

**PAPER TITLE: FDI and Growth –Role of Service Sector in India**

*Dissertation Thesis submitted to the Department of Economics*

*St.Xavier's University,Kolkata*

**In partial fulfilment for the Degree of Master of Arts in Economics**

**By**

**CHANDRIMA KHAstagir**

**(Registration No. XK01-2112-0504-18)**

**Under the supervision of**

**Dr.Debalina Chakravarty**

**Department of Economics**

**St.Xavier's University,Kolkata,**

**Action Area IIIB,P.S.- New Town,Kolkata-700160**

**Website-[www.sxuk.edu.in](http://www.sxuk.edu.in)**

## **Acknowledgement**

My dissertation would not have been possible without the constant support of my economics department. I would like to begin by thanking my supervisor Dr. Debalina Chakravarty without whom I could have never done this. She has been my pillar of support from the beginning of my project. From helping me channelize my thoughts to giving innumerable feedbacks, she has put unimaginable efforts to make my paper successful. Without her valuable remarks and comments my paper would have never been completed. I will be grateful to you Ma'am. Apart from my supervisor, I would like to thank our Dean Rev Dr. Soosai Nayagam, for his relentless co-operation. I am highly obliged to all my teachers for their great insights and contribution in making my first ever paper a successful one.

**Paper Title : FDI and Growth – Role of Service Sector in India**  
**Department : M.A. in Economics**  
**Semester :IV**  
**Paper Code : MNR450T**  
**Name of the Student : Chandrima Khastagir**  
**Roll Number : 0060**  
**Date : 20/05/2020**

**Declaration by Student**

I affirm that, to the best of my knowledge, I have identified all my sources and that no part of my Dissertation Paper contains any unacknowledged material.

\_\_\_\_\_  
Signature of Student(with date)

# CONTENTS

<b>I Introduction</b>	7
1.1 Objective of the Study	8
1.2 Sector-wise Distribution of FDI in India	9
1.3 The Employment Scenario in the Service Sector	10
1.4 Major sources of FDI in India	11
1.5 Evolution of FDI in India BPO sector	11
1.6 FDI policy and Agreements	12
<b>II Literature review</b>	12
<b>III Methodology</b>	14
3.1 <i>Data Section</i>	15
<b>IV ANALYSIS</b>	16
<b>V Case Study</b>	22
<b>VI Government Policy Implications</b>	23
<b>VII Results and Conclusions</b>	25
<b>VIII References</b>	26
<i>List of Figures</i>	
Figure 1 - Sector wise FDI inflows in India	9
Figure 2 - Sources of FDI in India	11
Figure 3 - Total FDI inflows in India	18
Figure 4 - Percentage of FDI inflows in the services sector	18
Figure 5- Employment in the Service Sector in India	20

Figure 7 - FDI in the BPO Sector	21
Figure 8 – Comparison between the Growth Rates of GDP	22
Figure 9 – Employment Growth in IT/BPO Sector	22
Figure 10 – Revenue from IT/BPO Sector	23
Figure 11 – Revenue Growth of two top BPOs in India	23

## **ABSTRACT**

The paper intends to study the trend of Foreign Direct Investment (FDI) and employment in India particularly in the Indian Service and BPO sector. Further, it reviews the effect of FDI and increase in employment in India during the years 2000-2013. The evolution of FDI in service sector may be attributed to the changing pattern of global FDI and also the liberalization and globalization policies pursued by India. We use a simple EViews regression model to do time series analysis for a span of 13 years to determine the relationship between FDI, GDP and employment in the service sector and the telecommunication sector in India. This empirical analysis suggests that total FDI and employment exerts a definite impact on the Gross Domestic Product (GDP) of India in the service sector. In the sub-sector of the service sector ie the BPOs of the telecommunication services, there has been a positive impact of FDI inflows on the GDP of the country. Since 2000, the high inflow of FDI has resulted in the growth of new services like financial and non-financial services, telecommunication, Business Processing outsourcing (BPO) etc which also affected the employment rates in the sectors. During the years 2006-2008 FDI was at its peak resulting to the highest growth rate in GDP i.e. 9.57%. There is a significantly positive relationship between FDI, employment and GDP from Services and BPOs. The growth of Service Sector had led to the growth of outsource of services from India which now accounts the majority of outsourcing from the country. Concluding section will show that there is more scope to study and how India should adapt therefore.

*Keywords: Foreign Direct Investment (FDI), Service Sector, Employment Business Processing outsourcing (BPO), liberalization, Foreign Direct Investment (FDI).*

*JEL Classification C4, E2, O2*

## **I INTRODUCTION**

India is distinctive for the service sector's position among fast-growing developing countries. Where earlier developers expanded through the export of labour-intensive manufacturing, India has relied heavier on services. While there are other emerging markets where the GDP share of services exceeds the manufacturing share, India stands out for the dynamism of its service sector. India is distinctive for the service sector's position among fast-growing developing countries. Where earlier developers expanded through the export of labour-intensive manufacturing, India has relied heavier on services. While there are other emerging markets where the GDP share of services exceeds the manufacturing share, India stands out for the dynamism of its service sector. FDI is fund flow between the nations in the form of influx or outflow by way of which one can able to benefit some advantage from their funding whereas another can exploit the opportunity to increase their productivity. The main forces that triggered countries for such growth were not FDI but also its labour reforms with infrastructural development which thereby increased employment generation and opening of its economy. Foreign capital plays a constructive role in a country's economic development, that employs people and drives economic growth. As global capital flows expanded manifold and into different sectors, India's approach towards FDI too changed ever since independence, the initial approach overwhelmingly reflecting hostility following the experience with the colonial rule. From being assigned the role of supplementing and strengthening the domestic personal sector, FDI was given greater freedom and a function of its very own to make contributions to India's improvement manner along with slow liberalization of India's monetary policies which began in the 1980s. The New Industrial Policy of 1991, accelerated the process of liberalization, while Government would continue to follow the policy of self-reliance, there would be greater emphasis placed on building up our ability to pay for imports through own foreign exchange earnings. With the start of the

new millennium there was an end to the period of 'jobless' growth in India and a beginning of positive result of liberalization in terms of high employment growth in contrast to the grim times of the mid-1990s. In India contribution of FDI is maximum in the service sector, the contribution of FDI to the Indian economy is particularly significant, with regards to employment potential and impact on national income. The Service sector is one of the largest and fastest-growing sectors in the global market. Over the past two decades, the services sector has expanded rapidly and has come to play an increasingly important role in national economy and in the international economy.

