

## KAMARAJ JOURNAL OF ACADEMIC RESEARCH

An International, Online, Open Access, Peer Reviewed, Multi-disciplinary Journal

---

### Subject:

**COMMERCE**

### Title of Original Research Paper:

**Foreign Direct Investment in Indian Service Sector**

### Author:

**Dr. P. SELVAMANI**

Assistant Professor, Kamaraj College, Thoothukudi – 628 003, Affiliated to Manonmaniam Sundaranar University, Abishekapatti, Tirunelveli – 627 012, Tamil Nadu, India.

---

### ABSTRACT

The Service Sector has dominates the Indian economy today, contributing more than half of our national income. It is also the faster growing sector, Moreover, technological advances have made it possible for India to compete on a global basis in areas such as software development and information services (some of the other potential areas for India include accountancy, health, educational banking services) reduced restrictions on private sector involvement have also played an important role in the growth of this sector as a result of which the real annual growth rates in services have generally outperformed the overall GDP growth rates and the trend a likely to continue in future.FDI equity inflows to the services sector grew by 15.0 percent during 2017-18(April-October). It has been possible because the Government has undertaken a number of reforms to ensure that India remains as increasingly attractive investment destination, which include announcement of National Intellectual Property Rights (IPR) policy, implementation GST, reforms for ease of doing business. This paper is going to try to give a better view of what

is the Servicing, what are the types of Service sector in India and also explains different policies of FDI in India, and role of FDI in Indian Service sectors and benefits of FDI.

**Keywords:** Investment, Service Sector, FDP

## INTRODUCTION

FDI plays an important role in the long-term development of country not only as a source of capital but also for enhancing competitiveness of the domestic economy through transfer of technology, strengthening infrastructure, raising productivity and generating new employment opportunities. In addition to that, the FDI policy has been regularly reviewed on an ongoing basis with a view to make it more investors friendly. Government plays an active role in investment promotion through dissemination of information on the investment climate and opportunities in India and by advising prospective investors about investment policies and procedures and opportunities. Moreover, the Indian government's favorable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years such as relaxing FDI norms sectors such as defense, PSU oil refineries, telecom, power exchanges and stock exchanges among others.

In the last three years, the Government has undertaken a number of reforms to ensure that India remain an increasingly attractive investment and ease of doing business that resulted in improving India's ranking by 30<sup>th</sup> Position. The scale of reforms can be gauged from the fact that during this period, 25 sectors also include services activities and covering 100 areas of FDI policy have undergone reforms. FDI policy provisions were radically overhauled across sectors such as construction development, broadcasting, retail trading, air transport, insurance and pension. At present, more than 90 percent of FDI inflows are through automatic route After the successful implementation of the e-filing and online processing of FDI application by the Foreign Investment Promotion Board (FIPB), the Government announced to phase out the FIPB in the Union Budget 2017-18..

## OBJECTIVES OF THE STUDY

The following are the main objective of this study

- To know about the FDI inflows in Indian service sector
- To examine the FDI benefits and impact of the economy
- To Identify the factors which influence the flow of FDI in India

## METHODOLOGY

- The study is based on secondary sources of data collected from various sources. The data was extracted from the following sources.

Handbook of statistics on the Indian Economy  
Department of Industrial policy and Promotion (DIPP)  
Economic Survey, Government of India  
Central Statistical Organization (CSO)  
Secretariat of Industrial Assistance (SIA)

- Period of study:

The magnitude of FDI inflows during the Pre and Post Liberalization period, hence the study is undertaken for a period of 3 years 2014-15 to 2016-17. According to this, The factor which influences the flow of FDI into the country is analyzed during the current year 2017-18.

- Tools Used for Analysis:

The Annual Growth Rate (AGR) and Compound Annual Growth Rate (CAGR) are used to analyze the FDI inflows during the Analysed period to find out the magnitude of FDI inflows.

## FDI POLICY IN INDIA

FDI as defined as the investment in a foreign country through the acquisition of a local company or the establishment there of an operation on a new site. To put in simple words, FDI refers to capital inflows from abroad that is invested in or to enhance the production capacity of the economy.

