



## A STUDY ON FOREIGN DIRECT INVESTMENT IN SERVICE SECTOR IN INDIA

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### Abstract

FDI offers a bundle of benefits such as financial and non-financial. FDI is one such source of long term international capital. Service sector is a largest sector of India economy. Since 1991, FDI inflows in India is on an increasing trend. The FDI Inflows in service sector increased from Rs.14803.91 crores during 1991-2000 to Rs.63909.44 crores in 2018-19. It showed positive response. The easiest and cheapest way to increase the capital is foreign direct investment. There is also increase in foreign currency resources. This paper discusses about the trends of FDI equity inflows in service sector in India, to study and analyze the trend of FDI equity inflows in sub-sector of service sector in India and to examine and analysis the relationship between total FDI equity inflows and FDI equity inflows in service sector in India during 2009-10 to 2018-19.

**Keywords:** Foreign direct investment, Service sector, Sub-Sector, FDI equity inflows.



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### 1. Introduction

Since 1991, Foreign Direct Investment has become a main source of foreign capital inflows for India. When, for improving the economy of India, a policy of privatization, globalization and liberalization have been adopted by the finance minister of that time Dr. Man Mohan Singh. Since 1991, FDI inflows in India is on an increasing trend. The FDI Inflows in India increased from Rs.409 crores in 1991-92 to Rs.309867 crores in 2018-19. It showed positive response. FDI offers a bundle of benefits such as financial and non-financial. It has also impacted to that country's balance of payment and balance of trade account. FDI is one such source of long

term international capital. Service sector is a largest sector of India economy. In recent time, it has been growing rapidly across the world. For purpose of foreign direct investment, Services sector includes Financial, Banking, Insurance, Non-Financial services, Outsourcing, R&D, Technical testing and other services. In service sector, FDI can solve various problems, Such as innovative financial products, technical developments in the foreign markets, problem of inefficient management, financial instability and poor capitalization.

An investment which made to acquire a part of management control in a company operating in a country other than that of the investor. Such investment is called foreign direct investment. In India, there are very high quantity of man power and the resources are also in the appropriate quantity. If the quantity of capital is increased then the Indian economy can make a lot of progress. The easiest and cheapest way to increase the capital is foreign direct investment. There is also increase in foreign currency resources. Thereby strengthening the value of Indian currency. Foreign direct investment policy is reviewed on an ongoing basis to make it more investor friendly. There are two routes from which FDI inflows come in India. Such are automatic route and government route.

Foreign direct investment is restricted in some sectors in India. Such are lottery business, chit funds, nidhi company and gambling etc. In order to attract more foreign direct investment in India, the government of India has adopted the liberal policy. Under this 100% foreign direct investment has been allowed from automatic route on most sectors. Such are agriculture and animal husbandry sector, plantation sector, e-commerce sector and construction development etc. In defense sector, total foreign direct investment is allowed up to 100%, through the automatic route up to 49% and government route beyond 49% and up to 100%. In private security agencies sector, total foreign direct investment is allowed up to 74%, through the automatic route up to 49% and government route beyond 49% and up to 74%. In public sector banks, it is allowed up to 20% through automatic route. In private sector banks, it is allowed up to 74%, through the automatic route up to 49% and government route beyond 49% and up to 74%.

## **2. Review of Literature**

Joo, Dr. Bashir A. and Dhar, Faiza Ali (Nov., 2018) in their study named “Role of Sector Wise FDI Inflows on Growth of India- An Empirical Analysis” examined that the relation between GDP and FDI inflows. Total 9 sectors have taken for study purpose. Regression analysis techniques was used for data analysis. Their time period of study was from 2000-01 to 2016-

17. They find out that three sectors such as computer hardware and software, power sector and drugs & pharmaceuticals have a negative effect on growth of India, three sectors such as telecommunications, metallurgy and chemicals have not affect on growth of India and three sectors such as service sector, automobiles and petroleum & natural gas have a strong positive impact on growth of India. They suggest that India needs to revamp its FDI policy.