A part of this service sector is the telecommunication sector. With the advent of computers in the late 1980s, India became the most privileged destination for Business Process Outsourcing of the telecommunication sector. The booming segment of Information Technology (IT) comprising ITES (IT-enabled services)/BPO (Business Process Outsourcing) is the core sector that have pushed the country into the epicenter of change. Growing numbers of graduate engineers are now starting their careers in the IT market, making it the leading recruiter for young people and so on. The 1994 liberalization of the Indian Telecoms market gave the ITES / BPO industry an unexpected boost. Within no time, India became a hot destination for multinational outsourcing companies on the offshore. India is the world's largest IT and IT-enabled sourcing destination for BPO services, accounting for around 52% of the US\$ 124-130 billion industry. In no time, India became a hot destination for multinational outsourcing companies on the offshore. India is the world's largest IT and IT-enabled sourcing destination for BPO services, accounting for around 52% of the US\$ 124-130 billion market. The industry has been instrumental in transforming India's picture from a slowly evolving bureaucratic economy into a land of creative entrepreneurs and a regional player in providing world-class technology solutions and business services. Given the magnitude of services growth and its inter-linkages with other sectors of the economy, it is important to understand the impact of services sector and the telecommunications sector on other macro-economic variables. Towards this objective, the present paper attempts to make an assessment of performance of services in economic growth at the aggregated as well as the disaggregated level in terms of their shares in FDI and, employment.

### **1.1 Objective of the Study**

This paper intends to find the answers to the following research questions:



- The main aim of the paper is to make an assessment of the FDI inflow and increase in gradual employment on the rate of growth of GDP
- The paper also tries to find out the influence of FDI on the Indian BPOs.

This paper has been distributed in various sections to show the evolution of FDI and increase in employment in the Services and BPO sector and its relative impact on India's GDP. It also looks into how due to the increase in FDI as more people got engaged in the services sector it led to the overall growth in GDP as a result.

In section 2, literature survey is shown, the methodology and data source are discussed in section 3. In section 4, the analysis is done on the trend and impact of FDI on India's GDP from Service and BPO sector. Finally section 5 ends off with results and conclusion.

### **1.2 Research Question**

- How GDP is affected by the FDI inflows and employment in the services sector and telecommunication sector in India?

### **1.3 Sector-wise Distribution of FDI in India**

The Sectoral composition of FDI inflow has been undergoing transition with structural changes taking place in different countries of the world. Previously, majority of FDI movement took place in the primary and manufacturing sector, but with economic development gaining momentum, particularly in the developing countries, service sector has acquired dominant status. As a result, the movement of FDI inflow is directed towards the service sector.

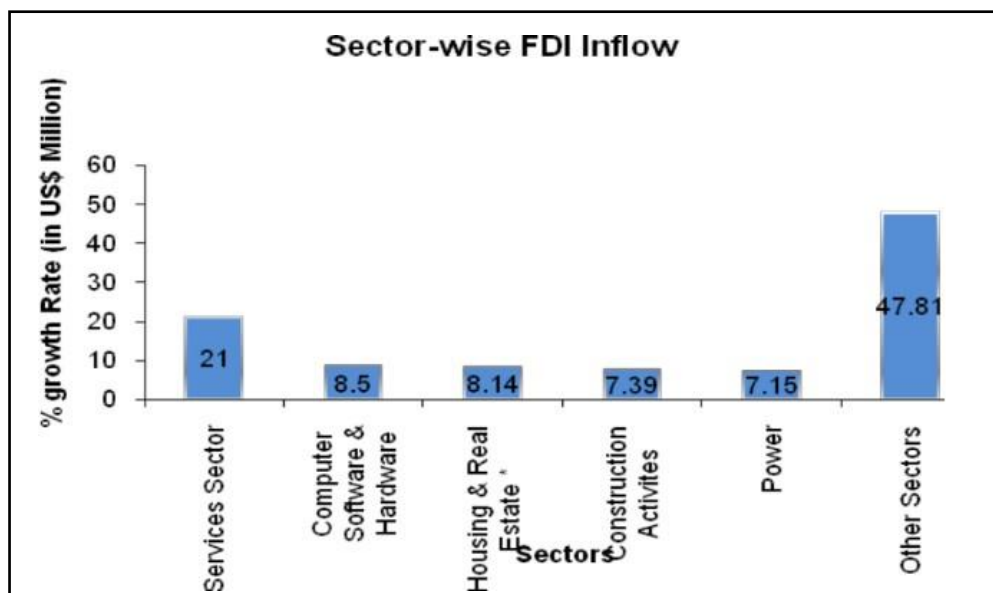


Fig1: Sector wise FDI inflows in India

In service sector the services are consumed in the host country and there by generating outflow of funds from the host country. The second recipient is computer software and hardware sector which shares 8.5% of total FDI. Housing and real estate, construction activities and power sector contribute 8.14%, 7.39% and 7.15% respectively. Whereas all the other sectors totally contribute about 47.81%(Fig1). During the period of 2004-06 when the Indian GDP was growing at or was at its peak. FDI inflows to service sector have been phenomenal in the past few years a rate of 8% the service exports played the most important role.

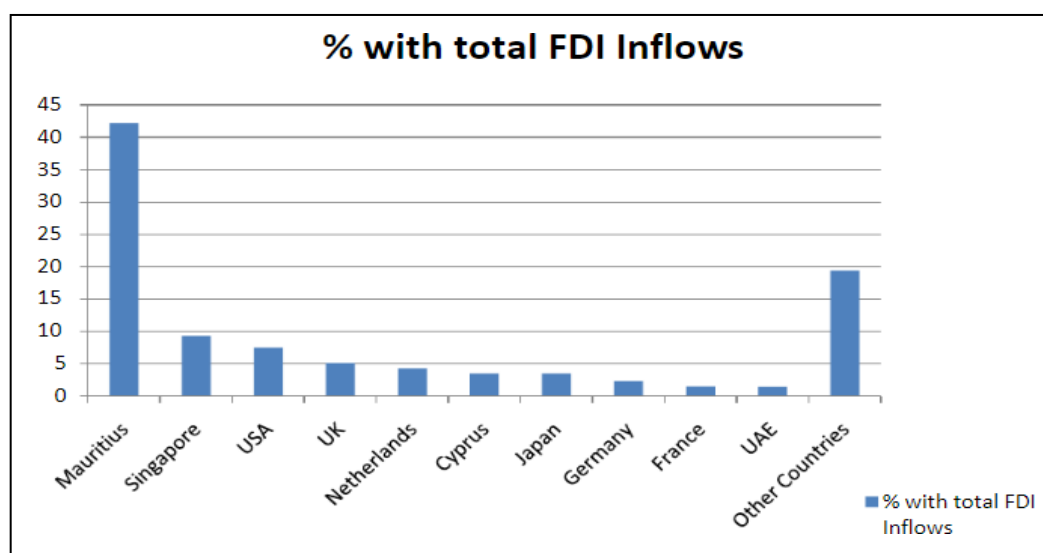
#### 1.4 The Employment Scenario in the Service Sector:

In contrast, the corresponding share of services sector employment in total employment changed from 15 per cent in 1972 73 to only about 26.67 per cent per cent in 2009 10. Though there was a greater recognition of the potential of India's young, working-age population, but this surplus labor was exhausted in the agricultural sector with the services-led economic growth clearly facing economic hurdles in employment generation.

