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INTRODUCTION

REVIEW OF LITERATURE

NEED/IMPORTANCE OF THE STUDY

STATEMENT OF THE PROBLEM

OBJECTIVES

HYPOTHESIS (ES)

RESEARCH METHODOLOGY

RESULTS & DISCUSSION

FINDINGS

RECOMMENDATIONS/SUGGESTIONS

CONCLUSIONS

LIMITATIONS

SCOPE FOR FURTHER RESEARCH

REFERENCES

APPENDIX/ANNEXURE

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IMPACT OF FDI IN SERVICE SECTOR ON ECONOMIC GROWTH OF INDIA

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ABSTRACT

In 1991, liberalization, privatization and globalization aimed at making the Indian economy a faster growing economy and globally competitive. This paper overviews the inflows of FDI in Indian service sector which impacted the growth of Indian economy positively. FDI is a tool of economic growth through its strengthening of domestic capital, productivity and employment. FDI also plays a vital role in the up gradation of technology, skill and managerial capabilities in various sector of the economy. The present Paper analyzes the significance of FDI inflow in Indian service sector. Service sector is the fastest growing sector in India, contributing significantly to GDP, GDP growth, investment, employment and trade. India is a major proponent of liberalizing service in both in WTO and its bilateral trade agreement share of service in India's GDP rose from 51 percent (2001-01) to 57 percent (2013-2014). This paper also features the inflow of FDI in various sub-sector of service sector like financial and banking services etc. The Paper also identifies a number of barriers faced by service sector and suggests policy measures which will enhance growth of Indian economy. In this research paper we have dealt with the effect of FDI inflows on the Indian economy over the period of 2002 to 2014. The statistical model was developed on economic data to investigate the relationship between FDI inflow in India, FDI inflow in service sector and GDP of Indian economy. This analysis has revealed that foreign direct investment has positive and significant impact in GDP.

KEYWORDS

FDI, service sector, economic growth, India.

INTRODUCTION

Capital is the engine of economic development. Present day industrialized economies are assisted by foreign capital and it played an essential role in the early stage of industrialization of most of the advanced countries. It plays an important role in developing economy. In the initial stage of development, domestic saving is not sufficient to meet the capital requirement, foreign capital helps by providing much needed resources for the development of the developing economy. FDI has gain importance in Indian economy. FDI is a controlling ownership in business enterprises in one country by an entity based in another country. FDI provides mutual help to both home countries and host country. For the home country, it is an investment generating income and source of spreading business operating globally. For the host country, it is a source of capital for the development of infrastructure, which is essential for economic development. So FDI has assumed importance both in developing and developed economies.

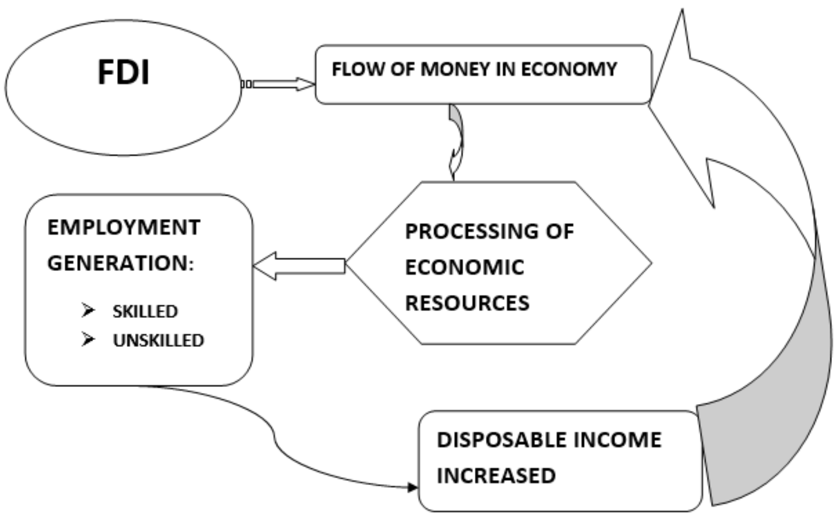
In post liberalization era, India is known to have attracted a large amount of foreign direct investment. India has been major recipient of FDI inflow in the majority of sectors. There has been an unnerving upsurge in the economic development of the country. FDI in India is allowed freely in most of the sectors, except a few, where specific guideline is given for FDI beyond a limit. India's capacity as host country in attracting FDI has been enhanced during the past reform period. Earlier the amount of FDI was low conforming to selected sectors, but now the inflow of FDI has grown tremendously and almost in all sector of the economy. Revision of FDI policy during 2005 opened the few sector for the foreign investor to start their business.

