The Forgotten Software Boom

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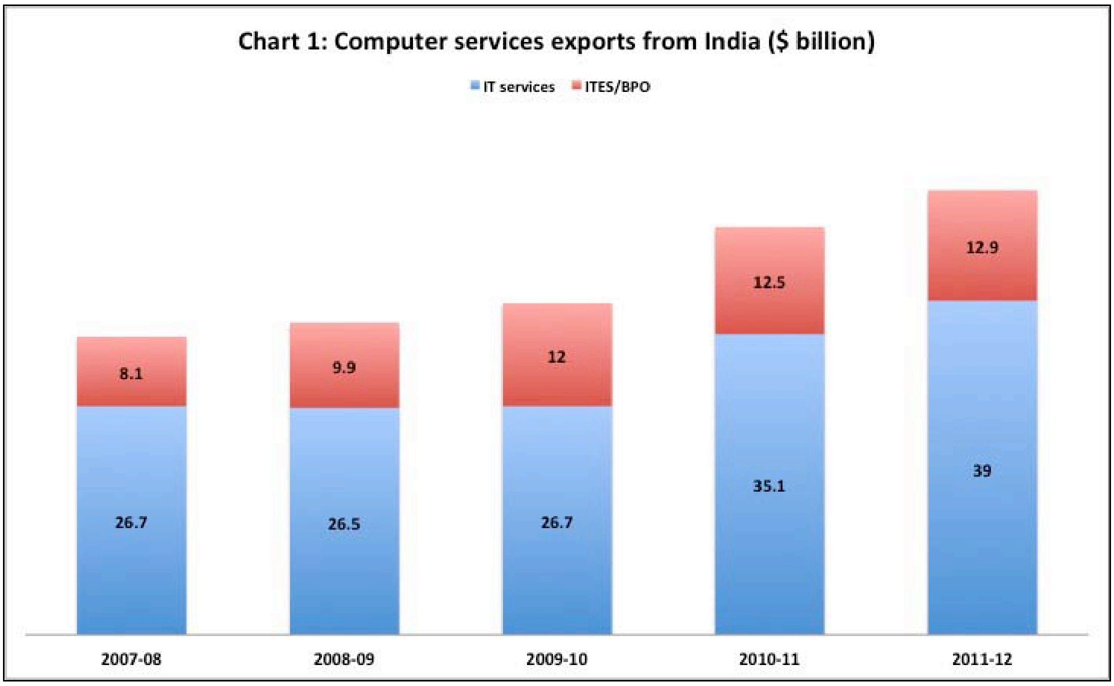
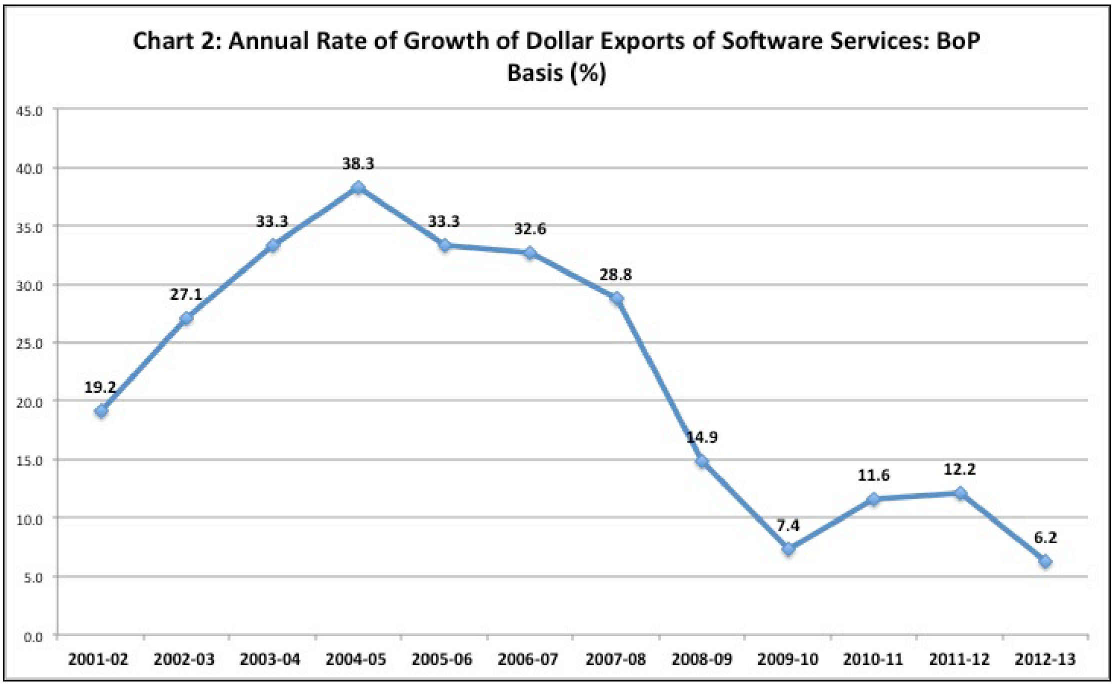