The changes in the FDI Policy 2017 display the efforts of the Indian Government to remove of multiple layers of bureaucracy, and to process proposals for FDI under the government approval route in a more streamlined, positive and expeditious manner. The Government has eased 87 FDI rules across 21 sectors in the last 3 years, opening up traditionally conservative sectors like rail infrastructure and defence. Even India's agriculture sector has received FDI worth INR 515.49 crore in 2016-17

On August 28<sup>th</sup> 2017, the Department of Industrial Policy and Promotion (DIPP) had issued the updated and revised Foreign Direct Investment policy, 2017-18 (FDI). The FDI Policy 2017 incorporated various notification issued by the Government of India over the past year

#### SOME GOVERNMENT INITIATIVES

- The Ministry of Commerce and Industry, Government of India has eased the approval mechanism for foreign direct investment (FDI) proposals by doing away with the approval of Department of Revenue and mandating clearance of all proposals requiring approval within 10 weeks after the receipt of application.
- The department of Economic Affairs, Government of India, closed three foreign direct investment proposals leading to a total foreign investment worth Rs.24.56 crore in October 2017.
- The Government of India is in talks with stakeholders to further ease foreign direct investment in defence under automatic route to 51 per cent from the current 49 percent, in order to give a boost to the Make in India initiative and to generate employment.
- The Government of India is likely to allow 100 percent foreign direct investment in cash and ATM management companies, since they are not required to comply with the Private Securities Agencies Regulations Act (PSARA)
- India has become the most attractive emerging market for global partners (GP) investments for the coming 12 months, as per a recent market attractiveness survey conducted by Emerging Market Private Equity Association (EMPEA)



- The world Bank has stated that private investments in India is expected to grow by 8.8 percent in FY 2018-19 to overtake private consumption growth of 7.4 percent, and thereby drive the growth in India's gross domestic product (GDP) in FY 2018-19

**Table: 1**  
**Top 10 Investing countries in India**

S.No	Country	2000-2017 Rs. (in Crore)	Inflows ( % )
1	Mauritius	6781,733.79	33.97
2	Singapore	374,434.38	17.34
3	Japan	150,399.40	7.32
4	United Kingdom	130,198.81	6.88
5	Netherland	132,529.46	6.27
6	USA	121,773.91	6.00
7	Germany	58,566.93	2.91
8	Cyprus	48,872.11	2.58
9	Finance	33,683.90	1.68
10	UAE	30,242.97	1.45

**Source: Department of industrial policy promotion Ministry of Commerce and Industry India**

It is clear from the table that the Mauritius has been placed number one location among the different investing countries in India registering Rs. 6781733.79 crores followed by Singapore with Rs 374434.38 crores. It is also manifest from the table that many countries have been showing interest in investing in India-

#### INTERNATIONAL COMPARISON

As per the UN National Accounts statistics data, India's ranking improved from 14<sup>th</sup> position in 2006 to 7<sup>th</sup> position in 2016, among the world's 15<sup>th</sup> largest economies in terms of overall GDP. Among these top 15 economies, China 9.8PP) recorded the highest increase in services share to Gross Value added (GVA) during 2006-16 followed by India (7.1PP) and Spain

(7.0PP) in 20016, services GVA growth rate was highest is India at 7.8 percent followed by China at 7.4 percent. As per the ILO's estimates, among the top 15 economies, the services sector accounted for more than two thirds of total employment (10,2PP) during the period 2006 to 2016, increase in India was 5.2 pp

As per the world Investment Report 2017 published by United Nations Conferences on Trade and Development (UNCTAD). Following a surge in foreign investment in 2015, global FDI flows fell by 2 percent in 2016, to US\$1.75 trillion, amid weak economic growth, Global FDI flows are projected to increase by about 5 percent in 2017. The services sector accounted for two thirds of global FDI stock in 2015, though a large part of these relates to affiliates of primary sector and manufacturing multinational enterprises (MNE's) the perform services as a default category. The share of services in total value of announced Green field projects increased to 58.2 percent in 2016 from 54.1 per cent in the previous year.

