

# FDI IN INFORMATION AND COMMUNICATION TECHNOLOGY (ICT) IN INDIA

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## ABSTRACT

*The rapid emergence of the Information and Communication Technology (ICT) sector has placed India on the global stage during the last one and a half decades. The sector has acted as a catalyst for growth across the Indian economy, including areas such as real estate, automobiles, travel and tourism, railway and mortgage banking industries. Employing over 2.5 million people directly, and over eight million indirectly through the sector, the ICT industry is rapidly expanding across all domains, primarily driven by software services. With more attractive and investor-friendly Foreign Direct Investment (FDI) policies, India has become one of the favourite destinations for ICT investment portfolios. The introduction of liberalized foreign direct investment policies by the Indian government allows 100 per cent investment in the Indian ICT sector. The Government has initiated numerous measures to facilitate licensing, thereby making investment procedures easier.*

**Keywords:** ICT Sector, IT-BPO Sector, Telecom Sector, FDI, GDP.

## INTRODUCTION

The revenue aggregate of Indian IT-BPO industry is expected to cross US\$ 100 billion during FY2012, according to NASSCOM. Aggregate IT software and services revenue (excluding hardware) is estimated to reach US\$ 88 billion during the same period. Further, export revenues (including Hardware) estimated to reach US\$ 69.1 billion in FY2012 growing by over 16 per cent, while domestic revenues (including Hardware) to reach at about US\$ 31.7 billion, growing by over 9 per cent. As a proportion of national Gross Domestic Product (GDP), the sector revenues have increased from 1.2 per cent in FY1998 to an estimated 7.5 per cent in FY2012. The information technology (IT) and IT-enabled services (ITeS) sectors in India have become crucial growth catalysts for the Indian economy. The Indian IT-BPO sector is expected to grow up to US\$ 100 billion during FY 2012, according to software industry body National Association of Software and Service Companies (NASSCOM).

It has analysed that the IT-BPO sector's revenue as a proportion of India's gross domestic product (GDP) has expanded from 1.2 per cent in FY1998 to an estimated 7.5 per cent in FY 2012. As per NASSCOM, within the global sourcing industry, the country has been able to augment its market share from 51 per cent in 2009, to 58 per cent in 2011. Further, export

revenues (including Hardware) are estimated to reach US\$ 69.1 billion in FY2012 growing by over 16 per cent, while domestic revenues (including Hardware) would reach around US\$ 31.7 billion, growing by over 9 per cent. Also, software and services revenues (excluding Hardware), comprising nearly 87 per cent of the total industry revenues, are expected to reach US\$ 87.6 billion in FY2012.

### **Aim of the Research Paper**

The aim of the research paper is to find the influence of FDI in the sectors of information and communication technology, as one of the drivers to develop the economy of India. FDI is a crucial tool for developing the economy of our country. FDI has many effects and one of them is ICT sector which includes sub sectors as ICT goods import, ICT service export, ICT goods export, and high technology exports.

### **Importance of FDI**

1. There will be economic development, job creation, improvement of quality and efficiency of the ICT enabled companies.
2. There will be transfer of technology, managerial skills and knowledge.
3. There will be development of ICT enabled project in better and cheaper manner.
4. FDI will bring new '*clean*' technology, and a positive effect on country's balance of payment.

### **Research Methodology**

The research design will be descriptive in nature. The method of data collection will be mainly based on secondary data. However, an effort will be made to collect primary data by taking information from competent persons off and on.

### **Sector Facts**

1. The total number of telephone subscribers in the country increased to 952.91 million at the end of April 2012 from 951.34 million at the end of March 2012 according to the data released by Telecom Regulatory Authority of India (TRAI)
2. Total Wireless subscriber base increased from 919.17 million in March 2012 to 921.02 million at the end of April 2012
3. Overall tele-density in India reaches to 78.71 at the end of April, 2012 from 78.66 of the previous month.

### **Investment Opportunities**

To create investor friendly opportunities, the Ministry of Communications & Information Technology in the Annual report, 2010-11 stated that the Government has decided to set up a transparent investment policy. Information Technology Investment Regions (ITIRs) offering superior infrastructure and friendly policy environment will be set up across the country. Under the new policies, all Indian States / Union Territories can set up integrated townships for facilitating growth of IT/ BPO and Sunrise Industries with world class infrastructure. Karnataka, Andhra Pradesh, Orissa and Tamil Nadu are the first four states to take the initiatives in sending proposals to the Government for setting up IT Township Facilities.

The Bengaluru-BIAL ITIR is spread in 12,000 acres and is one of the largest investment opportunities in the State of Karnataka at a total cost of US\$ 22 billion. Karnataka is offering all the infrastructure facilities and over 55 MNC's have signed Memorandum of Understanding

(MOUs) for the same. The Andhra Pradesh Government is all set to promote an Information Technology Investment Region (ITIR) in an extent of 50,000 acres that would assist in increasing the State IT exports to the tune of US\$ 52 billion and also increase the tax revenue by US\$ 6.65 billion.