The growth of GDP accelerated during the second half of the 2000s, compared to the first half of the decade. However, employment growth in each of the service sector decelerated during the second half of 2000s compared to the first half. In India between 1999-00 and 2004-05 the employment in the tertiary sector increased by only 22%, whereas the GDP at constant prices increased by 44%. Tertiary sector employment in 2009-10 amounted to only 25% of the work force, despite the fact that around 55% of GDP came from this sector. An examination of the sectoral composition of the workforce by NSSO revealed that the share of services in employment increased by far less than the huge increase in its share of GDP since as compared to 50% in China, 60% in Mexico, 72% in Brazil employment shares in India stands at only 22%. The 'boom' sectors that have generated the new rich of post-reform India such as modern services, financial intermediation, real estate, renting and business services together recorded an increase in employment share of only one percentage point between 1999-00 to 2009-10. Even the much celebrated growth of IT services has not been accompanied by a proportionate increase in growth in employment. According to the study by Central Statistical Organization, the share of ICT services in total GDP had increased from 3% in 2000-01 to 6% in 2007-08 and in the services sector GDP it went up from 6% in 2000-01 to 10% in 2007-08.

### 1.5 Major sources of FDI in India

The Indian service sector is consuming a huge sum of FDI about 74% especially from Mauritius, its share in these inflows have being as high as 42.16%. Singapore is second with a share of 9.35%.



## Fig 2: SOURCES OF FDI IN INDIA

The other major sources of foreign direct investment are from U.S.A, UK, Netherlands, Cyprus, Japan, Germany, France, UAE and their respective share of inflow of FDI are 7.49%, 5.07%, 4.28%, 3.52%, 3.51%, 2.35, 1.51%, and 1.48% respectively (Fig2).

### **1.6 Evolution of FDI in India BPO sector**

In addition to fuelling India's economy, FDI inflow in the BPO Industry has also positively influenced the lives of many Indians through direct and indirect contribution to the various socio-economic parameters such as employment, standard of living and diversity among others. The industry has played a significant role in transforming India's image from a slow-moving bureaucratic economy to a land of innovative entrepreneurs and a global player in providing world class technology solutions and business services. India's IT services grew at about 16.7% in 2011-12, higher than the 16.3% growth recorded in 2010-11. The country's share of global sourcing also increased by 3%, rising to 58% in the last fiscal.

### **1.7 FDI policy and Agreements**

As far as the FDI policy is concerned, India has one of the most transparent as well as liberal FDI policy regime among the emerging as well as the developing economies. The attractiveness of India as a preferred investment destination could be ascertained from the large increase in FDI inflows to India, which rose continuously from year to year. The significant increase in FDI inflows to India reflected the impact of Liberalization, FDI was gradually allowed in almost all sectors, except a few on the grounds of strategic importance, subject to the compliance of sector specific rules and regulations. FDI peaked in FY 2006-2007 and only marginally declined in the following year of economic crisis.

## **II LITERATURE REVIEW**

One school of thought argued that FDI had a negative effect on India's development because FDI was flowing essentially to the primary sector, which was is first and foremost supporting the less market value. Another school of thought, however, argued that FDI inflows into the

core sectors in India are presumed to play a vital role as a source of finance, management and technology. Significant amounts of research have been conducted in nearly all developing countries, especially African and Indian subcontinents, since China has grown above all economies since the 1970s, while total FDI inflow in China has surpassed its previous record each year during those days.

For many years now, the relationship between FDI and economic growth has been a topic of great debate. There have been a significant number of researches relative to the variables which are taken into account in this term paper. These research works proclaims different determinants which can explain FDI, those are: It is found that it is the quality of FDI that matters for a country like India rather than its quantity as higher quality induces economic spill overs benefiting local enterprises and workers due to transfer of foreign technologies to the host country, (Agrawal & Shahani,2005).The effect of FDI on economic growth of China and India is investigated. The studied possible reasons behind China's great showed of FDI and the lessons India should learn from China for better utilization of FDI, (Agrawal). Investigators tried to find the short run dynamics of FDI and growth. This study reveals that GDP in India is not Granger caused by FDI and the causality runs more from GDP to FDI and the trade liberalization policy of the Indian government had some positive short run impact on the FDI flow (Chakraborty and Basu,2002).Economists concludes the key features of the of the definition of FDI are investing, acquiring ,obtaining a foreign firm or asset and influencing ,controlling the management operations (Bitzenis,2006). It is that analyzed various determinants that influence FDI inflows in India which include economic growth, domestic demand, currency stability, government policy and labor force availability against other countries that are attracting FDI inflows(Peng Hu,2006). It has been discussed the determinants of FDI over the regions of a large economy like India. He argues that, for all investments it is the regions of metropolitan cities that attract the bulk of FDI (Sebastin Morris,2004). The positive and negative sides has been studied, for the foreign investors while they go for direct investment in India. A descriptive and explorative research study had been carried out for investigating the current proposition of the concerned case of FDI in India (Bose, 2012). A study examined the interrelations among the variables FDI, GDP, exports, and imports of countries like China, India, Malaysia, and Singapore, using Panel Data Analysis. The study confirmed that FDI promotes economic growth, provided an estimate that \$1 of FDI adds about \$3.27 to the GDP of each of the four countries (Mohanty,2007). An Indian economist tried to find out how FDI seen as an important