During 2000 to 2013, Indian sectors attracting highest FDI inflows are service sector, construction sector, telecommunication sector, computer hardware and software and chemical sector.

The service is a vital component of Indian economy. This sector in India comprises a wide range of activities, including social and personal services, transportation, communication, financial, real estate and business service and trading. Service sector account for around 60 percent of India's gross domestic product (GDP), has emerged as one of the largest and fastest growing sectors not just in the country but in the global landscape subsequently. Service sector contribution in global output and employment has been substantial for most countries amount the world and service sector is the largest part of their economy. The service sector in India received cumulative FDI equity of us$39460 million during period 2000 to 2014, data released by department of industrial policy and promotion (DIPP). Here FDI equity refers to investors owns directly at least 10 percent of the share stock and no more than 50 percent of investment. Equity capital comprises equity in branches, all shares in subsidiaries and association (except none participating, preferred shares that are treated as debt securities and included under direct investment, debt instrument). Share of service sector in GDP has increase from 56.53 percent in 2000 to 64.84 percent in 2013. Moreover, GDP growth rate of the service sector has been 15.44 percent which reflect that there has been significant impact of FDI inflow on the growth of service sector and economic growth of economy.

FDI AND ECONOMIC GROWTH LINKAGE MODEL

FIG. 1



OBJECTIVE, HYPOTHESIS, RESEARCH METHODOLOGY AND SCOPE OF STUDY

OBJECTIVE OF THE STUDY

The major objective of this paper is to analyze the impact of FDI inflows on the GDP growth in India especially in service sector. Objective on which this study is conducted are as follows:

1. To study the FDI inflow in Indian service sector from 2002-2014.
2. To analyze the relationship between service sector growth and Indian economy.

HYPOTHESIS

In this paper we have to find out the role and effect of FDI inflows has significant effect on Indian GDP (service sector). For that we set up a statistical hypothesis as**:**

$H0_1$: it is hypothesized that there is no significant relationship between FDI equity inflow and growth of service sector**.**
$H1_1$: it is hypothesized that there is significant relationship between FDI equity inflow and growth of service sector**.**
$H0_2$: it is hypothesized that there is no significant relationship between GDP (service sector) and overall GDP**.**
$H1_2$: it is hypothesized that there is significant relationship between GDP (service sector).

RESEARCH METHODOLOGY

Regression analysis is one of the most commonly used statistical techniques used in almost all fields. Its main objective is to explore the relationship between a dependent variable and one independent variable (which are also called predictor or explanatory variable).

Correlation analysis we used the technique of correlation to test the statistical significance of the association between FDI and GDP (service sector). Correlation helps to measure the strength and direction of linear association between two variables**.**

MODEL FORMULATION

GDP (service sector) = f (FDI equity)
GDP (service sector) = a + b (FDI equity)
GDP = f (GDP (service sector))
GDP = a + b (SGDP)

Where,
FDI (foreign direct investment, India) is the explanatory variable in log form.
GDP (gross domestic product, India) is the dependent variable in log form.
GDP (service sector) which is service gross domestic product is dependent in first and independent in second model in form of log.
Regression coefficient (to be estimated) measure how much unit of GDP would be changed with unit change in FDI.

DATA COLLECTION

The data set consist of FDI equity inflow (us$ million) in service sector of India and GDP (service sector, India) and GDP (India). The data set is secondary and covers the time period of 2002-2014. The data collected from the various sources like department of industrial policy and promotion (DIPP), RBI annual publication and journals.

SCOPE OF THE STUDY

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 position of total FDI in Indian economy and it has shown especially in the second decade (2000-2010) of economic reform 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 the study?

INDIAN SERVICE SECTOR AND GDP OF INDIAN ECONOMY

The service sector contributes the most of the Indian GDP. The service sector in India has largest share in the country's GDP for its account for around 60 percent in 2013. The service sector contributed only 15 percrent to the Indian GDP in 1950. Further the Indian service sector share in country's GDP has increased from 43.65 in 1990-1991 to around 51.60 percent in 1998-1999. During the last decade from 2000 to 2013 it share increased from 56.33 in 2000 to 64.84 in 2013. This shows that the service sector in India accounts for more than half of the service sector in India.

The service is anything which is characterized by economic motive, intangibility, contractual nature of market transaction, heterogeneity of activities, storability, transportability and skill oriented.