### **Updates of the Investment Policy**

FDI up to 100 per cent is allowed for the following activities in the Indian Telecom Sector:

1. ISPs not providing gateways (both for satellite and submarine cables);
2. Infrastructure Providers providing Dark Fiber
3. Electronic Mail; and
4. Voice Mail

The above would be subject to the following conditions:

1. FDI up to 100 per cent is allowed subject to the condition that such companies would divest 26 per cent of their equity in favour of Indian public in 5 years, if these companies are listed in other parts of the world.
2. The above services would be subject to licensing and security requirements, wherever required
3. In basic, cellular, value added services and global mobile personal communications by satellite, FDI is limited to 49 per cent subject to licensing and security requirements and adherence by the companies (who are investing and the companies in which investment is being made) to the license conditions for foreign equity cap and lock-in period for transfer and addition of equity and other license provisions.
4. ISPs with gateways, radio-paging and end-to-end bandwidth, FDI is permitted up to 74 per cent with FDI, beyond 49 per cent requiring Government approval. These services would be subject to licensing and security requirements.

### **IT and ITeS in India**

#### **Facts about Sector**

1. The industry is expected to add 230,000 jobs in FY2012, thus providing direct employment to about 2.8 million, and indirectly employing 8.9 million people.
2. The industry's share of total Indian exports (merchandise plus services) increased from less than 4 per cent in FY1998 to about 25 per cent in FY2012.

### **Investment Opportunities on IT sector**

Indian IT's core competencies and strengths have placed it on the international canvas, attracting investments from major countries. A few of them are as listed below:

1. India's inherent IT capabilities - abundant talented workforce and world-class companies
2. The development of Tier-I and Tier II/III cities has enabled India to offer lower cost of delivery in comparison to other offshore locations
3. Government policies and increase in the participation by public-private ventures have also helped in the growth of the IT-BPO sector
4. Development of Software Technology Parks of India (STPI) and Special Economic Zones (SEZs)
5. The export-driven companies offer services ranging from managing complex computer networks and call centres, to software coding to maintaining technology operations
6. Software Development, IT-Enabled Services and Telecommunications
7. Enhanced global service delivery capabilities of Indian companies
8. India's mature capabilities in higher, value-added activities and in the Global Delivery Model

9. Core areas such as custom application development and maintenance as priority areas, which are easily offshoreable
10. Large service centres of global companies, with R&D capabilities making India an IT hub
11. (Source: Investment Commission of India)

Given its language-independent nature and cost benefits attached to off shoring, engineering services (automobile, energy, telecom and industrial design) could become a large opportunity for technically equipped Indian firms, stated NASSCOM. Furthermore, investments by enterprises in IT infrastructure, applications and IT outsourcing has been increasing. Demand for domestic BPOs has been largely driven by growth in sectors such as telecom, banking, insurance, retail, healthcare, tourism and automobiles. The IT platform not only offers opportunities to exploit domestic demand but also facilitates access to the global avenues. New opportunities for India have emerged in areas such as public sector and healthcare and in geographies including Brazil, Russia, China and Japan. The computer software and hardware sector received foreign direct investment (FDI) of US\$ 796 million during April-March 2011-12, according to the Department of Industrial Policy and Promotion (DIPP). Between April 2000 and April 2012, the sector received cumulative FDI of US\$ 11.2 billion, according to DIPP.

### Updates of Investment Policy

1. The 51 STPI centres that have been set up since inception of the programme have given a major boost to IT and ITES exports. Apart from exemption from customs duty available for capital goods there are also exemptions from service tax, excise duty, and rebate for payment of Central Sales Tax.
2. The most important incentive available is 100 per cent exemption from Income Tax of export profits, which has been extended till 31st March 2011. (DIT, NASSCOM).
3. Business Services: 100 per cent FDI under the automatic route is allowed in Data processing, software development and computer consultancy services; Software supply services; Business and management consultancy services, Market Research Services, Technical testing & Analysis services.
4. E-commerce activities: E-commerce activities refer to the activity of buying and selling by a company through the e-commerce platform. Such companies would engage only in Business to Business (B2B) e-commerce and not in retail trading, inter-alia implying that existing restrictions on FDI in domestic trading would be applicable to e-commerce as well (Source: Consolidated FDI Policy).

### CONCLUSION

India's FDI policy has become more and more liberal. The most preferred sector for FDI is service sector will definitely help India to realize its potential of economic growth in the world level. India today is a part of top 100 club on ease of doing business. The total FDI inflows in India grew by 65.3% i.e. from \$66.21 bn in 2007-14 to \$312.05 bn in 2014-21. India has attracted FDI inflow of \$76.30 bn in April-March 2021. India is fifth largest recipient of FDI inflows in the world. FDI inflows in India in April-Dec were \$67.54 bn which was highest in the first nine months of the financial year and 22% higher as compared to 2019-20 (\$55.4 bn). The total FDI inflows in the last 21 years are \$763.5 bn and FDI inflows in the last five years was \$319 bn which is 50% of the total FDI inflow in the last 20 years. During the year 2020-21, the total FDI inflow is \$58.37 bn and FDI equity inflows was \$43.85 bn.

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