



## Foreign Direct Investment In Service Sector & Economic Development

### KEYWORDS

Foreign Direct Investment (FDI), Economic Development, Service Sector

**Dr.Pallavi. S. Kusugal**

Assistant Professor, Department of Studies & Research in Economics, Tumkur University, Tumkur-572103, Karnataka,

**Dr. Nagaraja.S**

Assistant Professor & Coordinator, Department of Studies & Research in Sociology, Tumkur University, Tumkur-572103, Karnataka

### ABSTRACT

*The services sector with an around 57 % contribution to the gross domestic product (GDP), has made rapid growth in the last few years and emerged as the largest and fastest-growing sector of the economy. The growth of the services sector is closely linked to FDI inflows into this sector and the role of transnational firms. In the context of FDI, the uncertainty in classifying the different activities under the services sector continues. However, the combined FDI share of financial and non-financial services, construction development, tele-communications, computer hardware and software, and hotels and tourism can be taken as a rough estimate of the FDI share of services, though it could include some non-service elements. The Service sector has been witnessed most growing sector and most attracting by FDI. This shows that FDI in service sector improves the Economy.*

*Hence, here this paper has been made an attempt to study the FDI in Service sector and Economic Development of India.*

### INTRODUCTION:

Foreign direct Investment (FDI) flows are usually preferred over other forms of external finance like port polio investment because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills, and technology. In a world of increased competition and rapid technology change, their complimentary and catalytic role can be valuable (Tamuli.M.K:2006). In India most attracting FDI is by service sector and also its contribution to the Indian Economy is significant.

The services sector with an around 57 per cent contribution to the gross domestic product (GDP), has made quick steps in the last few years and emerged as the largest and fastest-growing sector of the economy. Besides being the dominant sector in India's GDP, it has also contributed substantially to foreign investment flows, exports, and employment. India's services sector covers a wide variety of activities that have different features and dimensions. Some services like IT and telecommunications are very sophisticated, involving high technology and expertise, while some are simple like those of barbers and plumbers. Some services like transport have high linkages with the industrial sector and some like tourism have high employment linkages. Some services like railways and port fall under the definition of infrastructure, while some like construction fall under the definition of industry. Thus there are many borderline inclusions and exclusions.

### Objectives of this paper:

To examine the Role of service sector to the Economic Development.

To study the Foreign Direct Investment (FDI) in service sector.

### Database & Methods:

Here this paper is based on secondary data. The collected information is through by Several Government Reports, Working Papers, Journals, Unpublished thesis and Books.

### Data Analysis:

The services sector covers a wide range of activities ranging from services provided by the most sophisticated sectors like telecommunications, satellite mapping, and computer software to simple services like those performed by the barber, the carpenter, and the plumber; highly capital-intensive activities like civil aviation and shipping to employment-oriented activities like tourism, real estate, and housing; infrastructure-related activities like railways, roadways, and ports to social sector related activities like health and education. Thus, there is no one-size-fits-all definition of services resulting in some overlapping and some borderline inclusions. The National Accounts classification of the services sector incorporates trade, hotels, and restaurants; transport, storage, and communication; financing, insurance, real estate, and business services; and community, social, and personal services. In the World Trade Organization (WTO) list of services and the Reserve Bank of India (RBI) classification, construction is also included.

Services in India are emerging as a prominent sector in terms of contribution to national and states' incomes, trade flows, FDI inflows, and employment. Table No.1 shows the Share and growth of India's service sector.

**Table no.1: The Share and Growth of India's Services Sector (at factor cost)**

	2000-01	2011-12@	2012-13*	2013-14**
Trade, hotels, & restaurants	14.5 (5.2)	17.4 (1.2)	17.2 (4.5)	24.0 (3.0)#
Trade	13.2 (5.0)	15.9 (1.0)	15.8 (4.8)	—
Hotels & restaurants	1.3 (7.0)	1.5 (3.8)	1.4 (0.5)	—
Transport, storage, & communication	7.6 (9.2)	7.3 (9.4)	7.5 (6.0)	—
Railways	1.1 (4.1)	0.7 (7.5)	0.8 (0.3)	—
Transport by other means	5.0 (7.7)	5.4 (8.6)	5.6 (6.6)	—
Storage	0.1 (6.1)	0.1 (2.9)	0.1 (8.6)	—

Communication	1.5(25.0)	1.1 (11.2)	1.1 (6.5)	—
Financing, insurance, real estate, & business services	14.1 (3.5)	16.5 (11.3)	17.2 (10.9)	18.5 (12.9)
Banking & insurance	5.4 (-2.4)	5.7 (12.9)	5.9 (11.8)	—
Real estate, ownership of dwellings, & business services	8.7 (7.5)	10.7 (9.9)	11.4 (10.0)	—
Community, social, & personal services	14.7 (4.6)	13.8 (4.9)	14.3 (5.3)	14.5 (5.6)
Public administration & defence	6.5 (1.9)	5.9 (4.2)	6.0 (3.4)	—
Other services	8.2 (7.0)	7.8 (5.4)	8.2 (6.8)	—
Construction	6.0 (6.1)	8.2(10.8)	8.1 (1.1)	7.8 (1.6)
Total services	51.0 (5.1)	54.9 (6.6)	56.3 (7.0)	57.0 (6.8)
Total services (including construction)	57.0 (5.2)	63.1 (7.1)	64.4 (6.2)	64.8 (6.2)
Total GDP	100.0 (4.1)	100.0 (6.7)	100.0 (4.5)	100.0 (4.7)

**Source:** Central Statistics Office (CSO) & Economic Survey 2013-14, Government of India, New Delhi

**Notes :** Shares are in current prices and growth in constant prices; Figures in parentheses indicate growth rate; \* first revised

estimates, @ second revised estimates, \*\* provisional estimate; # includes the combined share and growth of trade,

hotels, & restaurants and transport, storage, & communication for 2013-14.

