

### ***FDI inflows and Services sector in India: A Contribution towards GDP***

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*Foreign Direct Investment is very important factor for the development of the country and also plays a vital role for the technological up gradation and generation of employment opportunities. Service sector grows at a faster rate as compared to goods trade and beneficial for the transfer of the managerial skills abroad. The role of FDI was increased after the new economic policy 1990-1991. In this research paper we measure the effects of FDI inflows on the service sector and the contribution of service sector towards GDP. The results found that foreign direct investment had a good and positive impact on the GDP.*

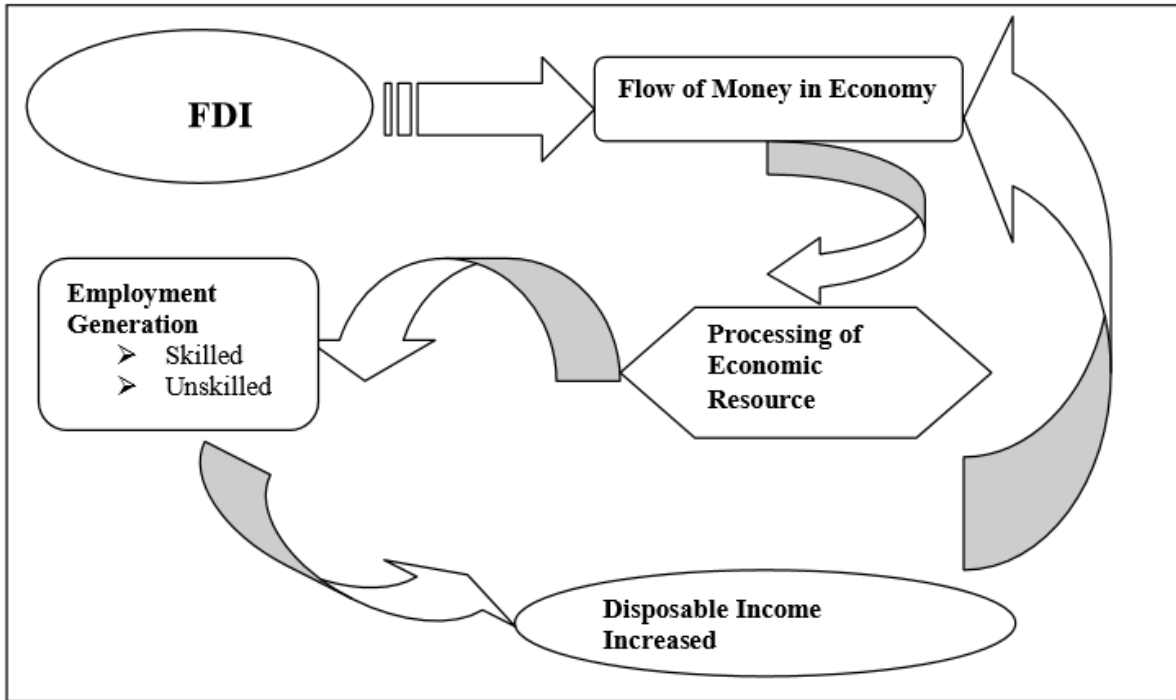
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#### ***Introduction***

Indian economy is developing economy and covered by three major sectors: Primary sector, Secondary sector and Tertiary sector. Primary sector deals with agricultural activities, secondary sector deals with industries that are the conversion of raw material into finished goods and tertiary sector deals with services that are intangibility which includes hotels, transport, communication, real estate, banking, insurance etc. Every sector has its own importance, as the contribution made by the primary sector as well secondary sector was lesser than the service sector Service sector is the lifeline for the social economic growth of a country. It is today's the largest and fastest growing sector globally contributed nearly 66.1 percent towards its growth also provide employment to a large number of people than any other sector.

According to DIPP (Department of Industrial Policy and Promotion), services sector has included huge amount of foreign direct investment equity inflows during the period April 2000 – September 2014 (45 \$ 40, 684.98 million) which is 18 percent of total foreign inflows. In addition five sectors which attract highest FDI inflows includes financial and non-financial services, telecommunications, computer software & hardware & hotels & tourism total foreign direct investment of India in terms of outflows have increased to \$ 14.6 billion in 2010 from \$ 4 million in 1980s .Major foreign direct investment were in tertiary sector, than agricultural sector etc. FDI was 31.4 percent in 2011-2012, as our Indian economy goes globalized after the New Economic policy 1991 FDI's will be likely to grow in the future.