economic catalyst of Indian economic growth by stimulating domestic investment, increasing human capital formation and by facilitating the technology transfers. So, we observe that several studies have focused on the case of developing countries related to foreign direct investment interacting with different economic variables. (Devajit,2012).Singh K.(2005), explored the uneven beginnings of FDI in India, and examines the developments(economic and political) relating to the trends in two sectors: Industry and Infrastructure and sub-sector Telecom. Jesim Pais (2014) in his paper “Growth and Structure of the Services Sector in India’ analyzed the services sector GDP and employment and identified sub-sectors that contributed mainly to employment growth. There has been a jobless growth over the years in terms of employment in some arenas of the service sector like railways, real estate etc. and to resolve the problem of lack of employment growth in services, there is a need to achieve uniformity in the growth of different services as employment generation in the services sector has not been as spectacular as its contribution to the GDP.(Rashmi Banga,2005).Karnik, Kiran(2000) , in his report, “Software- Strong Growth Momentum” presented that more than half 500 companies already have relationship with Indian IT services providers; there are significant implications for Indian companies if they are to capture the full potential of the out sourcing trend. NASSCOM’S Handbook, Indian BPO Industry (2004), includes an overview of the Indian and worldwide ITES-BPO market-segment, manpower scenario in India and other emerging opportunities in ITES – BPO market segment. Rohit Pareek, R. Srinivasan, Snigdha Tripathi & Partosh Sharma, in their article, ‘BPO in India, the Road Ahead’ concludes, the changing hues of the off-shoring industry and provide critical insight into the key strategic and operational issues. Economists concludes the key features of the of the definition of FDI are investing, acquiring, obtaining a foreign firm or asset and influencing, controlling the management operations. It has been discussed the determinants of FDI over the regions of a large economy like India. A descriptive and explorative research study had been carried out for investigating the current proposition of the concerned case of FDI and its subsequent effect on employment for economic growth in India. A study examined the interrelations among the variables FDI, GDP, exports, and imports of countries like China, India, Malaysia, and Singapore, using Panel Data Analysis. Singh K., explored the uneven beginnings of FDI in India, and examines the developments relating to the trends in two sectors: Industry and Infrastructure and sub-sector Telecom. Other research analyzed the services sector GDP and employment and identified sub-sectors that contributed mainly to employment growth and reflects the

Growth in competitiveness and uniqueness of the Indian BPO sector. The current paper identifies the said factors essential for economic growth in India and what suggests what can be done for the betterment of the country.

### III METHODOLOGY

The study period taken in to account starts from the year 2000 till the year 2013. In the first section, we are explaining how the service sector is contributing to GDP.

There are three study variables used for analysis in this case, which are as follows:

- i)  $SGDP_T$ : Service sector's share in the total Gross domestic Product of the country in percentage.
- ii)  $SFDI_T$ : Percentage share of the total foreign direct investment inflows in the service sector.
- iii)  $SEMPLE_T$ : Percentage share of total employment in service sector.

How far the share of FDI inflows and employment in service sector is impacting the GDP from the Service sector has been further analyzed by the estimated regression coefficient using the linear regression model which resulted the following regression equation:

$$= \alpha + \beta_1 SFDI_T + \beta_2 SEMPLY_T + \mu_i$$

In the second section, similarly, how far the share of FDI inflows in service sector is impacting the GDP from the BPO sector which is a major part of the telecommunication sector has been further analyzed.

There are two study variables used for analysis in this case, which are as follows:

- i)  $BGDP_T$ : Business Processing outsourcing (BPO) sector's share in the total Gross Domestic Product of the country in percentage.
- ii)  $BFDI_T$ : Percentage share of the total foreign direct investment inflows in the BPO sector.

How far the share of FDI inflows in the telecommunications sector is impacting GDP has been analyzed using the linear regression model which resulted in the following regression equation:

$$= \alpha + BFDI_T + \mu_i$$

We also have taken into consideration a case study where we compare the revenue growth of two leading IT/BPO firms in India i.e. Wipro and Tata Consultancy Services (TCS).

Here the software EViews has been used to test the significance of the variables in the two equations. The analytical methodology used are: (1) Least Squares Method of regression (2) Chart diagrams and (3) Testing of hypothesis.

### 3.1 Data Section

This research work is based solely on secondary data. The data sources are primarily Reserve bank of India (RBI), The World Bank open data official website, NSSO 2011-12, India stat and Government of India of statistics. In this case yearly data of percentage of growth of GDP, percentage share in total services sector and telecommunication sector FDI inflows and percentage of employment in both sectors from 2000 to 2013 is taken with the country particularly India taken into consideration.

## IV ANALYSIS

Considering the descriptive statistical analysis, in India during the period 2000-2013 a multiple-regression method has been used with the help of the EViews software to empirically analyse the correlation of the data sets of FDI, employment and GDP.

In this study the following regression equation in the case of service sector has been used:

$$= \alpha_1 + \beta_1 SFDI_T + \beta_2 SEMPLY_T + \mu_i$$

Where,

*SGDP*: Service Sector's share of Gross Domestic Product in India

$\alpha_1$ : Intercept of the equation

*SFDI*: Foreign Direct Investment in the service sector in India

$\beta_1$ : Slope-coefficient of Foreign Direct Investment

*SEMPLOY*: Employment in the service sector in India

$\beta_2$ : Slope coefficient of Employment



$\mu_i$ : Error term in the equation

### Hypothesis

A null and alternative hypothesis will be taken for the above-mentioned regression equation, and the significance of the equation has been checked.

Here the null hypothesis, implies that Foreign Direct Investment and employment does not have a statistically significant impact on Gross Domestic Product which is tested against alternative hypothesis, which implies Foreign Direct Investment and employment has a statistically significant impact on Gross Domestic Product.

Table 1: Results of time series regression in the service sector

Model	Coefficient	Std. Error	t-statistic	P-value
Constant	-1.670102	0.696376	-2.398275	0.0374(**)
Employment	0.060585	0.028268	2.143247	0.0577(**)
FDI	0.040848	0.007227	5.652465	0.0002(*)

R-squared	0.854835	Prob(F-statistic)	0.000064(***)
F-statistic	29.44365(****)	Dur bin-Watson stat	1.730257

Dependant variable: GDP in service sector in India

(\*) are significant at 1%, (\*\*) significant at 5%,(\*\*\*\*) Prob>

F=0.000,(\*\*\*\*)Prob>Chi2=0.00 Source: Author's Compilation

Here in following the results we thus see that the p-value of both employment and FDI in the service sector is less than 10% and 1% respectively which means that as we reject the null hypothesis, in India the overall input of FDI and increase in employment in the service affects the overall GDP of the country. This comes in line with the with the official Economic Survey 2013-2014 which noted that “India has the second fastest growing services sector with CAGR (compound annual growth rate) at 9 percent, just below China’s 10.9% during the 11-year period of 2001 to 2012’.