Gupta, Jyoti and Chaturvedi, Dr. Rachna (Sept., 2017) in their research “A Study of Analyze FDI Inflows to India” analyzed that the trend of FDI inflows in India from 1991-92 to 2015-16 and prediction of FDI inflows to India for five years from 2017 to 2021, using by regression techniques. And also analyze top ten countries which made maximum FDI inflows to India. Mauritius has first position with 33%. They suggest that to attract more FDI inflows to India, improve in labour laws, cut down corporate tax and develop world class infrastructure facilities. Kumar, Vinay (Oct., 2014) in his study “Trend of FDI in India and Its Impact on Economic Growth” find out that the GDP growth rate and equity inflows in India through GDP were positively correlated with each other during the time period of from 2000-01 to 2009-10. The inflows of FDI and FII in India has positive relationship. The inflows FDI in India was showing a positive trend and was a very positive signal for Indian economy.

### **3. Research Methodology**

#### **3.1 Objectives of the study:**

- To study and analyze the trends of FDI equity inflows in service sector in India.
- To study and analyze the trend of FDI equity inflows in Sub-Sector of service sector.
- To examine and analysis the relationship between total FDI equity inflows and FDI equity inflows in service sector in India.

#### **3.2 Sources of data**

The present study is mainly based on secondary data. The data are collected from various issue of FDI newsletter, bulletins of RBI, various newspapers, internet link, various website and consolidated FDI policy 2017.

#### **3.3 Time period of the study**

The period of study is ten years from 2009-10 to 2018-19.

#### **3.4 Techniques used for analysis**

Statistical techniques like mean, standard deviation, co-efficient of variation and correlation analysis and accounting techniques such as statement of percentage change have been used for analysis of data.

### 3.5 Hypothesis of the Study

- Total FDI equity inflows and FDI equity inflows in service sector has high degree positive correlation, not perfect positively correlated.

### 3.6 Limitation of the Study

- This study is mainly based only on secondary data.
- Here only a period of 10 years or 2009-10 to 2018-19 has been studied.
- Here only FDI equity inflows in service sector in India have been studied.

## 4. Data Analysis

**Table no. 1**  
**Amount in Rs. Crores**

<b>Statement of % Change in Total FDI Equity Inflows and FDI Equity Inflows in Service sector</b>				
<b>Years</b>	<b>Total FDI Equity Inflows</b>	<b>% Change</b>	<b>FDI Equity inflows in Service Sector*</b>	<b>% Change</b>
2008-09	122898.28	-	28410.69	-
2009-10	123377.73	0.39	20958.12	-26.23
2010-11	88519.36	-28.25	15538.64	-25.86
2011-12	165145.50	86.56	24656.49	58.68
2012-13	121906.74	-26.18	26305.95	6.69
2013-14	147517.79	21.01	13294.41	-49.46
2014-15	189107.09	28.19	19962.48	50.16
2015-16	262321.59	38.72	45430.95	127.58
2016-17	291696.31	11.20	58213.56	28.14
2017-18	288888.51	-0.96	43249.01	-25.71
2018-19	309866.64	7.26	63909.44	47.77

Note: \*Services sector includes Financial, Banking, Insurance, Non-Financial, Outsourcing, R&D, Technical testing and Other Services.

Sources: Various Issues of DIPP-SIA News Letter on FDI from 2008-09 to 2018-19.