**Figure – 01**  
**Link Model: FDI and Economic Growth**



**Objectives of the Research:**

1. To study the contribution of the service sector towards GDP.
2. To study the impact of the service sector on the FDI.

**Methodology of the study**

The study is based on secondary sources of data. The main sources of data are various Economic Surveys of India, DIPP various issues, journals, articles, etc.

**Literature Review**

Gordon and Gupta (2003) studied on service sector revolution. The aim of the current study was to estimate the growth of service sector in India. The data for the current study was pertaining from 1951 to 1990. To achieve the objectives of current study secondary data were collected from Central Statistical Organization, World Bank. Tabular and percentage analysis were carried out to estimate the growth of service sector. It was found that communication, financial, business and IT services were the major contributors towards growth of service sector in India. Service sector grew at a rapid rate as compared to agriculture and industrial sector. It was analyzed that share of Agricultural, Industrial and Services sector was 22 per cent, 27 per cent and 51 per cent in 2003 towards India’s Gross Domestic Product. Author suggested that India had potential to grow in future if deregulation on services were continued in the near future.

Mukherjee (2007) focused on overview of service sector of India. The purpose of the research was to analyze the trends and issues of service sector of India. It also attempts to found the restrictions faced by services sector and suggestive measures. Data was pertained from 1999-2000 to 2004-2005 and secondary data were collected from various published sources like Central Statistical

Organization, Economic Survey of India 2011-12. Data were depicted in the research by usage of tabular and percentage analysis. From study it is ascertained that service sector, were the fastest giving sector in India as its contribution towards India's trade were higher than the global average. As contribution of service sector was higher (53.7) as compared to primary (21.8) and secondary sector (24.5) during year 1950-2010. Various problems were revealed for proper growth service sector like various restrictions were imposed by Foreign Direct Investment to invest in service sector, number of rules and regulations, heterogeneity of service sector create a major hindrance in the way of growth of service sector. Author suggest that if various measures like non discrimination, stable policy should be there only then it can attract foreign direct investment. If these reforms will be implemented it not only increase the periodicity and efficiency but also leads to overall growth and increase in trade of service.

Joshi (2008) focused on economy of service sector in India. The present study was conducted to study the constituents, problems, performance and prospects of India's Service Sector. It also studied the impact of service sector on growth and employment of India. Data was studied before and after liberalization period. Secondary data were collected from Central Statistical Organization. It found that contribution of service sector towards India's gross domestic product was more than 40 per cent. After followed the import substitution policy India goes up on the track of growth in area of service sector. Researcher also found that some challenges were faced by service sector in case of social infrastructure, IT infrastructure, agricultural and industrial sector etc. In addition of this government had taken some steps to improve service sector. Indian economy has potential to grow in department of IT and BPO sector.

Sirari and Bohra (2011) carried out research on Foreign Direct Investment in Indian service sector (A study of post liberalization). The purpose of the current research was to examine the importance of foreign direct investment inflows in Indian Services Sector from 1991-2010 and study the relationship between service sector growth in the Indian Economy. To achieve the objectives of the study data pertaining to the year 2001-2002 to 2005-2006 were collected from various published sources like Central Statistical Organization (CSO), Economic Survey of India, Ministry of Commerce and Industry Data, RBI bulletins, online database of Indian economy, Journals, articles and newspapers. Tables and pie charts were used in order to study the growth of service sector. Researcher concluded that FDI shows three times better performance (2000-2010) from the first decade in service sector. Banking and insurance, telecommunication were the growing sectors. Author also concluded that services sector has provided many employment opportunities for skilled workers along with high salaries.