In case of the BPO sector as a part of the telecommunication sector, we use a simple regression model and with the help of the EViews software perform an OLS regression between the GDP of India and FDI inflows specifically in the BPO sector.

The following simple regression equation used in the model is:

$$= \alpha_2 + \beta BFDI_t + \mu_i$$

Where,

*BGDP*: BPO sector’s share of GDP in India

$\alpha_2$ : Intercept of the equation

*BFDI*: Foreign Direct Investment in the BPO sector in India

$\mu_i$ : Error term in the equation

### Hypothesis

A null and alternative hypothesis will be taken for the above-mentioned regression equation, and the significance of the equation has been checked.

Here the null hypothesis implies that FDI in the telecommunication sector does not impact the GDP of India against the alternative hypothesis that FDI has an overall impact on the GDP of the country.

Table 2: Results of time series regression in the telecommunication sector

Model	Coefficient	Std.Error	t-stat	p-value
Constant	0.071158	0.055539	1.281232	0.2265
FDI	0.010345	0.005425	1.906924	0.0830(*)

R-squared	0.248447	Prob(F-statistic)	0.082972(***)
F-statistic	3.636358(****)	Durbin-Watson stat	2.213732

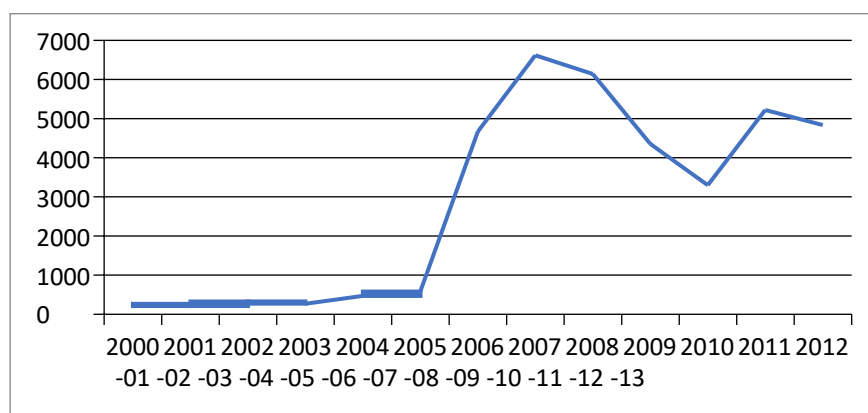
Dependent variable: GDP in the telecommunication sector

(\*) are significant at 10%,(\*\*\*) Prob> F=0.000,(\*\*\*\*)Prob>Chi2=0.00

Source: Author's Compilation

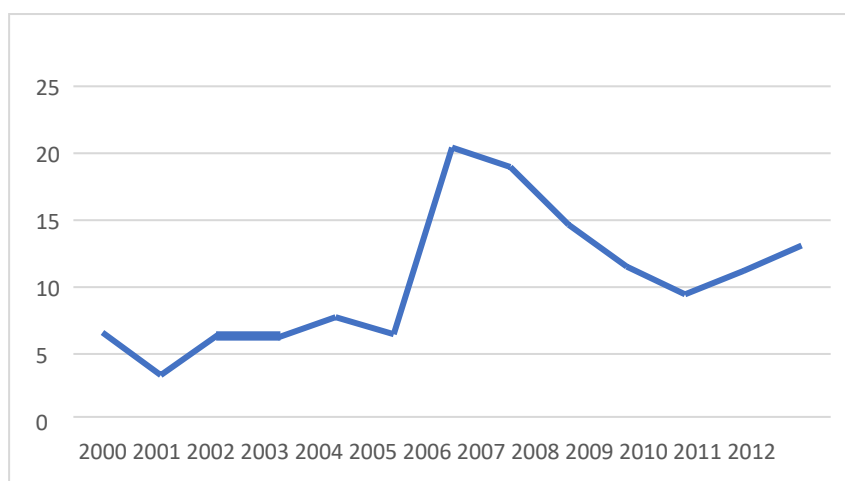
Here in the following results, we thus see that the p-value of FDI in the BPO sector is less than 1% which means that we reject the null hypothesis, and in India the overall input of FDI in the telecommunication sector particularly the BPOs affects the overall GDP of the country.

Footnote: Here we have not taken the relationship between the GDP and employment in the telecommunication sector in India especially the BPOs because in the regression analysis the p-value was insignificant.

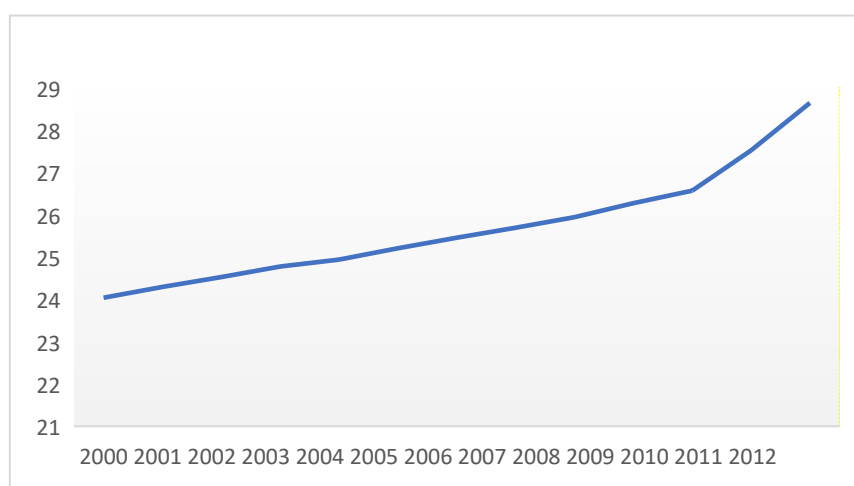


**Fig 3: Total FDI inflows in India (2001-2013)**

During the post liberalization period, FDI inflows in India from 2001-2002, till 2005-2006 started rising very slowly and from 2006 it exhibited a steady and significant rise (Fig 3).



**Fig 4: Percentage of FDI inflows in the services sector**



**Fig 5: Employment in the service sector**

Here we see that with the onset of FDI inflows in India, it started rising slowly from 2000-01, with a steep rise in 2005 onwards as the service sector received an investment of US\$22 billion which is 28% of the total FDI inflows from 1992-2012. Services like financial, business and professional and R&D among others has accounted to 57% of cumulative FDI inflows since April 2000.

