

## **FOREIGN DIRECT INVESTMENT AND SERVICE SECTOR: AN OVERVIEW**

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### **Abstract**

FDI is a tool for economic growth through its strength 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. This paper discuss about FDI and service sector: an over view.

*Key Words: FDI, Service Sector, Challenges, Advantages, Disadvantages.*

### **INTRODUCTION**

FDI to creating nations during the 1990s was the main wellspring of outside financing and has turned into a key segment of national improvement techniques for practically every one of the nations on the planet as a vehicle for innovation streams and a significant wellspring of non-obligation inflows for accomplishing aggressive effectiveness by making an important system of worldwide interconnections. FDI give chances to have nations to improve their monetary advancement and opens new chances to home nations to upgrade their income by utilizing their optimal assets. India positions fifteenth in the administrations yield and it gives work to around 23% of the all out workforce in the nation. The different segments under the Services Sector in India are development, exchange, inns, transport, café, correspondence and capacity, social and individual administrations, network, protection, financing, business administrations, and land.

### **Need and importance of the study**

The progression of FDI in Indian administration part is boosting the development of Indian economy, this division contributing the enormous offer in the developing GDP of India. This segment pulling in a noteworthy part of all out FDI in Indian economy and it has indicated particularly in the subsequent decade (2000 - 2010) of monetary changes in India. Is this

commitment of FDI in this part is animating the financial development or not, this information push of research researcher make the enthusiasm for directing this investigation.

### **Foreign Direct Investment**

In 2014, FDI in India at 34 billion US\$ expanded by 22% more than 2013. There has been a huge development in FDI inflows in 2014-2015 and 2015-2016 (April – October) by and large and in Services Sector specifically. In 2014 - 2015, FDI inflows to the Services Sector developed by an astounding 70.4% to 16.4 billion US\$. This rising pattern is proceeding in the initial seven months of 2015 – 2016 with the FDI value inflows in the administrations division developing by 74.7% to 14.8 billion US\$. Noteworthy FDI related progression has occurred in various areas to guarantee that India stays an inexorably appealing speculation goal. For an economy like India which has enormous potential, FDI has had a positive effect. FDI inflows supplement local capital, just as innovation and abilities of existing organizations. It additionally builds up new organizations. These add to financial development. This paper on —FDI in Service Sectorl talks about the commitment of FDI to the monetary development and difficulties looked by Indian government and corporate, both indigenus and remote administration part players towards FDI choices.

### **Service Sector**

Indian economy is arranged in three parts — Agriculture and associated, Industry and Services. Horticulture segment incorporates (Agriculture appropriate and Livestock), Forestry and Logging, Fishing and related exercises. Industry incorporates Manufacturing (Registered and Unregistered), Electricity, Gas, Water supply, and Construction. Administrations part incorporates Trade, fix, inns and cafés, Transport, stockpiling, correspondence and administrations identified with broadcasting, Financial, land and expert administrations, Community, social and individual Services. Administrations segment is the biggest segment of India. The administrations segment in India has remained the most energetic area as far as commitment to national and state earnings, exchange streams, FDI inflows, and business. As per the Economic Survey 2015-2016. The administrations part contributed practically 66.1% of its gross worth included development in 2015-2016 turning into the significant net outside trade

worker and the most alluring division for FDI (Foreign Direct Investment) inflows. Notwithstanding the log jam in the post emergency period (2010 - 2014), India demonstrated the quickest administration division development with a CAGR (Compound Annual Growth Rate) of 8.6% pursued by China at 8.4%. In 2014, India's administrations area development at 10.3% was observably higher than China at 8.0%. According to the ILO (International Labor Organization) report on —Global Employment and Social Outlook : Trends 2015 occupation creation in the coming years will be chiefly in the administration segment.

## Review of Literature

**Renuka, Ganesan and Durgamani (2013)<sup>1</sup>** in this Reearchon effect of FDI in Indian economy with reference to retail part in India. Destinations of the investigation were to realize the motivations to put resources into India, dissect the effect of FDI in retail segment in India and to know the patterns in various parts in India. Information has been gathered with the assistance of optional information. Advancement of exchange arrangement and less obstructions and limitations to the outside interest in the retail area of India, have made the FDI in retail segment simple. It was discovered that the greater part of the outside nations got a kick out of the chance to put their sum in administration area, Construction Industry, Telecommunications and Computer programming and Hardware, in light of the fact that these segments win more benefit in contrasted with others. FDI in retail segment help to acquire new innovation India, improve country framework, diminish wastages of agribusiness produces and so on.

## Objectives

1. To analyze the Foreign Direct Investment inflows in India.
2. To identify the Regional Flow of FDI in India
3. To determine the FDI in Indian Services Sector
4. To study the India's Services Trade
5. To contribute FDI in Service Economy – Major Service Industries Contribution
6. To challenges in Services Marketing in India

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<sup>1</sup> Renuka, R., Ganesan M. and Durgamani M.K. (2013),” Impact of FDI on Indian Economy with Reference to Retail Sector in India”, *Global Research Analysis*, Vol.2 (1), pp. 22-24.