India's software and information technology-enabled services (ITeS) exports have lost momentum. Since 2007-08 the Reserve Bank of India has been conducting an annual survey of exports of computer software and information technology services. The recently released results of the survey relating to 2011-12 indicates that over the five-year period since 2007-08, though exports of both computer-related services and overall software services have increased, the pace has been lethargic (Chart 1). After recording relatively low rates of growth of 4.6 and 6.3 per cent in 2008-09 and 2009-10, the industry appeared to be recovering its past momentum, with the rate touching 23 per cent in 2011-12. But the growth rate has slumped again to 9 per cent in 2011-12.

Even this performance may be an exaggeration. As part of their evolution, Indian software firms have established overseas subsidiaries to deliver their services and execute contracts. To take account of this, the National Association of Software and Service Companies (NASSCOM) reportedly includes the software exports of the overseas subsidiaries of Indian companies in its figures on India's software export earnings. The resulting NASSCOM figure is used by the RBI as the controlling total when reporting software services exports in its overall balance of payments (BoP) statistics.

To make the BoP and annual export survey figures comparable, the RBI adds on the exports of the overseas subsidiaries of Indian companies to its estimate of the exports of domestic firms. This total is close to, though not exactly equal to, the NASSCOM figure that is used in the balance of payments statistics. This is an advantage since the NASSCOM figures are available for a longer time period. If India's export performance in software and ITeS is measured using the NASSCOM-BoP figures, the slow down in export growth is even sharper. As Chart 2 shows, the annual rate of growth of “software services exports” rose from 19 to 38 per cent between 2001-02 and 2004-05, only to decline thereafter to a low of 7.4 per cent in 2009-10. It has since fluctuated in the 6-12 per cent range. The evidence is clearly one of a drastic slowdown.



In fact, in the industry’s heyday performance was even better. During the period 1990-91 to 2005-06, exports had been growing at 46 per cent per annum or doubling every 19 months. As a result, the ratio of IT services exports to merchandise exports had risen to an estimated 20 per cent in 2004-05. Even allowing for the amplifying effect on growth rates that the low base of the 1990s would have had, this record makes the recent performance extremely poor. Interestingly, there has been little fuss or alarm about the recent tend. India’s software boom seems almost a forgotten story.

This loss of software and ITeS export momentum at a time when India’s current account deficit is wide, leading to a weakening of the rupee and uncertainty about the stability of capital flows, is of much significance. If we take the year 2012-13, for example, provisional figures suggest that net invisible receipts (from services, remittances and income from abroad), helped cover as much as 54 per cent of India’s merchandise trade deficit or excess of goods imports over goods exports. Of these invisibles, net software export earnings amounted to as much as 60 per cent. Hence, if the merchandise trade deficit remains high and rises, while software exports stagnate, the impact on the current account deficit, India’s overall balance of payments and the rupee can be damaging.

Needless to say, principal among the factors limiting the exports of software and IT-enabled services is India’s dependence on a few developed English-speaking markets. The US, Canada and UK together account for more than three-fourths of those exports. With developed-country GDP growth still sluggish, especially in the US, the Indian IT industry is still experiencing the effects of the crisis. Given the state of countries in Europe, the prognosis is not good. Global growth is likely to take long to fully recover, especially in those countries that supported India’s IT-exports boom.

That does mean that the return to the software boom of the late 1990s and the early 200os is unlikely. That is bad for the IT industry. It could be even worse for India's vulnerable balance of payments situation.

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