The classification according to CSO of service sector in India:

A. Construction includes trade, hotels and restaurant, trade (distribution service) and hotel and restaurant.
B. Transport, storage and communication include railway, transport by other mean (road, water, air transport and service incidental to transport, storage, communication (postal, money order, telegram, telephone, overseas communication service).
C. Financing insurance real estate and business service include banking, insurance, dwelling real estate, business service, legal service.
D. Community, social and personal service includes public administration, defence, personal service, community service and other service.

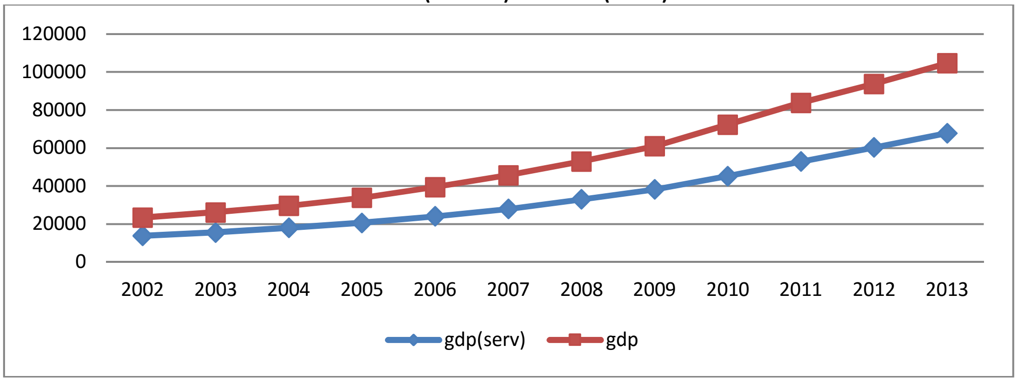
Trade point (according to GATS) of view the service trade has been classified as commercial service, transport, travel, insurance and financial service, computer, IT, communication and communication service.

ANALYSIS OF INDIAN SERVICE SECTOR CONTRIBUTION TO INDIAN GROSS DOMESTIC PRODUCT (2002-20013)

TABLE 1: SHARE OF GDP (SERVICE) IN GDP (INDIA) (2002-2013) Amount in rupee billion

YEAR	GDP(SERVICE)	GDP(INDIA)	% SHARE IN GDP
2002	13846.11	23438.64	59.07386
2003	15629.75	26258.64	59.52231
2004	18051.1	29714.16	60.74915
2005	20674.93	33905.03	60.97895
2006	24125.24	39532.76	61.02594
2007	28042.06	45820.86	61.19933
2008	33111.43	53035.67	62.43238
2009	38300.51	61089.03	62.69622
2010	45322.59	72488.6	62.52375
2011	52980.25	83916.91	63.13418
2012	60434.95	93888.76	64.36867
2013	67907.19	104728.1	64.84144

FIGURE 1: TREND OF GDP (SERVICE) AND GDP (INDIA) FROM 2002-2013



The trend in service sector has shown significant contribution to Indian GDP and its increasing rapidly. Many foreign consumers have shown interest in the country's service export, this is due to the fact that India has a large pool of skilled, low cost, and educated workers in country. Foreign companies outsourcing their work to India especially in the area of business service which include business process outsourcing and information technology service. This has given a major boost to the service sector in India which in turn has made the sector contribute more to Indian GDP.

Service means the tertiary sector, which is the largest of three constituent sectors in terms of contribution to gross domestic product (GDP) in India. The service sector comprises trade, hotel and restaurants, transport, storage, communication, training, insurance, real estate and business service, community service (public administration and defense) and other service. This sector provides service of final consumption nature as well as intermediate nature; latter accounting for major share. Substantial part of service such as transport and communication are in the form of intermediate input for production of the other good and service.

For deeper analysis of trend in service sector we have to look into the subsector of service sector. From 1991 onwards there were structural change made in the economy which include, opening of various sector reform, including banking, insurance, stock market etc. telecom sector reform which not only fueled the growth but also envisaged service oriented economy driver by technology and IT. The three subsector trade, hotels, transport and communication has continued to boost the service sector by growing at double digit rates. Impressive progress in information technology (IT) and IT enabled service both rail and road traffic and fast addition to existing stock of telephone connection particularly mobiles played key role in such growth. It is observed that Growth of financial service (banking, insurance, real estate and business service), after dipping 5.6 percent in 2003-2004 bounced back to 8.7 percent in 2004-2005 and 10.9 percent in 2005-2006. The momentum has been maintained with growth of 11.1 percent in 2006-2007(economic survey 2006-2007) service contributed as much as 68.6 percent of the overall average growth in GDP in the last five year between 2002-03 and 2006-07. But if we look at the subsector growth within the service sector only few subsectors are performing well i.e. IT, communication, BPO and ITES. The answer is not far from reality as the reforms have already accelerated the Indian economy toward achieving a target of sustained and stable growth despite the global financial turmoil of us in 2008.

