

ROLE OF FOREIGN DIRECT INVESTMENT IN SERVICE SECTOR IN INDIA

Pankaj Chaudhary*

ABSTRACT

In 1991, Liberalization, Privatization and Globalization aimed at making the Indian economy a faster growing economic, globally competitive. Liberalization and Globalization of world economies has opened the doors for foreign investment, transfer of goods, Capital and Human Resources from one country to another country. Foreign Direct Investment is an integral part of an open and an effective international economic system which helps in the development of a country in various service sectors. The service sector is diverse in nature. Service sector is largest and fastest growing sector in India. GDP share of service sector has growing rapidly but in 2012-13 it has been little bit low while it was around 9.5% in 2010-12. This paper highlights the role of FDI in various service sectors like Telecommunication, Information Technology, Construction etc. in the Indian economy and Contribution of each sector yearwise. The data analysis has been done using secondary data.

*Assistant Professor, P.G. Deptt. of Commerce & Management, Arya P.G. College, Panipat.

INTRODUCTION TO SERVICE SECTOR

Service sector is the lifeline for the socio-economic growth of a country. It is emerged as the largest and fastest growing sectors not only in India but in the world economy making the higher contributions to the global output and employment. In alignment with the global trends, Indian service sector has witnessed a major boom and is one of the major contributors to both employment and national income in recent times. The activities under the purview of the service are diverse.

SERVICE SECTOR IN POST LIBERALIZATION ERA

With the introduction of economic reforms in 1991, the era of LPG of the economy began. It has given the rise to the policy of deregulation and decontrol. The liberalization measures post 1990 have changed with foreign investment radically. In 2001, 100% foreign investment was allowed in several industrial sectors. Also 100% foreign direct investment is allowed in almost all the infrastructure sectors. The series of reforms undertaken with respect to:

- Trade
- Financial Sector (Banking & Insurance)
- Telecommunication
- Real Estate
- Construction Sector
- Tourism, Hotels & Restaurant etc.
- Housing & Townships
- Business Services
 - Accounting Services
 - ITES
 - IT
 - R&D Services

RESEARCH METHODOLOGY

Data Collection

Data has been collected through secondary sources such as websites, journals, books and annual reports.

Service Sector and GDP

This sector has a major contribution to country's GDP and it is increasing rapidly. After recording a growth rate of 5.4% p.a. during 1981-1991. There was further acceleration in GDP growth to 7.7% p.a. during 2001-11. This growth of the service sector is accompanied by increasing FDI approvals in the service sector. There has been a sharp increase in the service sector share in GDP. If the structural composition is examined it can also be said that decline in the agriculture has been gained by the service sector.

Table-1: Annual Growth in India's Services GDP at Factor Cost (Constant Prices)

	2007-08	2008-09	2009-10	2010-11	2011-12
Trade, Hotels & Restaurants	10.1	5.7	7.8	9.0	11.2
Financing, Insurance, Real Estate & Business Services	12.0	12.0	9.4	10.4	9.1
Construction	10.8	5.3	7.0	8.0	4.8
Total Services (including Construction)	10.3	9.4	10.0	9.2	8.8
Total GDP	9.3	6.7	8.4	8.4	6.9

(Source: Economic Survey 2011-12)

Table-2: Annual Growth in India's Services GDP at Factor Cost (Current Prices)

	2007-08	2008-09	2009-10	2010-11	2011-12
Trade, Hotels & Restaurants	17.1	16.9	16.6	16.9	25.2
Financing, Insurance, Real Estate & Business Services	15.1	15.9	15.8	16.4	16.9
Construction	8.5	8.5	8.2	8.2	8.1
Total Services (including Construction)	61.2	62.4	63.0	63.3	64.4

(Source: Economic Survey 2011-12)

Role of FDI in Service Sector

FDI plays a major role in the dynamic growth of the service sector. According to the definition of International Monetary Fund (IMF), FDI includes equity capital, inter-company debt transactions, reinvested earnings of foreign companies, financial leasing, trade credits, grants, venture capital by foreign investors, investments through GDRs and ADRs, Foreign Currency Convertible Bonds (FCCB) are also treated as FDI. FDI is a type of investment that involves the injection of foreign funds into an enterprise that operates in a different country of origin from investor. The exchange of such investment flows benefit the home country and the host country.

FDI can play catalytic role in a growing economy like India. The role of FDI is becoming increasingly significant in the Indian economy. The service sector in India has tremendous

growth potential and as a result it attracts huge FDI. The top 5 subsectors attracting FDI inflows are in service sector.

These are as below:

- The Computer Software and Hardware enjoy the permission of 100% FDI under automatic route.
- The limit of FDI in Telecom sector was increased from 49% to 74%. FDI upto 49% is permissible under automatic route but FDI in the licensee company/Indian promoters including their holding companies shall require approval of FIPB.

