

INTERNATIONAL TRADE



Brand: Mehta Solutions
Product Code: case432
Weight: 0.00kg

Price: Rs500

Short Description

INTERNATIONAL TRADE case study

Description

As a relatively poor country, India is not normally thought of as a nation capable of building a major presence in a high technology industry, such as computer software. In little over a decade, however, the Indian software industry has astounded its skeptics and emerged from obscurity to become an important force in the global software industry. Between 1991 – 92 and 2001 – 02, sales of Indian software companies grew at a compound rate in excess of 50 percent annually. In 1991 – 92, the industry had sales totaling \$388 million. By 2002 they were around \$8 billion. By the early 2000s, more than 900 software companies in India employed 200,000 software engineers, the third largest concentration of such talent in the world. Much of this growth was powered by exports. In 1985, Indian software exports were worth less than \$10 million. They surged to \$1.8 billion in 1997 and hit a record \$6.2 billion in 2002, with some two-thirds of those exports going to the United States. The future looks very bright. Powered by continued export – led growth, India’s National Association of Software and Service Companies projects that total software revenues generated by Indian companies will hit \$21 billion by 2008. As a testament to this growth, many foreign software companies are now investing heavily Microsoft, IBM Oracle, and Computer Associates, the four largest U.S. based software houses. Equally significantly, two out of every five global company now source their software service from India. Most of the current growth of the Indian software industry has been based on contract or project based work for foreign clients.

Many Indian companies, for example, maintain applications for their clients, convert code, or migrate software from one platform to another. Increasingly, Indian companies are also involved in important development projects for foreign clients. For example, TCS, India's largest software company, has an alliance with Ernst & Young under which TCS will develop and maintain customized software for Ernst & Young's global clients. TCS also has a development alliance with Microsoft under which the company developed a paperless national share depository system for the Indian stock market based on Microsoft's Windows operating system and SQL Server database technology. Indian companies are also moving aggressively into e-commerce projects. From almost zero in 1997, e-commerce or e-business projects now account for about 10 percent of all software development and service work in India and are projected to reach 20 percent within two years. The Indian software industry has emerged despite a poor information technology infrastructure. In 2000, India had just five personal computers per 1,000 people, compared to 588 per 1,000 in the United States, 32 telephone lines per 1,000 people compared to 700 per 1,000 in the United States, and Internet users numbered around 5 million, compared to almost 100 million in the United States. But sales of personal computers are starting to take off, and the rapid growth of mobile telephones in India's main cities is to some extent compensating for the lack of fixed telephone lines. In explaining the success of their industry, India's software entrepreneurs point to a number of factors. Although the general level of education in India is low, India's important middle class is highly educated and its top educational institutions are world class. Also, India has always emphasized engineering. Another great plus from an international perspective is that English is the working language throughout much of middle-class India – a remnant from the days of the British raja. Then there is the wage rate. American software engineers are increasingly scarce, and the basic salary has been driven up to one of the highest for any occupational group in the country, with programmers earning \$90,000 per year. Programmers in India, in contrast, earn about \$5,800 per year, which is very low by international standards but high by Indian standards. Salaries for programmers are rising rapidly in India, but so is productivity. In 1992, productivity was around \$21,000 per software engineer. By 2000, the figure had risen to \$65,000. As a consequence of these factors, of these factors, in 2002 work done in India for U.S. software companies amounted to \$25 to \$35 an hour, compared to \$75 to \$100 per hour for software development done in the United States. Another factor helping India is that satellite communications have removed distance as an obstacle to doing business for foreign clients. Because software is nothing more than a stream of zeros and ones, it can be transported at the speed of light and negligible cost to any point in the world. In a world of instant communication, India's geographical position between Europe and United States has given it a time zone advantage. Indian companies have been able to exploit the rapidly expanding international market for outsourced software services, including the expanding market for remote maintenance. Indian engineers can fix software bugs, upgrade systems, or process data overnight while their users in Western companies are asleep. To maintain their competitive position, Indian software

companies are now investing heavily in training and leading-edge programming skills. They have also been enthusiastic adopters of international quality standards, particularly ISO 9000 certification. Indian companies are also starting to make forays into the application and shrink-wrapped software business, primarily with applications aimed at the domestic market. It may only be a matter of time, however, before Indian companies to compete head to head with companies such as Microsoft, Oracle, People Soft and SAP in the applications business.

Answer the following question.

Q1. To what extent does the theory of comparative advantage explain the rise of the Indian software industry?

Q2. To what extent does the Heckscher – Ohlin theory explain the rise of the Indian software industry?

Q3. Use Michael Porter’s diamond to analyze the rise of the Indian software industry. Does this analysis help explain the rise of this industry?

Q4. Which of the above theories – comparative advantage, Heckscher – Ohlin, or Porter’s gives the best explanation of the rise of the Indian software industry ? Why?

Details

1. Case study solved answers

2. pdf/word

3. Fully Solved with answers