



FOREIGN DIRECT INVESTMENT EQUITY INFLOWS INTO INDIA'S SERVICES SECTOR AND ITS IMPACT ON INDIAN ECONOMY

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ABSTRACT

Foreign Direct Investment is a tool for economic growth through its strengthening of domestic capital, productivity and employment. FDI also plays a vital role in the up gradation of technology, skills and managerial capabilities in various sectors of the economy. The flow of FDI in India's service sector is boosting the growth of Indian economy, this sector contributing the large share in the growing GDP of India. The various sectors under the Services Sector in India are Financial and Banking Services, Insurance, Research and Development, Non-Banking and Business Services, Outsourcing, Courier, Technical Testing and Analysis and other services. This paper highlights the role of FDI in various sub sectors of services sector and its contribution to the growth of Indian economy year wise. FDI equity inflows into India's services sector over the period of five years commencing from 2013 to 2017 have been taken for the study which is purely secondary data. Tools used to investigate the relationship between FDI inflows in services sector and Gross Domestic Product are CAGR, Percentage Analysis and Correlation. This analysis has revealed that Foreign Direct Investment has moderate impact on GDP.

KEYWORDS: *Foreign Direct Investment, Service Sector, Gross Domestic Product.*

INTRODUCTION

Foreign investment is a strategic instrument of development policy. It plays an important role in the long-term economic development of a country by augmenting availability of capital, enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity, generating new employment opportunities and boosting exports. India has already marked its presence as one of the fastest growing economies of the world. It has been ranked among the top ten attractive destinations for inbound investments. Since 1991, the regulatory environment in terms of foreign investment has been consistently eased to make it investor-friendly. However, the emphasis has been on foreign direct investment (FDI) inflows in the development of infrastructure, technological upgradation of industry and setting up of Special Economic Zones (SEZs). With a vast reservoir of skilled and cost-effective manpower, India is now recognized as one of the most attractive investment destinations by reputed international rating organizations.

The contribution of the Services Sector has increased 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 having realized the availability of quality services at a lower cost 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 turn has made the sector contribute more to the GDP of India

REVIEW OF LITERATURE

Dr. Arjun Singh Sirari and Mr. Narendra Singh Bohra (2011) 'Foreign Direct Investment (FDI) in India's Service Sector (A Study of Post Liberalization)'. The present paper attempts to analyze significance of the FDI Inflows in Indian service sector since 1991 and the related growth of service sector FDI in generation of employment in terms of skilled and unskilled labourers. The sectoral analysis has revealed that FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. Indian service sector is generating the proper employment options for skilled workers with high perks.

Narender Yadav (2014) ‘FDI to Service Sector in India’
 Foreign Direct Investment (FDI) plays important role in the economic development of a country. In 1991, Liberalization, Privatization and Globalization aimed at making the Indian economy a faster growing economy and globally competitive. Service sector is one of the largest and fastest growing sectors in India. The share of services in India’s GDP at factor cost (at current prices) rose from 51 per cent in (2000-01) to 57 per cent in (2013–14). This paper highlights the role of FDI in various sectors like financial services, Telecommunication services, Information Technology services, Construction development etc. and its contribution to Indian economy year wise. They have studied the effect of FDI inflows on the Indian economy over the period of 2000 to 2014 on the basis of secondary data. A statistical model was developed to investigate the relationship between FDI inflow and Gross Domestic Product in services sector. This analysis has revealed that Foreign Direct Investment has positive and significant impact on GDP.

OBJECTIVES OF THE STUDY

- To study the Foreign Direct Investment Equity inflows in India’s Services Sector from 2013-2017.
- To study the relationship between Foreign Direct Investment Equity inflows in services sector and Gross Domestic Product.

RESEARCH METHODOLOGY

Source of Data: The study is based on secondary data. The required data have been collected from Bulletin of RBI, Department of Industrial Policy and Promotion.

Period of the Study: The study covers a period of 5 years from 2013 to 2017. The Calendar year starts from 1st January and ends with 31st December.