**Interpretation:** The table no. 1 indicated that percentage change in total FDI equity inflows and FDI equity inflows in service sector in India from 2009-10 to 2018-19. The percentage change in total FDI equity inflows has fluctuating trend during the study period. In 2009-10, it was 0.39%. But next year, it decreased by 28.25%, compared to 2009-10. In 2011-12, it increased by 86.56%. Then it decreased in just next year by 26.18%. After that, it was positive except 2017-18. Another hand, the percentage change in FDI equity inflows in service sector

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has fluctuating trend during 2009-10 to 2018-19. In 2009-10, it was -26.23%. In 2010-11, it also decreased by 25.86%. But just next continue two year, it was positive. Then after it decreased by 49.46% in 2014-15. After three continue year such as 2014-15, 2015-16 and 2016-17 it was positive respectively 50.16%, 127.58% and 28.14%. In 2017-18, it decreased by 25.71%. The maximum increment in total FDI equity inflows was in 2011-12, which increased by 86.56%, compared to 2010-11. The maximum increment in FDI equity inflows in service sector was in 2015-16, which increased by 127.58%, compared to 2014-15. There has been positive trend in total FDI equity inflows and FDI equity inflows in service sector in India except in the year of 2009-10, 2012-13 and 2013-14.

**Table No. 2**

**Amount in Rs. Crores**

<b>Sub-Sector of Service Sector Wise FDI Equity Inflows in India</b>							
<b>Sub-Sector</b>	<b>2014-15</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>2018-19</b>	<b>Total</b>	<b>% *</b>
<b>Financial</b>	10509.70	10557.78	11043.57	9918.00	32268.4 2	74297.4 7	32.20
<b>Banking</b>	99.93	12.27	7874.69	8705.54	2976.82	19669.2 5	8.52
<b>Insurance</b>	2584.98	7534.07	21894.27	9226.09	10340.3 8	51579.8 0	22.35
<b>Non-Financial</b>	3305.31	20470.05	14449.14	8804.21	8642.37	55871.0 7	24.21
<b>Outsourcing</b>	583.49	2771.32	166.40	277.42	2647.09	6445.72	2.79
<b>R&amp;D</b>	665.52	1536.16	563.78	691.52	772.23	4229.21	1.83
Technical testing	169.56	83.22	222.79	510.25	213.44	1199.26	.52
<b>Other Services</b>	1843.99	2466.08	1998.92	5115.98	6048.69	17473.6 3	7.58

Note: \* % of Total FDI equity Inflows in Service Sector

Sources: Various Issues of DIPP-SIA News Letter on FDI from 2014-15 to 2018-19

**Interpretation:** The table no. 2 indicated that sub-sector of service sector wise FDI equity inflows in India from 2009-10 to 2018-19. In financial services, highest and lowest FDI equity inflows was received in 2014-15 and 2016-17, which was respectively 52.65% and 18.97% of total FDI equity inflows in service sector. In banking services, highest and lowest FDI equity inflows was received respectively in 2017-18 and 2015-16, which was 20.13% and 0.02%. In insurance services, highest and lowest FDI equity inflows was received respectively in 2016-17 and 2014-15, which was 37.61% and 12.95%. In non-financial services, highest and lowest FDI equity inflows was received respectively in 2015-16 and 2018-19, which was 45.06% and 13.52%. In financial service, FDI equity inflows was received 52.65% in 2014-15, 23.23% in

2015-16, 18.97% in 2016-17, 22.93% in 2017-18 and 50.49% in 2018-19. In non-financial service, FDI equity inflows was received respectively 17.56%, 45.06%, 24.82%, 20.36% and 13.52%. The highest FDI equity inflows was received in financial services, which has 32.20% share of total FDI equity inflows in service sector in India.

