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Role of Foreign Direct Investments (FDI) in Service Sector in India

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Abstract

Service Sector is the lifeline for economic growth of a country. Service sector has emerged as the most dynamic sector of Indian economy particularly from last one and a half decade and this sector is contributing significantly to GDP, employment and structural transformations. Foreign direct investment has been instrumental behind the growth of service sector in India. The present paper focuses on the financial year-wise analysis of FDI equity inflows and to know the sectors attracting highest FDI equity inflows in India over the period of 2004-05 to 2014-15. The secondary data has been used for study. The analysis has revealed that service sector attracts the highest amount of FDI inflows into India. DDTA (Double taxation avoidance agreement) between India and Mauritius helps in obtaining maximum FDI via Mauritius.

Keywords: Foreign Direct Investment, Service Sector, India

Introduction

India is a vast country and many sectors contribute to the country's GDP. Indian Economy is classified into three sectors: Primary, Secondary and Service Sector. The primary sector is an economic description concerned with the extraction of raw material. It includes farming, fisheries, forestry and animal husbandry etc. Secondary sector includes manufacturing industries. In service sector all types of services are included. They include trade, hotel & restaurants, transport, storage, communication, health care, education etc. The reason for growth of service sector is due to increase in urbanization, privatization and more demand for intermediate and final consumer services. The contribution of service sector has increased with pace because foreign investors have shown interest in investing into the country. This because India has a large pool of highly skilled, low cost and educated workers in the country. This shows a positive change in share of service sector in India's GDP. Foreign Direct Investment (FDI) means investment by non-resident entity/person resident outside India in the capital of the Indian company under Schedule 1 of FEMA Regulations 2000. FDI inflows into core sectors are assumed to play a vital role as a source of capital, management, and technology in countries of transition economies. It is a high level indicator of economic health of a country. The new policies have succeeded in enhancing foreign capital inflows in the Indian economy. With the volume of FDI inflows into India increasing significantly from Only US $ 97 million in 1990-91 to more than 60.1 billion in 2016-17. India has emerged as one of the leading FDI destinations among developing countries.Despite significant procedural relaxations and liberal policies, FDI inflows in India, though much higher than the past, has not been able to reach the levels of the ASEAN economies or China. FDI growth in important sector like services over all foreign inflow into the country increased 22% to $ 35.81 billion during year 2014-15. There has been a significant growth in FDI inflows in 2013-14 and 2014-15 (April-October) in general and in Services Sector in particular. In 2014-15 FDI inflows to service sector grew by a shopping 70.4 percent to 16.4 billion US $. The rising trend is continuing in the first seven months of 2014-2015 with the FDI equity inflows in the services sector growing by 74.7% to dollar 14.8 billion. It helps to establish new companies. All of these contribute to economic growth of the country.

Literature Review

Ahmad (2015) analyzes not only the impact of foreign direct investment on gross domestic product but also to analyze trend of foreign direct investment in India since liberalization. Further he concludes that it is the need of hour to adopt imperative and innovative policies and good corporate government practices at par with international standards, to attract more foreign direct investments. **Sood(2015)** analyzed the contribution of FDI for GDP growth. The study concluded that the association and dependence of GDP