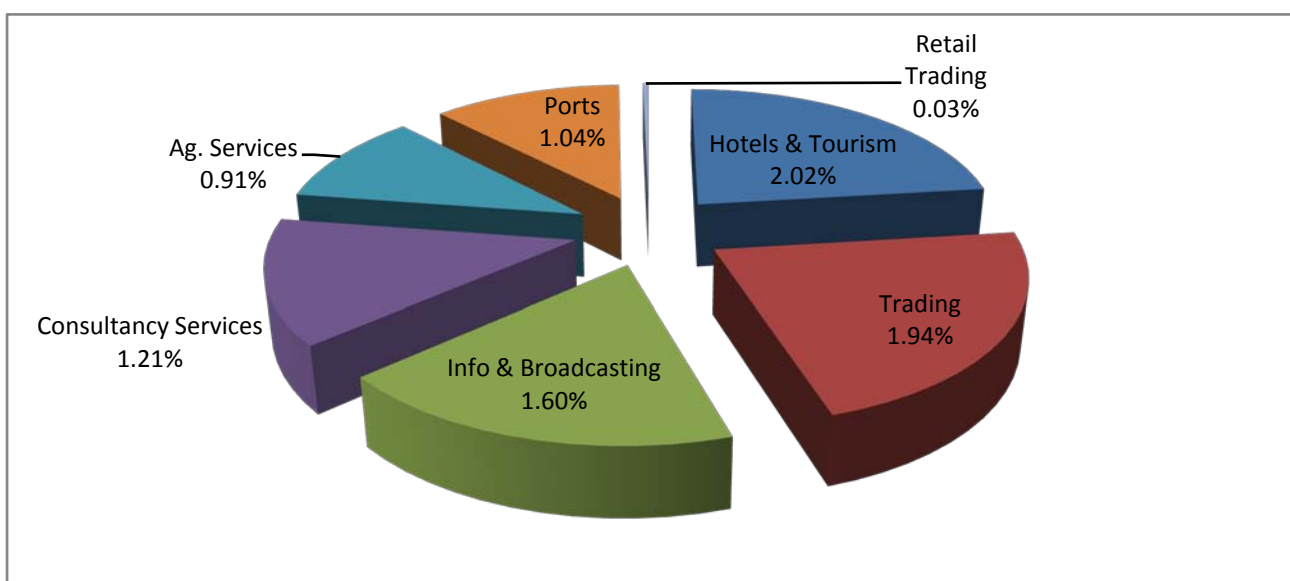
FDIs Expectations

- Boost output, technology and skills levels.
- Increase in employment.
- Linkages with other sectors of the economy.
- Upgradation of HR competencies.
- Facilitator International Trade.
- Transfer of Knowledge etc.

FDI Growth in various Service Sectors

The share of services in FDI inflows increases to 48.4% if the shares of some other services like Hotels, tourism, trading, information and broadcasting, consultancy services, agricultural services, ports, retail trading etc are included then the total share of cumulative FDI inflows to the service sector would be 58.4%. It can be better understood by the following figure:

Figure-1: Share of each subsector in Growth of FDI



(Source : Compiled from Economic Survey 2011-12)

Table 3: Services attracting highest FDI equity inflows (Rs. Crore)

Sector	2009-10	2010-11	2011-12
Services Sector (Financial & Non Financial)	19945	15053	24656
Telecommunications	12270	7542	9012
Computer software & hardware	4127	3551	3804
Construction	13469	4979	15236

(Source: Compiled from Department of Policy & Promotion Data)

Contribution of Top investing countries FDI Equity inflows

Table 4: Ranking of Country wise FDI equity flows (US\$ in million)

Ranks	Country	2010-11	2011-12	2012-13 (April to Nov)	% to total inflows (in terms of US\$)
1	Mauritius	31855	46710	39258	38%
2	Singapore	7730	24712	8253	10%
3	U.K.	12235	36428	3272	9%
4	Japan	7063	14089	8614	7%
5	USA	5353	5347	2054	6%
6	Netherlands	5501	6698	5941	4%
7	Cyprus	4171	7722	1853	4%
8	Germany	908	7452	2575	3%
9	France	3349	3110	2529	2%
10	UAE	1569	1728	642	1%
Total FDI Inflows		97320	165146	86225	--

(Source: compiled from [ww.rbi.org](http://www.rbi.org))

CHALLENGES AHEAD

- Not only to maintain the pace of present growth but also to accelerate it a challenging task.
- Boosting of tourism sector which has a mine of opportunities.
- Huge investment, upgradation and modernization is required to give rise to service sector.
- Removal and relaxation of some rules and regulations imposed WTO to accelerate the development and growth.
- Need of coordinated strategies for making geometrical gains and benefits.

CONCLUDING REMARKS

The study concludes that FDI inflows have shown significant growth after the economic reforms of 1991 especially in service sector. Removal and relaxation of restrictions on FDI inflows in the service sector may also be considered which will help in the geometrical growth of the Indian economy. Though the economic and financial crisis in the world have

made a deepening impact on overall FDI flows. FDI has declined in all the services at different rates. Yet the FDI has become necessity for *INCLUSIVE DEVELOPMENT*.

REFERENCES

1. Anant and Zusthi (1999), "Report on Trade in Accountancy Services". Project Study Sponsored by Ministry of Commerce GOI, Executed by ICRIER WP 382-92.
2. Annual Report (2011-12), department of Industrial Policy & Promotion, Ministry of Commerce and Industry, GOI.
3. Economic Survey of India (2011-12), Government of India.
4. www.indiabudget.nic.in
5. www.rbi.org