## 7. To compare the Advantages and Disadvantages of Foreign Direct Investment

**I. FDI Inflows in India****Table 1.****FDI Inflows in India**

(Amount US\$ in Millions)

Financial year (April- March)	Total FDI inflow	Percentage growth over previous year
2000-2001	4029	---
2001-2002	6130	+ 52
2002-2003	5035	-18
2003-2004	4322	-14
2004-2005	6051	40
2005-2006	8961	48
2006-2007	22826	146
2007-2008	34843	53
2008-2009	41873	20
2009-2010	37745	-10
2010-2011	34847	-08
2011-2012	46553	34
2012-2013	36860	-21

*Source: RBI Bulletin***Analysis and Interpretation**

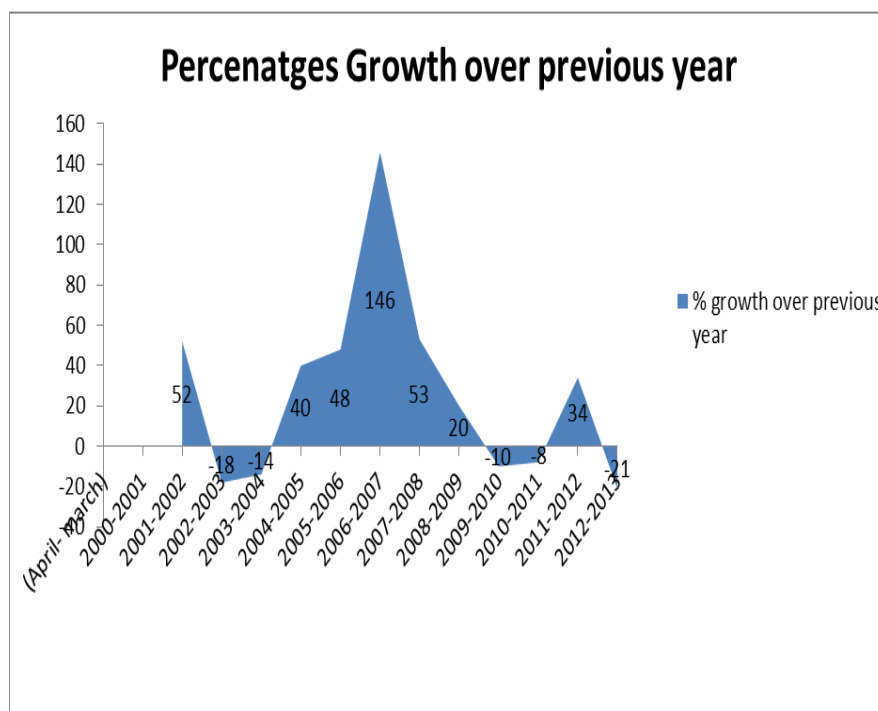
To achieve the objectives of this study we make an analysis on the basis of collected data. The results on the basis of secondary data are following as under

**Explanation**

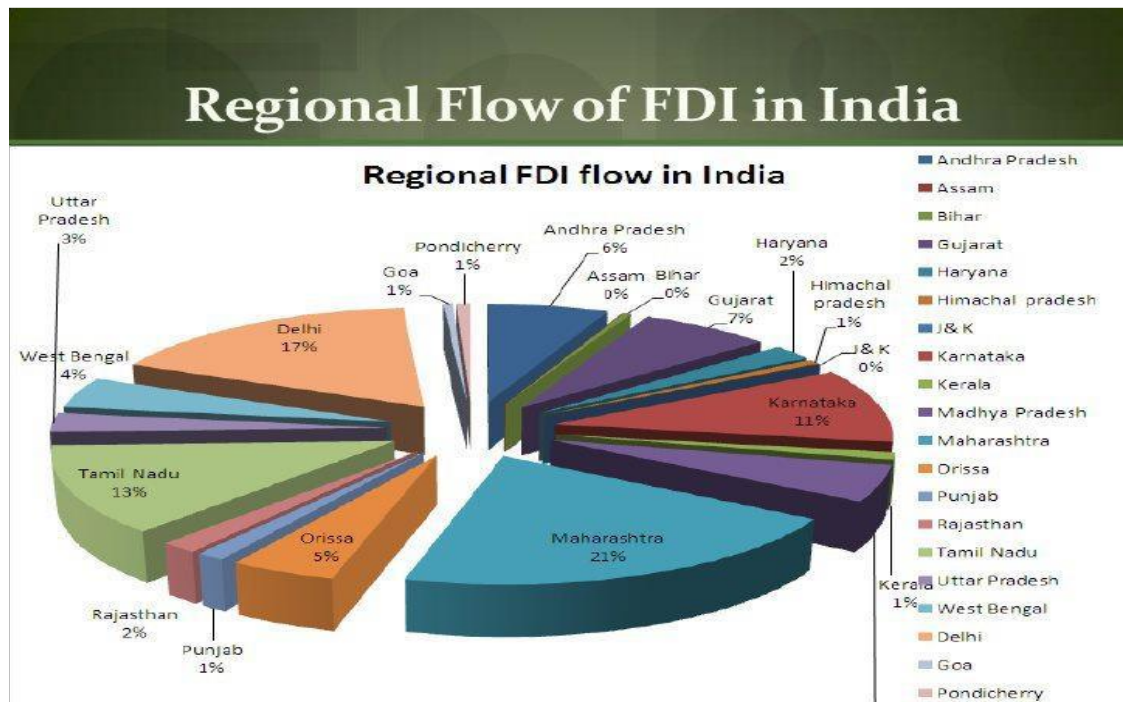
Presents the inflows of FDI for the period of 2000-2013. The results show that there is large fluctuation in the pattern of FDI inflows. In the year of 2001-2002, there is a positive increase in the value of FDI inflows due to various reasons such as heavy demand of Indian consumers, liberalized government policy, communications facilities but after this period the value of FDI is decreased. The value of FDI is increased from the period of 2004 to 2008 but after this value of FDI is decreased due to decline in the money value of rupees.

