International Journal of Future Generation Communication and Networking
Vol. 13, No. 2, (2020), pp. 126 - 130

# FDI in IT and ITeS in India

Dr. Anita Prasad Bhave.
( Garware College of Commerce)

***Abstract***

*World economies are changing drastically. Through the constant changing technology implementation, world is getting closer in many spheres. This is well observed in Information Technology revolution which had altered many economic calculations worldwide. IT plays very crucial role in the development of the country. It connects with the developed economies and brings latest technology, enhances productive capacity, brings efficiency and also ensures competitiveness in all sectors of the economy. Government of India has acknowledged its importance and accordingly welcomed 100 per cent FDI in IT and IT enables Services (ITeS). This paper tries to focus on FDI in IT and ITeS within the country and reveals the various socioeconomic factors responsible for its growth.*

***Keywords:*** *FDI, International business, IT, ITeS, etc.*

**Introduction**:

In today's fast developing world, countries are getting closer in order to have maximum benefits from the globe. No country can afford to stay in isolation with rapidly changing pattern of financial flows across the countries. India is also no exception. Tapping the potentials of different countries, business is carried out. This international business pattern gave rise to MNCs or cross border business activities. There are various ways through which international business is carried out and Foreign Direct Investment (FDI) is the promising one.

Since last three decades India is welcoming FDI in our country for the purpose of international business. The process of accepting FDI began before independence period but gathered momentum during nineties. Continuing economic liberalization has moved the country towards a market based economy and the Government has made it easier for Multinational Corporations

(MNC's) and foreign investors to invest in India and allowed automatic approval of FDI in many sectors except few with strategic importance.

FDI refers to capital inflows from abroad that invest in the Production capacity of the economy and are "Usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology"[1]. Therefore, GoI permitted 100% FDI in the Electronic hardware sector and the Software development sector under the automatic approval route.

**Objectives:**

1 To study the inflows of FDI in IT and ITeS in India in brief.

2 To understand the regional distribution of FDI across the country and the pull and push factors for its growth.



ISSN: 2233-7857 IJFGCN

**Scope of the Study**

The present study takes into account the time period from 2000 to 2017 and highlights the major regions attracting FDI in IT sector in the country.

**Research Design**

This study is exploratory and descriptive in nature in order to determine the present facts regarding the FDI. It uses a historical-analytical method.

**Sources of Data- Secondary data is used in this study**

For this study, secondary data is used. The required data is collected from various sources such as RBI, Reports of Department of Industrial Policy & Promotion (DIPP), periodicals, newspaper articles, books and websites, etc.

**Limitations of the Study**

1. This study is based on secondary data which may have some variation in the time period.
2. The study is focused on India only.

IT plays very crucial role in the development of the country. It connects with the developed economies and brings latest technology, enhances productive capacity, brings efficiency and also ensures competitiveness in all sectors of the economy. India's IT industry contributed around

7.7 per cent to the country's GDP and is expected to contribute 10 per cent of India's GDP by 2025.[2]

The sector is the largest employer within the private sector, having more than 17000 firms and employing 3.9 million people, thus getting 100 per cent FDI in Data processing, Software development and Computer consultancy services, Software supply services, Business and management consultancy services, Market research services, Technical testing and Analysis services, under automatic route.[3] Computer software and hardware sector is on second rank with 9 per cent of cumulative FDI received between the periods April 2000 to June 2019 worth Rs.

237,341 crores.[4]

Therefore, it is interesting to know the contribution made by FDI in IT sector in our country. Hence it is felt necessary to study this topic. At the same time, the role of changing government policy, pull and push factors of demand and supply are behind the increase in FDI. This paper will focus on contribution of FDI in IT sector as well as its regional distribution within the country.

[2] https://www.ibef.org/industry/information-technology-india.aspx
[3] https://www.fdi.finance/sectors/it-and-bpm

[4] https://dipp.gov.in/sites/default/files/FDI_Factsheet_4September2019.pdf



ISSN: 2233-7857 IJFGCN

The open door policy encouraged global responses and participation and India became one of the most important destinations for investment of FDI. Therefore, the cumulative inflows of FDI received between the periods April 2000 to June 2019 worth US$ 436,350Million/ Rs. 2,491,864 crores.[5]

Now let us have a look at the FDI equity inflows in IT sector in our country from 2000 to 2017.

**Table 1: Sub sectors of FDI equity inflows in Computer software & hardware** *(From January, 2000 to December, 2017):*

| ***Sub Sectors*** | ***Amount of FDI equity inflows*** | | ***%age with total FDI inflows*** |
|---|---|---|---|
| | ***Rs crore*** | ***US$ million*** | |
| **Computer Software Industry** | 165,915.07 | 29,129.14 | 7.90 |
| **Computer Hardware** | 2,964.65 | 490.80 | 0.13 |
| **Others (Software)** | 1,260.16 | 229.85 | 0.06 |
| **Total of above** | **170,139.89** | **29,849.79** | **8.10** |

Source: https://dipp.gov.in/sia-newsletter/foreign-direct-investment-india-annual-issue-2017

The computer software and hardware sector in India attracted cumulative FDI inflows worth $ 29,129.14 million USD followed by computer hardware and software. Altogether IT sector received 8.10 per cent of FDI between January 2000 and December 2017.