Among the sub-sectors of the service sector, financial services attract 10.2 percent of total FDI inflows followed by banking services(2.2%), insurance(1.6 percent), and non-financial services(1.62%). In India, Mumbai (with 33.77%) and Delhi(with 16%) are the two most attractive locations which receives heavy investments in the services sector. From 2000 onwards there was also a steady rise in employment whereas in 2010 it showed a significant increase in employment in the services sector. The services sector is one of the most important sectors contributing to the sustained economic growth and development of the country contributing 55% to GDP and 61% of the gross value added (GVA).

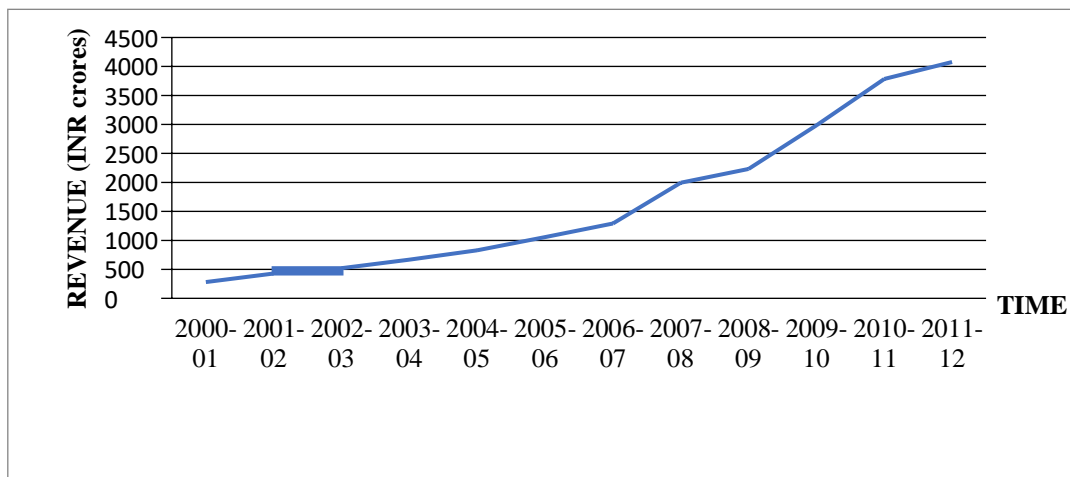


Fig 6: Revenue of Indian BPO sector(2000-2012)

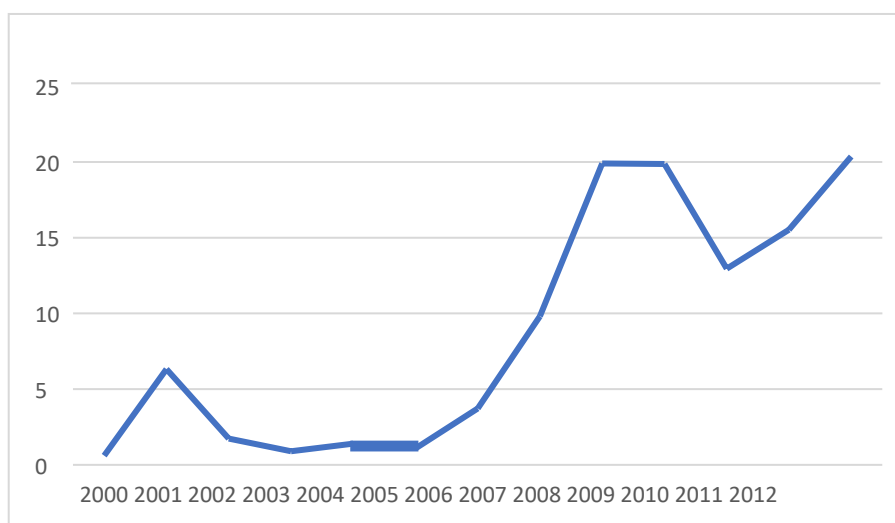


Fig 7: FDI in the BPO sector (2000-2012)

The total revenue generated from the Indian BPO sector has been significantly rising in the last few years. From 2000-01 till 2005-2006 the total revenue generated is rising steadily. But due to the increase in the FDI inflows during 2006-07 there have been a steep rise in the revenue generation in the BPO sector of India (Fig 4 & 5). India received FDI inflows of US\$100.4 billion during 1991-2008 out of which US\$8.2 billion is in the telecommunication sector. At present India is the leading country pertaining to the IT industry, with the FDI investments in India has been a phenomenon over the years. The rapid development of the telecom industry with a growth rate of 45%, Indian telecom industry has the highest growth rate in the world. This is subsequently as a result of increase in FDI in the telecommunications sector from 2005 onwards. The share of both the telecommunications sector out of the service sector in the country stands at 8% thereby earning a nearly 32% of FDI inflows in the country.

There has been a fluctuating growth in the Indian GDP post liberalization. India experienced high growth rates in GDP, averaging 9% from 2002-2005. In 2006 India experienced the highest growth rate in GDP and the cause being the highest inflow in FDI during this period. The percentage of growth fell during 2008-2009 due to the global financial crisis. Growth then moderated during 2009-2011. Starting in 2012 India entered a period of reduced growth, which slowed to 5.6%. India started recovery in 2013-14 when the GDP growth rate accelerated to 6.4% from the previous year's 5.5%. The acceleration continued through 2014-15 and 2015-16 with growth rates of 7.5% and 8.0% respectively. India started

recovery in 2013–14 when the GDP growth rate accelerated to 6.4% from the previous year's 5.5%. The acceleration continued through 2014–15 and 2015–16 with growth rates of 7.5% and 8.0% respectively.

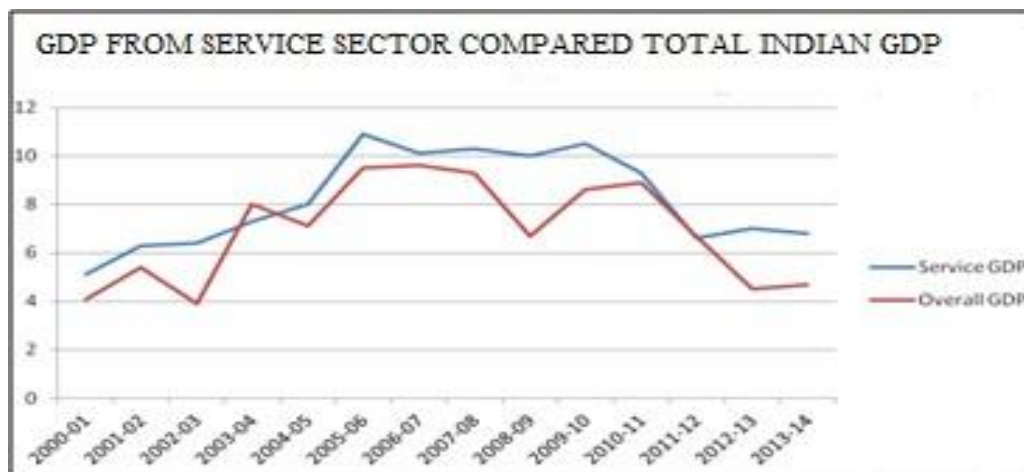


Fig 8: Comparison Between the growth rates of Total Indian GDP and GDP from service sector