**Figure 1.**

FDI Inflows in India



## II. Regional Flow of FDI in India:



*Source: UNCTAD, 2015*

## III. FDI in Indian Services Sector:

21st Century has gotten amazing basic changes the worldwide economies, in view of the astounding commitment of the administrations area. The development of Services Sector is wonderful in late decades. The elements of the administrations area have presented new development motivations animating speculation, pay, utilization and business. As the development pace of the administrations area has quickened after monetary changes since 1980s, there has been diverse story of India's financial development. Before the part of the bargain, rose as one of the quickest developing economies on the planet, by the remarkable development of administrations area. India's Services Sector adds to GDP. Legislature of India takes dynamic and proactive measures to expand the development pace of administrations division, by welcoming Foreign Direct Investment in this part.

#### **IV. India's Services Trade**

Administrations fares have been a powerful component of India's exchange and globalization as of late. India's administrations fare developed from 16.8 billion US\$ in 2001 to 155.6 billion US \$ in 2014 which establishes 7.5% of the GDP making the nation the eighth biggest administrations exporter on the planet. The general transparency of the economy reflected by absolute exchange including administrations as a level of GDP demonstrates a higher level of receptiveness at half in 2014 – 2015 contrasted with 38% in 2004 - 2005. India's Services Import at 81.1 billion US\$ developed by 3.3% in 2014 – 2015. The Government has taken approach activities to advance administrations sends out which incorporate the Service Export from India Scheme (SEIS) and sorting out Global Exhibition on Services (GES).

#### **V. Service Economy – Major Service Industries Contribution**

- Tourism
- Shipping & Port Services
- ITBPM Services
- 4 Research and Development Services
- 5 Consultancy Services
- 6 Real Estate and Housing
- 7 Internal Trade
- 8 Media and Entertainment Services
- 9. Postal Services

#### **VI. Challenges in Services Marketing in India**

- To ensure consumer loyalty in this situation is a noteworthy test.
- In the event of the administration business the client first needs to create trust in the administration association before he purchases their administrations. The customer frequently gives more significance to the measure of confidence he has on the administration association than the administrations being offered and their incentive.

- Administration industry faces rivalry from individual administration industry as well as from their customers who frequently question themselves whether they ought to connect with an administration by any stretch of the imagination.
- The majority of the item organizations have devoted deals staff while in the administration business the administration deliverers regularly do the selling. Organizing promoting, activities and human asset endeavors is a dull assignment.
- While testing new administrations is a steady challenge imparting about these administrations at the same time is additionally difficult.
- Setting costs does not come effectively for administration industry.
- Institutionalization versus personalization is another serious issue the administration business needs to confront.

#### **VII. A. Advantages of Foreign Direct Investment**

- 1. Economic development Stimulation.**
- 2. Easy International Trade.**
- 3. Employment and Economic Boost.**
- 4. Development of Human Capital Resources.**
- 5. Tax Incentives**
- 6. Resource Transfer.**
- 7. Reduced Disparity Between Revenues and Costs.**
- 8. Increased Productivity.**
- 9. Increment in Income.**

#### **B. Disadvantages of Foreign Direct Investment**

- 1. Hindrance to domestic Investment**
- 2. Risk from Political Changes.**
- 3. Negative influence on Exchange Rates.**
- 4. Higher Cost.**
- 5. Economic Non-Viability**
- 6. Expropriation.**



## 7. Negative Impact on the Country's Investment.

## 8. Modern-Day Economic Colonialism.

### Conclusion

Putting into another nation's economy, becoming tied up with a remote organization or generally extending your business abroad can be amazingly monetarily fulfilling and may furnish you with the lift expected to bounce to another degree of achievement. Be that as it may, outside direct speculation likewise conveys dangers, and it is exceptionally significant for you to assess the monetary atmosphere completely before doing it. Likewise, it is basic to procure a money related master who is familiar with working globally, as he can give you an unmistakable perspective on the predominant monetary scene in your objective nation. He can even enable you to screen showcase soundness and anticipate future growth. Remember that we live in an inexorably globalized economy, so outside direct speculation will turn into a progressively available alternative for you with regards to business. Be that as it may, you ought to burden its focal points and impediments first to know whether it is the best street to take.

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