**Table2: Share of top five RBI's region-wise (with states covered) in FDI equity inflows for computer software, software and hardware**: *(From January, 2000 to December, 2017):*

| ***Ranks*** | ***RBI's Regional Office*** | ***States Covered*** | ***Amount of FDI equity inflows*** | | ***%age with total FDI inflows for Computer software & hardware*** |
|---|---|---|---|---|---|
| | | | ***Rs. Crores*** | ***US$ million*** | |
| **1.** | **NEW DELHI** | **DELHI, PART OF UP AND HARYANA** | **45,361.99** | **7,443.52** | **24.94** |
| **2.** | **MUMBAI** | **MAHARASHTRA, DADRA & NAGAR HAVELI, DAMAN & DIU** | **39,743.26** | **6,907.54** | **23.14** |
| **3.** | **BANGALORE** | **KARNATAKA** | **35,610.20** | **5,954.25** | **19.95** |

[5] https://dipp.gov.in/sites/default/files/FDI_Factsheet_4September2019.pdf



ISSN: 2233-7857 IJFGCN

| | | | | | |
|---|---|---|---|---|---|
| **4.** | **CHENNAI** | **TAMIL NADU, PONDICHERRY** | **7,344.80** | **1,482.69** | **4.97** |
| **5.** | **HYDERABAD** | **ANDHRA PRADESH** | **7,775.45** | **1,300.80** | **4.36** |
| **Total of above** | | | **135,835.70** | **23,088.80** | **77.36** |

**Note:** ***i. *These amounts include the inflows received through FIPB/SIA route, acquisition of existing shares and RBI's automatic route only; and ii. The amount of FDI equity inflows, in respect of country/sector specific data was not provided by RBI, Mumbai, prior to January 2000.***

RBI's regional office wise, FDI inflows show that New Delhi, Mumbai, Bangalore, Chennai and Hyderabad region together accounted more 75 per cent of inflows worth Rs. 135,835.70 crores.

There are various growth drivers behind it. They are mentioned below:

1. Attractive government policies.
2. relative better economic performance as compared to other developing countries
3. Availability of human resources- highly qualified and technically educated labour force with English language proficiency, concessional cheap labour rate as compared to other developed countries, etc.
4. Favourable infrastructure and business environment facilities
5. Government of India opened up flexible investment regimes.
6. A young demographic profile,
7. rising internet penetration and
8. Tax benefits and rebates
9. Sound political and social conditions

**Recommendations**

1. FDI policies initiated by GoI are same for all the states and Union Territories in the country. It depends on the initiative taken by the respective state governments to attract further FDI. The above mentioned states/regions are industrially developed. Thus promoting industries in backward / less developed regions is equally essential.
2. Government procedures should be made more simplified and transparent. It is essential to reduce administrative and regulatory barriers for starting and operating new businesses.
3. Development of industries will further lead to development of ancillary industries; which will promote more job opportunities.
4. Availability of infrastructure is one of the crucial aspect which plays significant role like connectivity to roads, rail network, ports, airports, etc. It is indispensable for the GoI to provide infrastructural facilities in order to reduce regional inequality in distribution of FDI.



ISSN: 2233-7857 IJFGCN

5. Educated and competent labour force is the main crux behind the growth of FDI in IT sector. BIMARU states should focus on the same.
6. Need to have uniform tax system all over the country, to reduce inequality of choice among the foreign investors.

**Bibliography:**

1. Kumar, N. (1998), "Liberalisation and Changing Patterns of Foreign Direct

   Investments: Has India's Relative Attractiveness as a Host of FDI Improved?", Economic and Political Weekly, 33(22): 1321-1329.

2. Sury M.M(2011), "twenty years of economic reforms in India,1991-2011 ", New Delhi Publication, New Delhi, India.

3. Kundra, Ashok (2009), India-China: A Comparative Analysis of FDI Policy and Performance, Academic Foundation, New Delhi.

4. Banga, Rashmi (2003), "Impact of Government Policies and Investment agreements on FDI inflows", ICRIER, working paper no. 16, New Delhi.

5. https://dipp.gov.in/sia-newsletter/foreign-direct-investment-india-annual-issue-2017

6. https://www.ibef.org/industry/information-technology-india.aspx

7. https://www.fdi.finance

8. https://dipp.gov.in/sites/default/files/FDI_Factsheet_4September2019.pdf

9. https://dipp.gov.in/sia-newsletter/foreign-direct-investment-india-annual-issue-2017

10. https://dipp.gov.in/sia-newsletter/foreign-direct-investment-india-annual-issue-2017



ISSN: 2233-7857 IJFGCN