#### FDI in the World Services Sector:

As per the United Nations Conference on Trade and Development (UNCTAD) World Investment Report 2014, the global foreign direct investment (FDI) flows in 2013 at US\$ 1.45 trillion grew by 9 per cent, showing an encouraging trend after a decline in 2012. Developing economies maintained their lead in 2013 receiving US\$ 778 billion, or 54 per cent of the total FDI flows. UNCTAD projects that total FDI flows could rise to US\$ 1.6 trillion in 2014, US\$ 1.7 trillion in 2015, and US\$ 1.8 trillion in 2016, with relatively larger increases in developed countries. Fragility in some emerging markets and risks related to policy uncertainty and regional instability may negatively affect the expected upturn in FDI.

**Table No.2: FDI in Service sector**

Ranks	Sector	Value (in US \$ million)				Percentage to Total	Growth rate	
		2011-12	2012-13	2013-14	Cumulative Inflows (Apr. 2000-Mar. 2014)		2012-13	2013-14
1	Services sector (financial & non-financial)	5216	4833	2225	39460	18	-7.3	-4.0
2	Construction development #	3141	1332	1226	23306	11	-57.6	-8.0
3	Telecommunications	1997	304	1307	14163	7	-84.8	29.9
4	Computer software & hardware	796	486	1126	12817	6	-38.9	31.7
5	Hotels & tourism	993	3259	486	7118	3	228.2	-85.1
	Total top five services	12143	10214	6370	96864	45	-15.9	-37.6
	Total FDI inflows	46556	34298	36396	217581	100	-26.3	6.1

Services continued to account for the largest shares of announced Greenfield projects and mergers and acquisition (M&A) deals. In 2013, the value of FDI in greenfield projects in the services sector grew by 20 per cent to US\$ 385 billion as compared to a 9 per cent growth in total value of FDI in greenfield projects. However, in cross-border M&A, the services sector declined by 7 per cent to US\$ 155 billion in 2013 as compared to 5 per cent growth in total FDI value in M&A.

#### FDI in the Indian Services Sector:

The growth of the services sector is closely linked to FDI inflows into this sector and the role of transnational firms. In the context of FDI, the ambiguity in classifying the different activities under the services sector continues. However, the combined FDI share of financial and non-financial services, construction development, telecommunications, computer hardware and software, and hotels and tourism can be taken as a rough estimate of the FDI share of services, though it could include some non-service elements.

In the table no.2, the share is 45 per cent of the cumulative FDI equity inflows during the period April 2000-March 2014. If construction, the borderline inclusion, is excluded, then it falls to 34 per cent. The five services sectors are also the sectors attracting the highest cumulative FDI inflows to the economy with financial and nonfinancial services topping the list at US\$ 39.5 billion during the period April 2000-March 2014. This is followed by other service sectors like construction development (US\$ 23.3 billion), telecommunications (US\$ 14.2 billion), and computer software and hardware (US\$ 12.8 billion). If the shares of some other services or service-related sectors like trading (2.4 per cent), information and broadcasting (1.7 per cent), construction (infrastructure) activities (1.2), consultancy services (1.1 per cent), hospital and diagnostic centres (1.1 per cent), ports (0.8 per cent), agriculture services (0.8 per cent), education (0.4 per cent), air transport including air freight (0.2 per cent), and retail trading (0.1 per cent) are included then the total share of cumulative FDI inflows (2000-01 to 2013- 14) to the services sector would increase to 54.7 per cent. In 2013- 14, FDI inflows to the services sector (top five sectors including construction) declined sharply by 37.6 per cent to US\$ 6.4 billion compared to an overall growth in FDI inflows at 6.1 per cent.

**Source:** Based on Department of Industrial Policy and Promotion (DIPP) data. & Economic Survey,2013-14, Govt of India,New Delhi

**Notes :** # indicates township, housing, built-up infrastructure and \* indicates radio paging, cellular mobile, basic telephone services.

#### CONCLUSION:

Services in India are emerging as a prominent sector in terms of contribution to national and states' incomes, trade flows, FDI inflows, and employment. The growth of the services sector is closely linked to FDI inflows into this sector and the role of transnational firms. In the context of FDI, the ambiguity in classifying the different activities under the services sector continues. The Service sector has been witnessed most growing sector and most attracting by FDI. This shows that FDI in service sector improves the Economy.

#### REFERENCE

• Government of India, Economic Survey (2013 & 2014), New Delhi | • Jain.P & S.Bimal(2014): " Enhancing India-Pakistan Economic cooperation: prospects for Indian Investment in Pakistan" Working Paper,274, Indian Council for Research in International Economic Relations(ICRIER), New Delhi | • S.Hooda(2011): "A Study of FDI and Indian Economy", Submitted PHD thesis in Management, NIT,Kurukshetra. | • Shalini Agarwal,et,al(2012): "FDI in India", International Journal of Computational Engineering & Management, Vol. 15 Issue 5, September 2012 | • Tamuli.M.K (2006): "Foreign Direct Investment in India: An Analytical Overview", Akanksha Publishing House, New Delhi. |