Tools used for the Study:

- Compounded Annual Growth Rate
- Percentage Analysis
- Pearson’s R Spearman Correlation

ANALYSIS AND FINDINGS

Analysis

Foreign Direct Investment Equity Inflows into India in Sub-Sectors of Service Sector (Amount in INR Million)

YEAR	SECTORS	FDI EQUITY INFLOWS	RATE OF GDP	% ON TOTAL INFLOWS
2013	Finance	39,372.71	6.4	3.11
	Banking Services	17,726.63		1.39
	Insurance	8,828.45		0.7
	Non-Finance Services/Business Services	43,823.8		3.54
	Outsourcing	1,193.71		0.09
	Research & Development	1,381.14		0.11
	Courier	3,273.88		0.25
	Technical Testing & Analysis	4,084.54		0.30
	Other Services	16,470.76		1.29
Pearson’s R Spearman Correlation		9.25		
2014	Finance	86,698.20	7.4	4.93
	Banking Services	14,337.10		0.80
	Insurance	14,462.80		0.82
	Non-Finance Services/Business Services	34,918.70		1.99
	Outsourcing	4,926.60		0.29
	Research & Development	4,541.40		0.26
	Courier	486.50		0.03
	Technical Testing & Analysis	1,482.50		0.08
	Other Services	17,577.00		0.99
Pearson’s R Spearman Correlation		-4.72		
2015	Finance	1,77,912.14	8.2	7.16
	Banking Services	983.06		0.04
	Insurance	37,010.77		1.48
	Non-Finance Services/Business Services	1,28,190.04		5.02
	Outsourcing	27,477.70		1.07
	Research & Development	16,292.25		0.64
	Courier	5,523.29		0.22
	Technical Testing & Analysis	1,019.74		0.04
	Other Services	15,565.58		0.62

Pearson's R Spearman Correlation		-1.23	
2016	Finance	1,23,393.50	3.95
	Banking Services	78,740.35	2.53
	Insurance	2,40,937.38	7.74
	Non-Finance Services/Business Services	2,09,392.05	6.71
	Outsourcing	1,768.51	0.06
	Research & Development	5,589.85	0.18
	Courier	2,218.79	0.07
	Technical Testing & Analysis	2,471.85	0.08
	Other Services	19,539.67	0.63
Pearson's R Spearman Correlation		-1.09	
2017	Finance	92,459.90	3.26
	Banking Services	14,764.55	0.53
	Insurance	1,13,323.94	3.97
	Non-Finance Services/Business Services	95,104.75	3.37
	Outsourcing	2,622.04	0.09
	Research & Development	8,189.65	0.29
	Courier	22,853.05	0.81
	Technical Testing & Analysis	3,028.18	0.11
	Other Services	21,778.55	0.77
Pearson's R Spearman Correlation		6.30	
Compound Annual Growth Rate		205.62	

Source: (Department of Industrial Policy and Promotion 2013-2017)

FINDINGS

- The sectoral analysis reveals that Service Sector is the fastest growing sector. Service sector (financial and non-financial), has been the hotspot for all the years of study period (2013-2017).
- The compound annual growth rate of Foreign Direct Investment Equity inflows into India in sub sectors of service sector for the study period is found to be 205.62 per cent.
- The co-efficient of correlation between sub sectors of service sector and GDP for the years 2014-2016 are (-4.72), (-1.23), (-1.09) which indicate a negative correlation between the variables. Sub sectors of service sector and GDP move in the opposite direction.
- The co-efficient of correlation between sub sectors of service sector and GDP for the years 2013 and 2017 are (9.25), (6.30), which indicate a positive correlation between the variables. Sub sectors of service sector and GDP move in the same direction.

CONCLUSION

Foreign Direct Investment as a strategic component of investment is needed by India for its sustained economic growth. 21st century has brought incredible structural changes in the global economies, because of the remarkable contribution of the service sector. The dynamics of the services sector have introduced new growth impulses stimulating investment, income, consumption and employment. The study concludes that FDI Equity inflows have shown significant growth from 2013 to 2017 in sub sectors of Indian service sector. The current study shows a moderate impact of foreign capital flows on the Indian Economy.

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