#### INDIAN SERVICES SECTORS

As per the First Advance estimates of national income 2017-18 released by Central Statistics Office (CSO), services sector growth (GVA at constant (2911-12) basic prices ) is expected to be 8.3 percent during 2017-18, higher than the growth of 7.74 percent in 2016-17. The growth in trade, hotels, transport, communication and services related to broadcasting category is expected to be 8.7 per cent during 2017-18 as compared to 7.8 percent during 2016-17 and growth in the financial, real estate & professional services' category is likely to accelerate to 7.3 percent during 2017-18 from 5.7 percent in 2016-17. The public administration, defence & other services category registered a growth of 11.3 percent in 2016-17 as against 6.9 percent in 2015-16.

Table: 2

## FDI Equity inflows to the Service Sector

S.NO	Sector	Value in US Billion		Share in total % April 2000- Oct 2017	Growth Rate %	
		2016-17	2017-18 (April- October)		2016-17	2017-18 April- October
1	Service Sector*	8.7	3.4	17.6	26.0	-45.8
2	Construction	2.0	1.4	9.9	-57.5	22.0
3	Telecommunication	5.6	6.1	8.4	320.1	115.9
4	Computer software & Hardware	3.7	3.3	7.8	-38.2	116.0
5	Trading	2.3	1.6	4.4	-39.2	-1.2
6	Hotel & Tourism	0.9	0.6	3.0	-31.3	-4.1
7	Information & Technology	1.5	0.5	2.0	50.3	-48.9
8	Hospital & Diagnosis center	0.7	0.6	1.4	0.7	6.9
9	Consultancy Services	0.3	0.4	1.1	-49.5	137.6
10	Sea Transport	0.7	0.6	0.9	71.2	71.7
	<b>Top 10 services (1-10)</b>	<b>26.4</b>	<b>18.4</b>	<b>56.6</b>	<b>-0.9</b>	<b>15.0</b>
	<b>Top 15 services</b>	<b>27.2</b>	<b>19.5</b>	<b>58.5</b>	<b>-1.7</b>	<b>17.5</b>
	<b>Total FDI</b>	<b>43.5</b>	<b>28.0</b>	<b>100.0</b>	<b>8.7</b>	<b>0.8</b>

Source: Based on Department of Industrial Policy and Promotion (DIPP) data

Note\* Financial, banking, Insurance, non-financial business, outsourcing, R&D, courier, technology testing and analysis

The table 2 indicates the share of top 10 services in total 56.6 percent of the cumulative FDI equity inflows during the period April 2000 October 2017. FDI equity inflows to the

services sector (Top 10 sectors including construction) declined by 0.9 percent of US\$ 26.4 billion, through the overall FDI equity inflows grew by 8.7 percent. However, during 2017-18 (April-October) the FDI equity inflows to these services sector grew by 15.0 percent equity inflows, mainly due to higher FDI in two sectors like telecommunication and computer software and hardware.

**Table: 3**  
**Performance of India's Service Sector Some Indicators**

Sector	Indicator	Unit	Period		
			2015-16	2016-17	2017-18
IT-BPM	IT-BPM service	US Billion	129.4	139.9	15.0-15.2
	Exports	US Billion	107.8	116.1	124-125
	Domestic	US Billion	21.6	23.8	2.6-2.65
Aviation	Airline passengers	Million	135.0	158.4	86.7
	Domestic	Million	85.2	103.7	57.5
	International	Million	49.8	54.7	29.2
Telecom	Telecom(Wireless and Wire line)	Billion	1.0	1.2	1.2
Tourism	Foreign Tourist arrival	Million	8.0	8.8	10.2
	Foreign exchange earnings from Tourism	US Billion	21.1	22.9	27.7
Shipping	Gross tonnage of Indian shipping	Million GT	10.9	11.6	12.7
	No of ships	Numbers	1273	1316	1374
Ports	Port traffic	Million Tones	1071.9	1135.1	547.7

**Source: Compiled from telecom Regulatory Authority of India (TRAI), Ministry of Tourism, Ministry of Shipping Directorate council of civil Aviation NASSCOM**

From the above table 3 Shows that the different services in India for 2016-17 shows reasonable good performance of Tourism, Aviation and Telecom sector. The limited data available for 2017-18 also indicate good performance of these three sectors.



