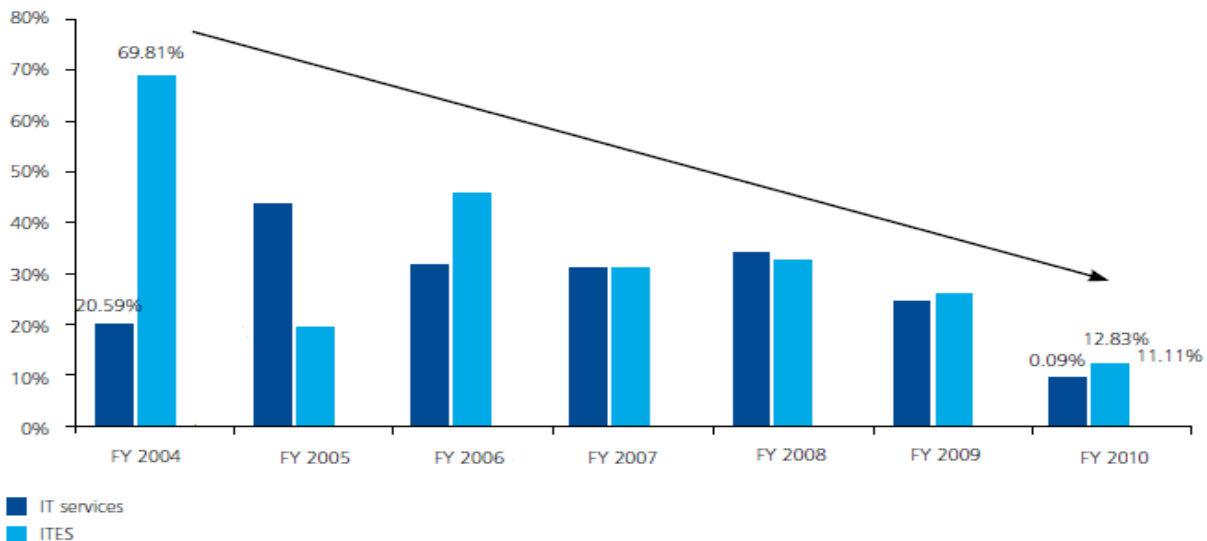


Figure 1: Indian IT Services and IT Enabled Services (ITES) growth.

Factors favoring the growth of Software revenues in India

If we go back two decades or so, India was considered to be a country that was facing poverty, unrestricted population growth and substandard competitiveness. But, today the picture has changed up to large extent and now a day's India has become a fast

emerging developing country in the world with growing economy and techno-savvy manpower. This all happen because of dramatic growth in the Indian Software Industry up to large extent.

The industry has grown more than 30% annually throughout the last two decades from about \$50 million in export in the late

1980s, and is maintaining a healthy annual growth rate of about 33%.

The factors favouring the growth of Indian IT industry are the followings:

- Despite the steady growth of software technology and tools, software development is still labor intensive and requires relatively little capital. No doubt now a day's India is a large pool of experienced engineers at lower cost as compared to the developed countries like US & UK etc.
- The production of Software is not heavily dependent on physical infrastructure such as roads & ports, although a steady supply of electricity power is critical for running PC's, workstations and communications such as Internet.
- The easy 'hand-off' policies of the Government of India (GOI) have also geared the growth of Indian IT industry. The government allowed liberal imports of hardware and software tools, tax rebates, fast track approval of projects, cheap power and real estate, IT parks etc.
- As India is a developing country so it is having a huge growing market to invest by FDI's, which is a positive point.
- As just like other developing countries, India has a large consumption of the IT products for its development.
- The Reserve Bank of India adopts several measures to support the IT industry. These includes: simplification of filing of Software

Export Declaration Form (SOFTEX), acquisition of overseas parent company shares by employees of Indian company, companies whose software sales is over 80% could grant stock options to nonresident and permanent resident employees, foreign exchange could be freely remitted for buying services.

- The National Association of Service and Software Companies (NASSCOM), India's software industry association, also favors software industry by participating in global trade fairs, events and organizing learning events in India that features prominent experts from major markets.

Can the Indian Success be replicated? A comparison with China IT Sector

China and India are two neighboring countries in Asia who share the two largest population of the world and in fact added together they represent nearly one third of humanity. Globalization has imposed internal pressure and external pressure to bear on both India and China. Both India and China rank among the front runners of global economy and are among the world's most diverse nations. Both the countries were among the most ancient civilizations and their economies are influenced by a number of social, political, economic and other factors. China and India have recently achieved spectacular economic growth. It has been reported by a survey done on GDP India vs. GDP China that India's GDP is four trillion whereas China's GDP is ten

trillion. As per the post-war history of economics, China's economy has undergone a drastic change with seven percent increase in its GDP. The growth in GDP of China has resulted from the rapid rise in the manufacturing of high-tech goods in the country under the large-scale high-tech manufacturing firms like Lenovo, Baidu.com and Huawei Technologies. The infrastructural development in China has also been quite higher than that of India, which has added to the growth of China

GDP. In general, China spends much more in its infrastructural facilities than India.

However, services in these two Asian giants have played a very different role. In India, the service sector contributes to more than 54 per cent of GDP while its GDP share in China is much smaller. The phenomenon of globalization has however affected both these countries. This can be analyzed by the following table that compares India & China:

Facts	India	China
GDP	around \$1.3123 trillion	around 4909.28 billion
GDP growth	8.90%	9.60%
Per capital GDP	\$1124	\$7,518
Inflation	7.48 %	5.1%
Labor Force	467 million	813.5 million
Unemployment	9.4 %	4.20 %
Fiscal Deficit	5.5%	21.5%
Foreign Direct Investment	\$12.40	\$9.7 billion
Gold Reserves	15%	11%
Foreign Exchange Reserves	\$2.41 billion	\$2.65 trillion
World Prosperity Index	88Th Position	58th Position
Mobile Users	842 million	687.71 million
Internet Users	123.16 million	81 million.

Conclusions

By analyzing the above table and its figure present, we can conclude that no doubt China has much higher and faster growth as

compared to India but if we compare both the countries in terms of total area, availability of resources, population Index, we can say that India is a more developing

country than China. Also no doubt China and India has an average annual growth of 10.2 and 6.2 respectively but by analyzing above data the share of I.T Sector in total GDP is more in case of India than China and at present time China is mainly focusing on Hardware part of the Service sector. In this filed, no doubt, it is growing at much faster rate than India.

Also, if we compare the effects of Globalization, then we can say that it has affected India and Other world positively but there is one more darker side of this-“**It has facilitated Brain drainage in India**” which is not good sign for Indian future.

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