

A Study of FDI in Service Sector of India

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Abstract

In recent years, Foreign Direct Investments (FDI) have been playing an increasing role of enhancing the global competitiveness of firms of developing economies by providing access to strategic assets, technology, skills, natural resources and markets apart from enhancing south- south cooperation. The first decade of this century has also witnessed a number of emerging markets FDI is the key contributor for the enhancement of the industrial production, efficiency and productivity not only in developing countries but developed countries also. In India, it has been used as the vital tool for the upgradation of technological knowledge, competitiveness, know- how and managerial skills. The present paper is an attempt to analyze the significance of FDI in services sector in India after 1991.

1. INTRODUCTION

Since 1990s, FDI to developing countries is performing as the leading source of external financing and has become a key component of national development strategies for almost all the countries in the world as a vehicle for technology flows and an important source of non-debt inflows for attaining competitive efficiency by creating a meaningful network of global competitiveness and interconnections. It provides opportunities to host countries to enhance their economic development and opens new opportunities to home countries to optimize their earnings by employing their ideal resources. India ranks fifteenth in the services output and it provides employment to around 23% of the total workforce in the country. The various sectors under the Services Sector in India are construction, trade, hotels, transport, restaurant, communication and storage, social and personal services, community, insurance, financing, business services, and real estate.

The flow of FDI in Indian service sector is boosting the growth of Indian economy, this sector contributing the large share in the growing GDP of India. This sector attracting a significant portion of total FDI in Indian economy and it has shown especially in the second decade (2000 - 2010) of economic reforms in India. Is this contribution of FDI in this sector is stimulating the economic growth or not, this knowledge thrust of research scholar create the interest in conducting this study. The main objective of the study are-

- a) To study the FDI inflows in Indian Service Sector from 1991-2010.
- b) To study the relationship between service sector growth and India economy.

2. METHODOLOGY

The study is based on secondary sources of data. The main source of data are various Economic Surveys of India and Ministry of Commerce and

Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, news papers, etc.

3. REVIEW OF LITURATURE

There are a numbers of studies which have analysed the different aspects of FDI , some of them are as, **Bhattacharyya (1994), Jain (1994)**, Studies by **Subramanian, et al. (1996) and Gopinath (1997)** examined the determinants of FDI. **Subramanian, et al. (1996)** found that the availability of primary material inputs for manufacture and the large size of the domestic market for the sale of the manufactured products are the two principal economic determinant of location of FDI inflow. Other two factors that influenced the FDI are the growth rate of GDP and the level of infrastructure facility. **Alvin and Wint (1992)** Reviews the liberalization of FDI regulation in ten developing countries and concludes that there can be a disconnect between formal liberalization and the actual implementation of the screening process. **Dornbusch and Park (1995)**, Observe that foreign investors pursue a positive feedback strategy, which makes stocks to overreact to change in fundamentals. **Borensztin et al (1998)**, Examine absorptive capacity of recipient country, which is measured by stock of human capital required for technological progress; it takes place through 'capital deepening' associated with new capital goods brought into an economy by FDI. **Nair-Reichert and Weinhold (2001)**, Postulate panel and time series estimators to impose homogeneity assumptions across countries in the relationship between FDI and growth and they marshal evidence to show considerable heterogeneity across countries,

Tanay Kumar Nandi and Ritankar Saher

(2007), In their work made an attempt to study the Foreign Direct Investment in India with a special focus on Retail Trade, This paper stresses the need of FDI in India in retail sector and uses the augment that FDI is allowed in multiple sectors and the effects have been quite good without harming the domestic economy and The study also suggests that FDI in retail sector must be allowed.

The services sector comprising financial and non-financial services attracted FDI worth US\$ 3.54 billion during April-December 2009-10, while computer software and hardware sector garnered about US\$ 595 million during the said period. The telecommunications sector attracted US\$ 2.36 billion FDI during April-December 2009-10. During the April- December period in 2009-10, Mauritius has led the investors into India with US\$ 8.91 billion worth of FDI, followed by Singapore with US\$ 1.7 billion and the US with US\$ 1.58 billion, according to latest data released by DIPP. The Indian retail market, which is the fifth largest retail destination globally, has been ranked the most attractive emerging market for investment in the retail sector by AT Kearney's annual Global Retail Development Index (GRDI), in 2009.