Sen (2011) reviewed on FDI and service sector. The aim of the study was to analyze the impact on service sector due to increased Foreign Direct Investment. It also studies the impact on service sector towards India's Gross Domestic Product. To achieve the objectives data for 1970-2008 were collected from different published sources like Reserve Bank of India, UNCTAD and Business Beacon database. Tabular and percentage analyses were carried out to estimate the flow of foreign direct investment. It was found that foreign direct investment had shown a growth of 21 percent. It found that there was positive impact of foreign direct investment on service sector in addition to contribution of service sectors towards Gross Domestic Product. Author found that the following service sector had contributed more in growth of service sectors are trade, hotels and restaurants, storage and communication etc. Suggestive measures can be taken in order to increase the rate of foreign direct investment towards service sector.

**1. Contribution to GDP(Gross Domestic Product)**

Service Sector had a major share in India's GDP in the year 2011-2012 that is 54.91 percent as compared to primary and secondary sector which contributed 17.86 percent and 21.22 per cent respectively. The share of service sector shows a change of 4.79 per cent during liberalization period.

**TABLE -1: Average by decade of the share of different sectors in India GDP**

Year	Primary Sector	Secondary Sector	Tertiary Sector
1951-52	50.67	15.00	33.59
1961-62	41.77	19.93	38.56
1971-72	40.28	21.23	38.37
1981-82	34.07	25.12	40.39
1991-92	29.39	25.40	44.18
2001-025	22.92	25.08	51.99
2011-12	17.86	27.22	54.91

Source: Central Statistics Office

**2) Contribution of services sub sector to overall services:**

Variations are seen while seeing growth and performance of different sub sector of services. Business services (including IT), communication and trade have growth faster than the overall service sector growth in India. Other services such as legal, transport, storage and personal administration and defence services have grown at the same rate as overall services sector (Gordon and Gupta 2003). The sub sector are divided into construction, real estate, finance, insurance business services, trade, hotel, transport, communication, community, social and personal service. The major sector which contributed to overall service sector were in the year 1955-56 were trade hotel, transport and communication that is 428.31 per cent followed by community, social and personal services, that was 357.65 per cent and then finance insurance, real estate and business service that is 286.79 per cent and lastly construction services.

**TABLE-2**

**Contribution of different service sub sectors towards overall services.**

Year	Services	Construction	Trade, hotels, transport and communication	Finance, insurance, real estate and business services	Community, social and personal services
1955-56	1263.15	190.40	428.31	286.79	357.65
1960-1961	1501.68	262.95	518.79	312.52	407.41
1965-1966	1953.04	365.09	680.79	367.66	539.50
1970-1971	2412.54	450.96	842.05	437.35	682.18
1975-1976	2879.84	479.48	1059.80	521.42	819.14
1980-1981	3613.71	607.57	1339.06	650.41	1016.66
1985-1986	4778.16	686.54	1781.95	997.83	1311.84
1990-1991	6686.49	951.84	2377.36	1551.65	1805.64
1995-1996	9069.51	1129.11	3425.36	2263.48	2251.57
2000-2001	13353.55	1553.78	5067.42	3292.71	3439.63
2005-2006	20063.02	2581.29	8154.07	4923.40	4404.26
2010-2011	32020.88	3747.08	13440.24	8491.8	6341.67

Source: Central Statistics Office

The sub sector are divided into construction, real estate, finance, insurance business services, trade, hotel, transport, communication, community, social and personal service. The major sector which contributed to overall service sector were in the year 1955-56 were trade hotel, transport and communication that is 428.31 per cent followed by community, social and personal services, that was 357.65 per cent and then finance insurance, real estate and business service that is 286.79 per cent and lastly construction services.