Foreign investors would be wise to consider entering the Indian market to take advantage of the developments the BPO industry is generating. Telecommunication contributes a fair share to the revenue of the Indian BPO industry. About 70% of the BPO industry's revenue comes from tele-communication, 20% from high-volume, low-value data work and the remaining 10% from higher-value information work. Telecommunication jobs are a major turn on for the young generation. In addition to providing employment, the call centres offer excellent benefits, good working environment and attractive remuneration packages. Due to infrastructural development, more and more foreign BPO companies are setting up bases in India. Number of well known domestic BPO companies have been established which cater to the national as well as the international market. In Some of the cities where the business processing industry is popular are Chennai, Bangalore, Hyderabad, Kolkata, New Delhi, Mumbai etc.

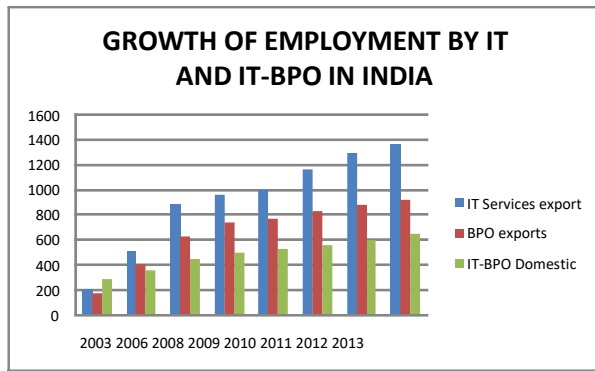


Fig 9: Employment growth in IT-BPO sector

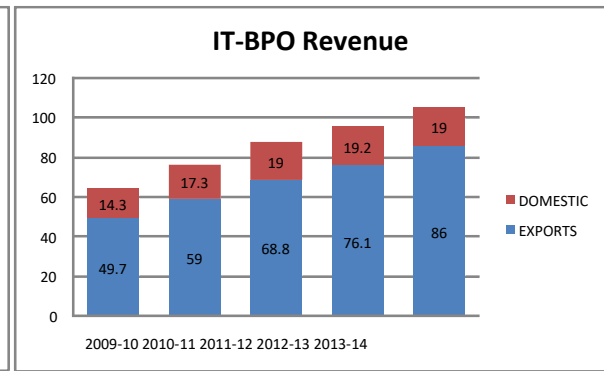


Fig 10: Revenue from IT-BPO sector

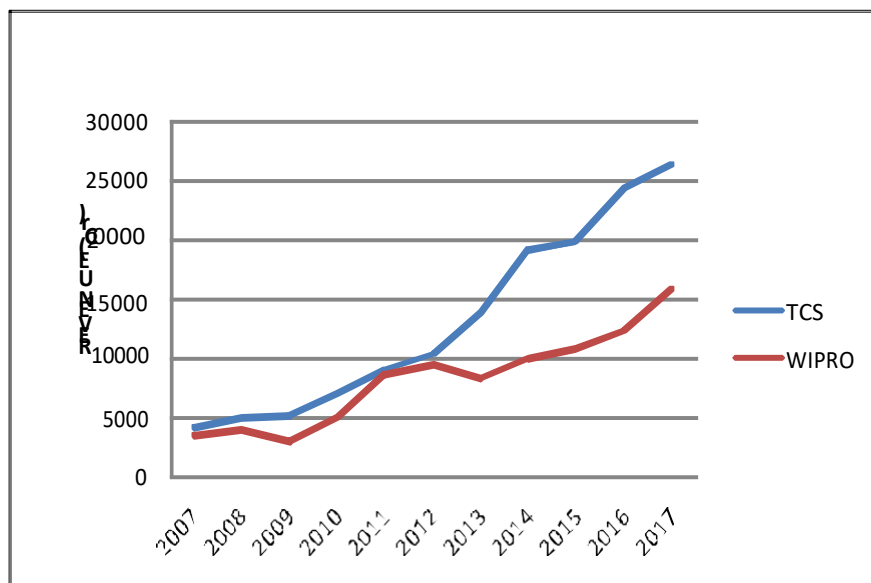
Genpact India Pvt. Ltd, Tata Consultancy Services BPO, Aegis Ltd, Wipro BPO, Infosys BPO, HCL Technologies Ltd.- Business Services are some of the leading BPO's in India. In our analysis we have taken into account the top two BPOs in India and forecasted there Revenue Growth from 2007-2017.

## V CASE STUDY

### **Comparison between the Revenue Growth of WIPRO and TCS over the years:**

Tata Consultancy Services BPO ranks among the top 10 IT-BPO services providers in the world. The BPO segment of Tata Consultancy Services (TCS) is one of the biggest names in the Indian BPO industry. TCS BPO is the third-largest India-based IT outsourcing company The BPO division had revenues over 1000(INR Cr) in the FY 2012-13 which was 12.5% of the total revenue of TCS.TCS BPO has more than 45,000 employees which serve over 225 million customers across 11 countries. TCS offers a variety of services that include enterprise services, platform solutions, analytics & insights services, etc.

Western India Vegetable Products Limited (WIPRO) is an iconic global brand in the Information Technology sector as well as BPO sector, and has a presence in more than 175 cities spread across 6 continents BPO made its mark in the industry through a combination of operational excellence, industry expertise and transformation capabilities. The company offers a wide range of services, including customer management services, human resource outsourcing and knowledge services.



**Fig 11: Revenue Growth of the Top Two BPOs of India**

( Fig 10) shows the growth of revenue generated by the two companies taken into consideration. We see that TCS's revenue growth grow at a higher rate when compared to WIPRO. Investment from Foreign countries and investors and also the export of services has triggered the rapid growth of TCS with respect to revenue generation.

## **VI GOVERNMENT POLICY IMPLICATIONS**

Services sector growth is governed by both domestic and global factors. The Indian facilities management market is expected to grow at the rate of 17% between 2015 and 2020. It is expected to reduce costs in the long run on account of availability of GST input credit, which will result in the reduction in prices of services.