4. PERFORMANCE OF SERVICE SECTOR

The performance table of services sector (**Table - 1**) gives figures of the annual growth rates of GDP at factor cost and the services sector and its three constituent categories from 2001-02 onwards — that is the growth rates recorded by the three components of services:

Table -1
Growth of Services Sector in India (In Percent)

Growth of Services Sector in India (In %) Year	Trade, Hotel, Transport and Communication	Finance, Insurance and Real Estate	Community, Social and Personal Service	Total Service GDP
2001-02	9.2	7.3	3.9	7.1
2002-03	9.1	8.0	3.8	7.3
2003-04	12.0	4.5	5.4	8.2
2004-05	10.6	9.2	9.2	9.9
2005-06	11.5	9.7	7.8	10.0

- A. Trade, hotel, transport and communication,
- B. Financing, insurance, real estate, and
- C. Community, social and personal services.

Thus, (**Table - 1**) shows the growth of the service sector. It is clear from Table I that the service sector had higher aggregate rates of growth than that observed in GDP. 'Trade, hotels, transport and communications' segment has continuously registered higher growth rates than the other two segments of service.' Community, social and personal services'.

5. SERVICES SECTOR CONTRIBUTION TO THE INDIAN ECONOMY

The Services Sector contributes the most to the Indian GDP. The Sector of Services in India has the biggest share in the country's GDP for it accounts for around 53.8% in 2005. The contribution of the Services Sector in India GDP has increased a lot in the last few years. The Services Sector contributed only 15% to the Indian GDP in 1950. Further the Indian Services Sector's share in the country's GDP has increased from 43.695 in 1990- 1991 to around 51.16% in 1998- 1999. This shows that the Services Sector in India accounts for over half of the country's GDP. The contribution of the Services Sector has increased very rapidly in the India GDP for many foreign consumers have shown interest in the country's service exports. This is due to the fact that India has a large pool of highly skilled, low cost, and educated workers in the country. This has made sure that the services that are available in the country are of the best quality. The foreign companies seeing this have started outsourcing their work to India especially in the area of business services which includes business process outsourcing and information technology services. This has given a major boost to the Services Sector in India, which in its turn has made the sector contribute more to the India GDP.

6. RECENT TRENDS IN INDIAN SERVICE SECTOR

By services sector we mean the tertiary sector, which is the largest of the three constituent sectors in terms of contribution to Gross Domestic Product (GDP) in India. The service sector comprises trade, hotels and restaurants, transport, storage, communication, financing, insurance, real estate and

business services, community services (public administration and defense) and other services. This sector provides services of final consumption nature as well as intermediate nature, the latter accounting for a major share. Substantial parts of services such as transport and communications are in the form of intermediate inputs for production of other goods and services.

7. FDI AND INDIAN SERVICE SECTOR

The sector wise shift of FDI in last two decade have shown a dramatically change. For comparison, this study divide the period from August 1991 to March 2009 into two decade first from 1991 to 2000 and second 2000 to 2009 (**Table 2**). During the first decade of reforms started from August 1991 to December 1999, services sector on Indian economy was unable to attract the attentions of foreign investor and old third place after the transportation and electrical equipment, but second decade started from January 2000 to March 2009, the emergence of the service sector have change the composition of foreign direct investment in India. In the second decade of economic reforms this sector account 27 percent of total FDI and hold first rank in attractive sector for foreign investor. This is due to the growth of sub sectors like IT, Financial Services, Insurance sector extra. There is a new wave in the growth of India financial sector after liberalization insurance industry growing with rapid rate. The number of merger and acquisition in the insurance industry as well as in banking sector also, number of private banks are growing in India. The performance of foreign banks is quit well. Government of India planning for issue some new license for privatization of Indian banking sector and it is assumed the sector will continue with sector growth.