**Table No. 3**  
**Amount in Rs. Crores**

<b>Statement of Total FDI Equity Inflows and FDI Equity Inflows in Service sector</b>			
<b>Years and Parameters</b>	<b>Total FDI Equity Inflows</b>	<b>FDI Equity inflows in Service Sector*</b>	<b>% of Total FDI Equity Inflows</b>
2009-10	123377.73	20958.12	16.99
2010-11	88519.36	15538.64	17.55
2011-12	165145.50	24656.49	14.93
2012-13	121906.74	26305.95	21.58
2013-14	147517.79	13294.41	9.01
2014-15	189107.09	19962.48	10.56
2015-16	262321.59	45430.95	17.32
2016-17	291696.31	58213.56	19.96
2017-18	288888.51	43249.01	14.97
2018-19	309866.64	63909.47	20.62
<b>Mean</b>	<b>198834.73</b>	<b>33151.91</b>	
<b>Standard Deviation</b>	<b>77933.17</b>	<b>17242.61</b>	
<b>Co-efficient of Variation (%)</b>	<b>39.19</b>	<b>50.01</b>	
<b>Co-efficient of correlation (r)</b>	<b>+0.91</b>		

Note: \*Services sector includes Financial, Banking, Insurance, Non-Financial services, Outsourcing, R&D, Technical testing and Other services.

Sources: Various Issues of DIPP-SIA News Letter on FDI from 2009-10 to 2018-19.

**Interpretation:** The table no. 3 shows the relationship between total FDI equity inflows and FDI equity inflows in service sector in India from 2009-10 to 2018-19. The share of FDI equity inflows in service sector of total FDI equity inflows in India was 16.99% in 2009-10, 17.355% in 2010-11, 14.93% in 2011-12, 21.58% in 2012-13, 9.01% in 2013-14, 10.56% in 2014-15, 17.32% in 2015-16, 19.96% in 2016-17, 14.97% in 2017-18, 20.62% in 2018-19. It Shows that

co-efficient of variation in total FDI equity inflows is 39.19% and in FDI equity inflows in service sector is 50.01%. It means co-efficient of variation in total FDI equity inflows is less than co-efficient of variation in FDI equity inflows in service sector. It shows that total FDI inflows are stable, consistence and unitary, compared to FDI equity inflows in service sector. The Karl pearson's co-efficient of correlation is +0.91 between total FDI equity inflows and FDI equity inflows in service sector in India during the study period. It is near to 1 so there is a high degree positive correlation. It shows that when total FDI equity inflows increased, FDI equity inflows in service sector also increased or vice versa.

### **5. Findings and Conclusion**

The percentage change in total FDI equity inflows has an increasing trend except for 2010-11, 2012-13 and 2017-18. On the other hand, the percentage change in FDI equity inflows in service sector has an increasing trend except for 2009-10, 2010-11, 2013-14 and 2017-18. In 2013-14, the percentage change in total FD equity inflows increased by 21.01% but same time percentage change in FDI equity inflows in service sector decreased by 49.46%. In 2010-11 and 2017-18, the trend of falling was found in both of them. The financial service has first position in receiving sub-sector wise highest FDI equity inflows, non-financial services was at second position, insurance at third position and banking service at fourth position, which has respectively 32.20%, 24.21%, 22.35% and 8.52% share of total FDI equity inflows in service sector in India. The highest and lowest share of FDI equity inflows in service sector of total FDI equity inflows in India are received respectively 21.58% in 2012-13 and 9.01% in 2013-14. The mean of total FDI equity inflows and FDI equity inflows in service sector are respectively 198834.73 and 33151.91. Co-efficient of variation in total FDI equity inflows is 39.19% and in FDI equity inflows in service sector is 50.01%. Total FDI equity inflows is stable, consistence and unitary because co-efficient of variation in total FDI equity inflows is less than co-efficient of variation in FDI equity inflows in service sector as it clears from this study. The co-efficient of correlation is +0.91. There is a high degree positive correlation between total FDI equity inflows and FDI equity inflows in service sector in India as it also clears from this study. Hence, the hypothesis of high degree positive correlation between total FDI equity inflows and FDI equity inflows in service sector in India is fully accepted. It means when total FDI equity inflows increased, FDI equity inflows in service sector also increased or vice versa. FDI limits in the service sector of India are increased with the aim to bring in more FDI inflows in the country along with the incorporation of advanced technology and

management practices. So, government of India should paid more attention on the service sector.

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