The modern services that are growing most rapidly are now large enough where their future performance could have a significant macroeconomic impact. The tourism industry is a potential one which has geared itself to make tourist enjoy the holiday in destination of their choice. Entertainment industry plays an equally important role.

TESTING OF HYPOTHESIS

H_0: it is hypothesized that there is no significant relationship between GDP (Service sector) and overall GDP.

H_1: it is hypothesized that there is a significant relationship between GDP (service sector) and overall GDP.

To test the hypothesis, we have used correlation analysis. Coefficient of correlation measure the association between two variables. In particular, correlation measures the degree of association between two variables. A correlation may be positive or negative and correlation coefficient can take any value between -1 and +1.

BY ANALYZING THROUGH CORRELATION

CORRELATIONS

		VAR00001	VAR00002
GDP(INDIA)	Pearson Correlation	1	1.000(**)
	Sig. (2-tailed)		.000
	N	12	12
GDP(SERVICE)	Pearson Correlation	1.000(**)	1
	Sig. (2-tailed)	.000	
	N	12	12

** Correlation is significant at the 0.01 level (2-tailed).

RESULT

The estimated result of correlation analysis tells us the association between GDP (India) and GDP (service) is 1 which is positive and significant at.01 level of significant. This shows that that GDP (service sector) has major impact on the growth of Indian economy**.**

FDI IN SERVICE SECTOR

Capital formation is an important determination of economic growth. While domestic investments add to the capital stock in a economy. FDI plays a complementary role in overall capital formation and filling the gap between domestic saving and investment. At the macro level, FDI is a non debt creating source of additional external finance. At micro level, FDI is expected to boost output, technology, skill levels, employment and linkage with other sector and region of the host economy. FDI need to be analyzed for changes that might occur at sector level output, employment and forward and backward linkage with other sector of the economy. According to DIPP, the top FDI receiving sectors have strong backward and forward linkage with economy. Service sector is one of them. Service sector have strong forward linkage.

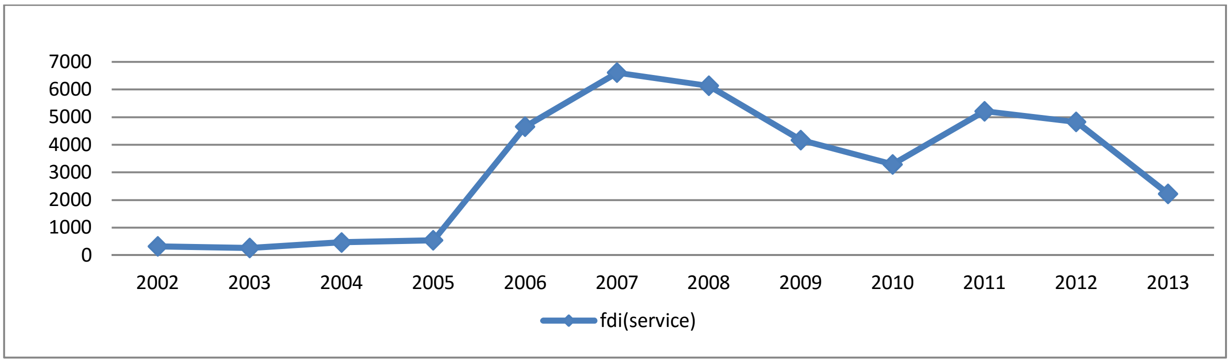
As per the classification of DIPP, the top five sector into which FDI inflows have major portion which are service sector, construction, telecommunication, computer software and hardware and chemical sector. Service sector top the chart as the FDI inflows in this sector is maximum during 2000 to 2013. It is around us$ 38824 million. Service sector become the main driver of sustain economic growth of Indian economy.