8. CURRENT SCENARIO OF EMPLOYMENT SERVICE IN INDIAN SERVICE SECTOR

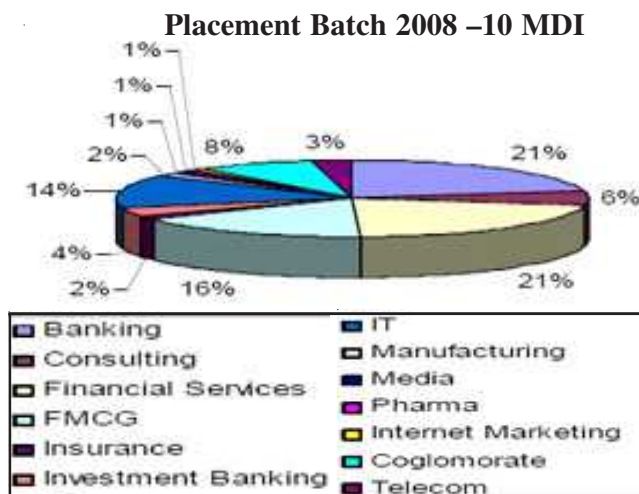
The number of service sector jobs (skill and unskilled) has increased in India, new findings have revealed. A survey conducted by the country's Labor Ministry indicated that during the last quarter, employment in the industry rose to 15.72 million,

Table -2
FDI in First & Second Decade of Liberalization Sector - Wise FDI

First Decade of Liberalization (1991-99)		Second Decade of Liberalization (2000-2009)	
Sectors	FDI in percentage	Sectors	FDI in percentage
Transportations	9	Computer Software and hardware	10
Electrical Equipment	8	Construction	6
Service	7	Services	21
Telecommunication	7	Telecommunication	7
Chemicals	7	House & Real Estate	6
Others	62	Others	50

Channel News Asia reported. The research revealed that two sectors have shown the strongest improvement in terms of hiring levels; information technology and business process outsourcing. Commenting on the findings, Nimish Adani, chief executive of workosaur.com, told Channel News Asia: “As far as employment is concerned, there have been certain short-term initiatives taken by the government.” There has been an infusion of stimulus packages in sectors which were labor intensive. So, there has been a marginal improvement.” Finance Services sector is growing with rapid rate, Finance sector is the second preferred choice of students of management postgraduate in top B-Schools in India, following figures are explaining the preference of skilled professional in Indian service sector. For analyzing the perception of skilled toward various segment of service sector, some data of top B- Schools in India have been taken, Figure – 01 exploring the employment interest

Figure – 01



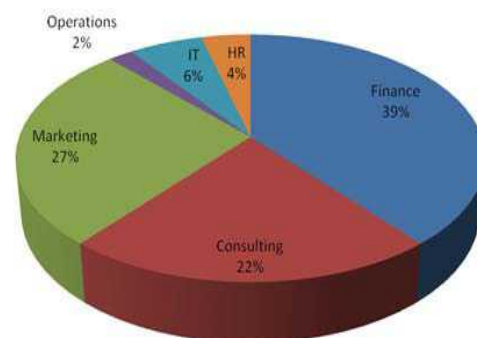
of MDI batch 2008 – 10, it has been analyzed that Banking and Financial services was the most preferred area by the students for their future employments. It was same in case of IIM K and FMS (Figure -2&3) management student consulting and finance were the major options of students in comparison to other, it means FDI in service sector is creating more opportunities in case of skilled employment India. If it will continue with this rate then the disposable income in India will go higher and Indian economy create more job opportunities in the economy.

9. FINDINGS OF THE STUDY

FDI is an important stimulus for the economic growth of India. It has shown a tremendous growth in second decade (2000 -2010) that is three times then the first decade of FDI in services sector. Banking & Insurance is first and Telecommunication is second segment of service sector which pick the growth in second decade of reforms. It creates high perks jobs for skilled employee in Indian service sector.

Figure - 02

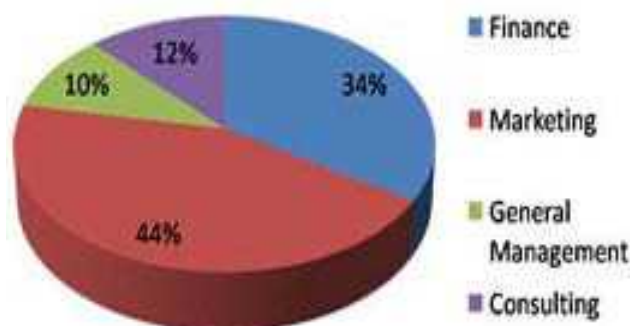
Placement Batch 2008 -10 IIM K Batch



10. CONCLUSION

From the above discussion, it can be concluded that at the sectoral level of the Indian economy, FDI has played a significant role in increasing the level of output, productivity and employment in some sectors especially in service sector of India. Indian service sector is generating the proper employment options for skilled worker with high perks. And it looks that in the coming future this instrument will continue to perform the same.

Figure - 03
Placement Batch 2008 -10 FMS Batch



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