**3. Top ten countries having the highest FDI Equity Inflows:**

**Figure-1: Top Ten Countries FDI Inflows**

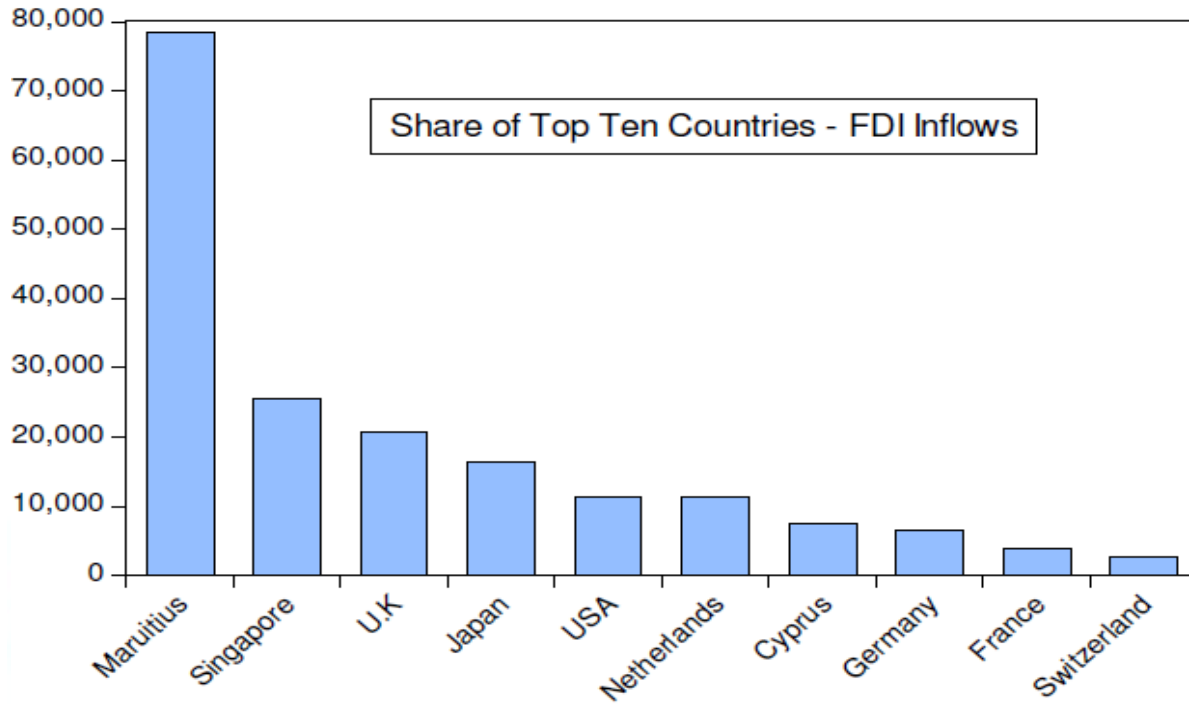


Figure shows that the major contribution has come from the Mauritius, Singapore and U.K has sharing second and third places respectively

**4. The major services sectors which attract highest equity FDI are as follows:**

**Table 1 : Services Attracting Highest FDI Equity Inflows (in US \$ million)**

Ranks	Sector	2010-11	2011-12	2012-13	Cumulative (Apr. 2000-Aug 2013)	Percentage to total	Growth Rate	
							2011-12	2012-13
1	Services sector	3,296	5,216	4,833	38,430	19.0	58.3	-7.3
2	Construction	1,655	3,141	1,332	22,672	11.2	89.8	-57.6
3	Telecommunications	1,665	1,997	304	12,879	6.4	19.9	-84.8
4	Computer Services	780	796	486	11,943	5.9	2.1	-38.9
5	Hotel & Tourism	308	993	3,259	6,790	3.4	222.4	228.2
Top five services		7,704	12,143	10,214	92,714	46.0	57.6	-15.9
Total FDI inflows		34847	46553	36,860	201,743	100	33.6	-20.8

*Source:* Based on FDI statistics of DIPP.

In 2011-12, FDI inflows to the services sector (top five sectors including construction) grew robustly at 57.62 per cent to US \$ 12.14 billion compared to the growth of overall FDI inflows at 33.6 per cent. However, in 2012-13, overall FDI inflows fell by 20.8 per cent to US\$ 36.86 billion from US\$ 46.55 billion in the previous year. Following this trend, FDI inflows in the top five services also fell by 15.9 per cent to US \$ 10.21 billion.

### **Conclusion**

The present paper makes an analysis of Indian service sector through examining its performance and potential. The study examines that service sector have grown at a higher rate as compared to industrial and primary sector. Most of the population were still engaged in the agricultural sector, but next sector which contributed to overall service sector were trade, hotels, transport and communication. From the view point of contribution, annual growth rate as well as share of individual sector to overall service sector, they showed an upward trend during the LPG or new economic policy 1991. In order to sustain the growth of this sector efforts have been made to develop construction sector e.g. infrastructural development should be made which can attract large amount of foreign direct investment. It was also found that the service sector had attracted a huge amount of the FDI inflows and can be the tool for the economic development of the country.

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