The Government of India recognizes the importance of promoting growth in services sectors and provides several incentives in wide variety of sectors such as health care, tourism, education, engineering, communications, transportation, information technology, banking, finance, management, among others. The government has even fast-tracked reforms in the telecom and BPO sector and continues to be proactive in providing room for growth for telecom companies. The National Digital Communications Policy (2018) has envisaged attracting investments worth US\$ 100 billion in the BPO sector by 2022. Prime Minister Narendra Modi has stated that India's priority will be to work towards Trade Facilitation Agreement (TFA) for services, which is expected to help in the smooth movement of professionals. The Government of India has adopted a few initiatives in the recent past. Some of these are as follows:

**Table 3: Different important policies implemented in India**

Mid-Term Review of Foreign Trade	Under this policy, the Central
----------------------------------	--------------------------------



Policy (2015-20),	Government increased incentives provided under Services Exports from India Scheme (SEIS) by two per cent.
Trade Facilitation in Services(2017)	Government of India is working to remove many trade barriers to services and tabled a draft legal text on Trade Facilitation in Services to the WTO in 2017.
Rs.5000 crore fund for 12 champion service sectors	Central Government in February,2018 set up this dedicated fund to promote 12 ‘champion’ services sectors and thereby increase employment in India.
Global Services Exports	Government of India set up a target of 4.2 percent share of global services exports in 2022 up from 3.4 percent in 2016.
5 Trillion Economy by 2025	By 2025, with a target of GDP being USD 5 trillion, the services sector shall contribute to USD 3 trillion.
Mudra Yojana(2015)	This was launched by the Prime Minister on April 8 <sup>th</sup> ,2015 for providing loans up to 15 lakhs to the non-corporate, non-farm small/micro enterprises.
Start-Up India(2016)	Launched on 16 <sup>th</sup> January,2016,it is an initiative by the Government of India for the generation of employment and wealth creation.

NASSCOM recommendations and FDI inflows in the BPO sector(2002)	In May 2002, the government of India has accepted the recommendations of NASSCOM and removed certain procedural bottlenecks that were hampering the growth of the Indian BPO industry as well as FDI of up to 100 percent of the equity has been permitted in BPO companies.
---	--

## VII RESULTS AND CONCLUSION

FDI has played a significant role in the growth and development of India. As per the above analysis, it is seen that FDI inflows In India has huge impact on the GDP growth of the country, especially from the Services and BPO sector. The study concludes that FDI inflows have shown significant growth from 2000 to 2013 especially in service sector. FDI plays an important role in the long-term development of a country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. It cannot be denied that FDI has played a crucial role in ranking India, the second fastest growing economy in the world and has become an important destination for FDI in Asia. Although after liberalization India had attracted a lump sum amount of funds in the form of FDI, but in some sectors may be due to the lack of political environment, high rate of corporate taxes, limited export processing zones development has been inadequate. FDI definitely has positive impact in India's growth path but not as much as it is required in such a Developing country with an increasing population growth rate. In the case of employment in the services sector, along with the new modern services, the traditional

unorganized services characterized by extremely low earnings also contribute to the employment scenario because of the inadequate employment opportunities in the primary and secondary sectors.

However, despite the presence of unorganized services, the share of the services sector in total employment was relatively low and limited. The weak responsiveness of employment to an increase in services production is possibly because high productivity services contributed so little to employment, that even significant low wage employment in traditional services that contribute little to GDP could not restore a semblance of proportionality between employment and output growth. Therefore, it is suggested that during the coming era of reform, attention must be given towards the labor sector reforms, agriculture sector reform, financial sector reforms, industrial restructuring etc. So we can conclude that for the sake of India's further Economic Growth more and more FDI should be attracted by adopting imperative and innovative policies and with better governance practices with equivalence to international standards.

## VIII REFERENCES

- Balasubramanian, V. N., Salisu, M., & Sapsford, D. (1996). Foreign direct investment and growth in EP and IS countries. *The economic journal*, 106(434), 92-105.
- Dondeti, V. R., & Mohanty, B. B. (2007). Impact of foreign direct investment on the gross domestic product, exports and imports of four Asian countries: A panel data analysis. *Delhi Business Review*, 8(1), 1-21.
- Bosworth, B., Collins, S. M., & Virmani, A. (2007). *Sources of growth in the Indian economy* (No. w12901). National Bureau of Economic Research.
- Joshi, S. (2004). Tertiary sector-driven growth in India: impact on employment and poverty. *Economic and Political Weekly*, 4175-4178.
- Kirti, R., & Prasad, S. (2016). FDI impact on employment generation and GDP growth in India. *Asian Journal of Economics and Empirical Research*, 3(1), 40-48.
- Singh, M., & Kaur, K. (2014). India's services sector and its determinants: An empirical investigation. *Journal of Economics and development Studies*, 2(2), 385-406.

Nag, B. (2004). Business process outsourcing: Impact and implications. *Bulletin on Asia-Pacific Perspectives*, 5, 59-73.

Raghunath, A. (2014). Growth achieved and sustain by the BPO Sector in India. *International Journal of Management, IT and Engineering*, 4(4), 57-70.

Eichengreen, B., & Gupta, P. (2011). *The service sector as India's road to economic growth* (No. w16757). National Bureau of Economic Research.

Hu, P. (2006). *India's suitability for foreign direct investment* (Vol. 553). Working Paper.

Kapila, U. (Ed.). (2008). *Indian Economy since independence*. Academic Foundation.

Devajit, M. (2012). Impact of foreign direct investment on Indian economy. *Research Journal of Management Sciences* \_ISSN, 2319, 1171.

Yadav, N. (2014). Foreign Direct Investment to service sector in India. *International Journal of advances in Management and Economics*, 3(6), 37-43.

Central Statistical Organization (1989), *National Accounts Statistics: Sources and Methods* (New Delhi: Government of India).

Gujarati D.N(1978) : *Basic Econometrics*(Tata McGraw-Hill Publishing Company Ltd).

*The papers are in APA style*

*Accessed from:*

[www.businessmapsofindia.com](http://www.businessmapsofindia.com) last accessed on 12.2.20

[www.rbi.org.in](http://www.rbi.org.in) last accessed on 12.2.20

[www.worldbank.org](http://www.worldbank.org) last accessed on 10.2.20

[www.statisticetimes.com](http://www.statisticetimes.com) last accessed on 26.2.20

[www.graphpad.com](http://www.graphpad.com) last accessed on 15.2.20

[www.tcs.com](http://www.tcs.com) last accessed on 21.1.20

[www.wipro.com](http://www.wipro.com) last accessed on 21.1.20



