Foreign Direct Investment in Information Technology and Business Process Management: Perspective in Indian Business

Naib Singh
Assistant Professor, Deptt. of Commerce, Rajiv Gandhi Govt. College, Saha-(Haryana)

Abstract

Information Technology and Business Process Management Sector of India is growing at the fastest rate. IT-BPM industrial sector of India contributes to the huge part of the exports of services of India up to 38%. This industrial sector has 600 Offshore Development Centers (ODCs) in the 78 countries. This sector includes more than 15000 firms throughout the country. This sector is contributing to the Gross Domestic Product (GDP) of India up to 9.5%. FDI has the great scope in this segment for developing the business at the fast rate. Foreign Direct Investment can generate more employment opportunities in this sector by helping the economy of India in the area of communications, network and use of most recent expertise.

Key Words: Foreign Direct Investment (FDI), Foreign Investment Promotion Board (FIPB), Offshore Development Centers (ODCs), Gross Domestic Product (GDP).

Foreign Direct Investment

Foreign Direct Investment (FDI) is playing important role in the every sector of business. FDI can be defined as the investment of capital by the foreign investors in another country. Foreign investors invest this capital directly in the industry. Various names of this investment are prevailed viz. portfolio investment, overseas investment and rentier investment. There are two routes of foreign direct investment as follows:

When foreign investor requires obtaining the permission of the Government, then this type of FDI comes under the category of Government Route. Foreign investor can obtain the approval for this type of investment from the Foreign Investment Promotion Board (FIPB).

In case of automatic route, the foreign investor can invest in the other country without permission of the Government. The sectors in which the foreign investment does
not require prior permission of the Government have been specified in the consolidated FDI policy which is issued by the Government of India from time to time.

World Investment Report of UNCTAD has defined the FDI as an investment which involves a long-term relationship reflecting a lasting interest between the two economies. Foreign direct investment includes three main components namely, equity capital, reinvested earnings and intra-company loans. Government of India used not to include reinvested earnings from the estimation of foreign direct investment.

FDI is playing very imperative role in the international business of many economies. This investment has made the effective flow of international capital in many industrial sectors. Foreign direct investment helps in the various sectors which are playing important role in the development of international business. These areas include domestic investment, stock of foreign exchange, employment generation, productivity, infrastructure and exports. FDI promotes all these sectors.

World Bank Report has pointed out the benefits of FDI for the developing countries as following:

1. FDI is the only capital inflow that has been powerfully linked with higher economic growth since 1970.
2. Foreign direct investment is the means of shifting the burden of risk of the investment from household to foreign investors.

**Statement of the Problem**

In the present problem the role of foreign direct investment has been analysed by in the perspective of Indian information technology industry. For finding out the impact of FDI on the IT-BPM sector the flow of it in the industry has been considered. This study is related to the various aspects of foreign direct investment which has given a boost to the industry.

**Design and Methodology**

This paper has been divided in to three main segments. First part of the study includes the introductory part specifying the meaning of the foreign direct investment. Middle section of the paper is concerned with the introduction of the problem and research design and research methodology adopted for interpreting the results. Ending part of this study presents the concise view of the paper in the brief.

**Information Technology and Business Process Management Sector of India**

IT and BPM industry of the country is the largest employment provider in the private sector. 3.1 million people are employed in this industry. This sector contributes to the large part of the exports of services of India up to 38%. Indian IT and BPM sector has 600 Offshore Development Centers (ODCs) in the 78 countries. This sector includes more than 15000 firms in the country. This industry is contributing to the Gross
Domestic product (GDP) of India up to 9.5 %.

Figure 1: Market Size of IT-BPM Sector of India (US $ Billions)

Source: IBEF Statistics

Export business is rising more than the domestic business of the IT-BPM sector of India. In 2011 the domestic and export market size of the industry was respectively US $ 29 and 59 billion which has risen up to respectively US $48 and 98 billion in 2015.

FDI in IT-BPM Sector of India

Government of India has allowed up to 100% foreign direct investment in this sector. The FDI in the country in this industry has been allowed under the automatic route. The investment has been allowed in the software supply services, software development and computer consultancy services, data processing, business and management consultancy services, technical testing, market research services and analysis services.

IT-BPM sector has been most attractive sector for the foreign investors in the recent years. There are so many areas in the Indian IT-BPM industry in which greater investment opportunities are there like IT services, software products, shared service centers, data analytics, legal services, business process as a service, cloud based services, IT consulting, software testing, engineering, telecom and semiconductors etc.

IT-BPM industry of the country is flourishing day by day. These days, in the Asia-Pacific region, India’s place is considered amongst the leading countries pertaining to the information technology industry. Indian Telecom sector has achieved the highest growth in case of FDI.
The inflows of foreign direct investment in the telecommunications, radio paging, cellular mobiles/basic telephone services and other telecom sectors have increased significantly from the year 2000 to 2015.

**Concise view**

Indian Information Technology and Business Process Management Sector are attaining the growth day by day in the significant manner. There are many areas in this industry in which FDI can play very important role. According to the data depicted by the Department of Industrial policy and promotion, the inflow of FDI in the service sector has increased by 46% in the year 2014-15. This sector is of recent origin. India is having the very big middle class; hence there are high expectations in the country related to the growth of information technology and business process management industry. FDI can create more employment opportunities in this sector by helping the economy of the nation in the area of infrastructure, network and use of latest technology. Therefore, Foreign Direct Investment has the greater scope in the Indian IT-BPM sector.

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