## SERVICE EXPORTS

India's Service Export in the year 2016-17 was to the extent of 163.1 US\$ Billion. Many Indian companies have started becoming respectable players in the international Export markets.

Table: 4

## Trade Performance of India's Major Services

S.NO	Sector	Value US Billion 2015-17	Share % 2016-17	Growth %			
				2015-16	2016-17	2016-2017HI	2017-18HI
<b>1</b>	<b>Service Exports</b>	<b>163.1</b>	<b>100%</b>	<b>-2.4</b>	<b>5.7</b>	<b>4.2</b>	<b>16.2</b>
<b>1</b>	Travel	23.2	14.2	4.6	9.3	7.6	27.7
<b>2</b>	Transportation	15.9	9.7	-19.9	18.2	9.6	6.9
<b>3</b>	Miscellaneous	121.2	74.3	-0.9	4.1	3.1	15.6
<b>4</b>	Software service	73.7	45.2	1.4	-0.7	0.0	2.3
<b>5</b>	Business services	32.9	20.2	2.0	13.6	8.4	7.6
<b>6</b>	Financial services	5.1	3.1	-12.7	3.1	-4.1	-13.4

**Source: Based on RBI's Balance of Payment (BOP) data (BPM-5)**

From the table 4 Exhibit that Services exports recorded a robust growth of 16.2 percent during April-September 2017-18, with a turnaround in some major sectors like travel rise in foreign tourist arrivals, travel receipts, witnessed a robust growth of 27.7 percent in the First half 2017-18 as compared to a growth of 7.6 percent to the corresponding period of the previous year. Notwithstanding the pricing pressure on traditional services and a challenging global business environment facing domestic software companies, software services exports increased by 2.3 percent, a mild improvement over the previous period.

## CONCLUSION

The growth of India's service sector is expected to improve in 2017-18 vis-a-vis 2016-17. This improvement is also reflected in the Nikkei/HIS Markets Services purchasing Managers Index (PMI) which was 48.5 in November 2017 but improved to 50.9 in December 2017. Foreign companies invest in India to take advantages of relatively lower wages, special investment privileges such as tax exemption, etc. For a country where foreign investment is being made, it also means achieving technical know-how and generating employment. It is expected that the Government will continue to bring about liberalization of the FDI regime in India in the years to come. The adopt of innovative policies and good corporate governance practices on par with international standards by the Government of India, to attract more and more foreign capital in various sectors of the economy to make India developed economy.

## REFERENCES

1. Economic Survey 2017-18 Volume II, Chapter-09
2. Annual Survey of Industries, Ministry of Statistics and Programme Implementation, Government of India, Various Issues
3. Reserve Bank of India (RBI) Handbook of statistics on Indian Economy, RBI, Mumbai
4. Ministry of Finance, Department of Economics Affairs, Government of India.
5. Central Statistical Organization (CSO) Various Issues
6. Dr. S. Ganapathy and C. Mayil Swamy "Foreign Direct Investment in Market Environment" Managerial Herald Vol:2 No.1 Jan-June 2013
7. R. Anitha "Foreign Direct Investment and Economic Growth in India International Journal of Marketing Financial Services & Management Research Vol:1 Issue, August 2012 PP-108
8. Dr. G. Shashidhar Rao and C. M. Prasanth "Foreign Direct Investment in Indian Retail Industry" International Journal of Commerce, Business and Management" Bi-Annual Journal of Thoughts, Vol-1m No:1 2012 PP-25
9. Ravi Shankar "Service Marketing – The Indian Perspective" Text and Readings PP 25-33