ANALYSIS OF FDI INFLOW IN SERVICE SECTOR (2002 TO 2013)

TABLE-2

YEAR	FDI(EQUITY) us$ million	GDP(SERVICE) us$ million
2002	326	13846110
2003	269	15629750
2004	469	18051100
2005	543	20674930
2006	4664	24125240
2007	6615	28042060
2008	6138	33111430
2009	4176	38300510
2010	3296	45322590
2011	5216	52980250
2012	4833	60434950
2013	2225	67907190

FIGURE 2: INFLOWS OF FDI EQUITY IN SERVICE SECTOR (2002 TO 2013)



Service sector is among the main driver of sustain economic growth and development by contributing around 55 percent to GDP. Service sector include financial service, banking service, insurance, non-financial (service and business service), outsourcing, research and development, courier, technical testing and analysis, commodity exchange and other services. FDI inflows in the service sector has a continuous increasing trend from 2005 onward there is steep rise in inflow, this is because of new policy (SEZ ACT) introduce by government of India (FIGURE-III-IV). Cumulative amount of FDI equity inflows in service sector during 2000 to 2013 is us$ 38824 million which is 19 percent of total FDI equity inflow. Route which are used for FDI equity inflow are SIA/FIPB, acquisition of shares and RBI automatic routes only. Sub sector of service sector which include financial service contributed 6.22 percent with total FDI inflow. Followed by banking service (1.65 percent), insurance (1.61 percent) and non-banking service (5.36 percent) respectively.

Two major cities Mumbai (49.67 percent) and New Delhi (16.35 percent) have high concentration of FDI inflows in India. Mauritius is at top of the chart by contributing 40.30 percent in service sector followed by Singapore (15.33 percent), United Kingdom (7.11 percent), U.S.A (6.88 percent) and Netherlands with 5.75 percent of total FDI inflow. It may be further mention that service sector in India has received major junk of FDI equity inflows during 2000 to 2013. During this period share of service sector in GDP as increase from 56.53 percent in 2000 to 64.84 percent in 2013. Moreover, GDP growth rate of the service sector has been 15.44 percent which reflect that there has been a significant impact of FDI equity inflow on the growth of service sector.

TESTING OF HYPOTHESIS

H0: it is hypothesized that there is no significant relationship between FDI equity inflow and growth of service sector**.**

H1: it is hypothesized that there is significant relationship between FDI equity inflow and growth of service sector**.**

Regression analysis is one of the most commonly used statistical techniques used in almost all fields. Its main objective is to explore the relationship between a dependent variable and one or more independent variables (which are also called predictor or explanatory variables). Linear regression explores relationships that can be readily described by straight lines or their generalization to many dimensions. In our case the link between Economic Growth (measured in terms of GDP growth in service sector) and foreign direct investment in India described by using Linear Regression Model.

DESCRIPTIVE STATISTICS

	Mean	Std. Deviation	N
GDP(SER)	10.3298	.53830	12
FDI(EQU)	7.5820	1.24389	12

MODEL SUMMARY

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.736(a)	.541	.495	.38237

a Predictors: (Constant), VAR00002

COEFFICIENTS (a)

		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta	B	Std. Error
1	(Constant)	7.916	.711		11.128	.000
	FDI(EQU)	.318	.093	.736	3.435	.006

a Dependent Variable: VAR00001

RESULT

It is observed from the regression analysis that elasticity coefficient between FDI equity (service sector) and GDP (service sector) is 31.8 during (2002-2013) which implies that one percent increase in FDI equity (service sector) inflows causes 31.8 percent increase in GDP (service sector) in India. FDI (service sector) predict positive sign which shows FDI equity (service sector) have positive influence on GDP (service sector) in India. The coefficient of determination (R^2) explain 54 percent level GDP (service sector) growth by FDI equity (service sector) in India.

CONCLUSION

The present paper makes an analysis of Indian services sector through examining its growth and contributions in the economy. The study confirms that services sector has grown at the significant rate in comparison to other sectors. Its growth rate is found to be higher than growth of overall GDP. Rising share of this sector in GDP over covers the poor performance of agriculture sector. As a service sub-sector, trade is dominant all in terms of its contribution in Indian GDP. Further it is observed from the analysis that FDI is an important stimulus for the economic growth of India. FDI showed a tremendous growth in during (2000 -2013) that is three times then the first decade of FDI in services sector. Service Sector is one of the most dominating sectors of Indian economy in attracting highest FDI Equity inflows which account for 19 per cent of total FDI Equity inflows. Among the sub sectors of Service Sector, Financial Services stood at top place in attracting more FDI Equity inflows. Top countries that are investing in the form of FDI in Service Sector are Mauritius, Singapore and United Kingdom. Thus, service sector which is dominant in terms of its growth & shares serves as an engine of growth for Indian economy. Despite tremendous potential of service sector in India, there are some issues and challenges which need to be addressed. These are limit of FDI allowed, trade in services, issues related to taxation, foreign exchange, patents, skewed growth, requirement of skilled workforce, capacity building, employability in service sector vis. a vis. agriculture etc. It is important for a developing country like India with a large and young population to generate quality employment and move up the value chain. India needs private investments in key infrastructure services such as transport, energy and telecommunications.

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