

A STUDY ON SERVICE SECTOR OF FOREIGN DIRECT INVESTMENT IN INDIA**S. Govindaraj**

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Introduction

FDI to developing countries in the 1990s was the leading source of external financing and has become a key component of national development strategies for almost all the countries in the world as a vehicle for technology flows and an important source of non-debt inflows for attaining competitive efficiency by creating a meaningful network of global interconnections. FDI provide opportunities to host countries to enhance their economic development and opens new opportunities to home countries to optimize their earnings by employing their ideal resources. India ranks fifteenth in the services output and it provides employment to around 23% of the total workforce in the country. The various sectors under the Services Sector in India are construction, trade, hotels, transport, restaurant, communication and storage, social and personal services, community, insurance, financing, business services, and real estate.

Objectives of study

- To study the FDI inflows in Indian Service Sector from 1991-2010.
- To study the relationship between service sector growth and India economy.

Methodology of the study

The study is based on secondary sources of data. The main source of data are various Economic Surveys of India and Ministry of Commerce and Industry data, RBI bulletin, online data base of Indian Economy, journals, articles, news papers, etc.

Need and importance 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 portion of total FDI in Indian economy and it has shown especially in the second decade (2000 - 2010) of economic reforms 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 this study.

Services Sector contribution to the Indian Economy

The Services Sector contributes the most to the Indian GDP. The Sector of Services in India has the biggest share in the country's GDP for it accounts for around 53.8% in 2005. The contribution of the Services Sector in India GDP has increased a lot in the last few years. The Services Sector contributed only 15% to the Indian GDP in 1950. Further the Indian Services Sector's share in the country's GDP has increased from 43.695 in 1990- 1991 to around 51.16% in 1998- 1999. This shows that the Services Sector in India accounts for over half of the country's GDP.

The contribution of the Services Sector has increased very rapidly in the India GDP for many foreign consumers have shown interest in the country's service exports. This is due to the fact that India has a large pool of highly skilled, low cost, and educated workers in the country. This has made sure that the services that are available in the country are of the best quality.

Recent trends in Indian service sector

The largest of the three constituent sectors in terms of contribution to Gross Domestic Product (GDP) in India. The service sector comprises trade, hotels and restaurants, transport, storage, communication, financing, insurance, real estate and business services, community services (public administration and defense) and other services. This sector provides services of final consumption nature as well as intermediate nature, the latter accounting for a major share. Substantial parts of services such as transport and communications are in the form of intermediate inputs for production of other goods and services.

Performance of service sector

The performance table of services sector (**Table - 01**) gives figures of the annual growth rates of GDP at factor cost and the services sector and its three constituent categories from 2001-02 onwards – that is the growth rates recorded by the three components of services:

- A. Trade, hotel, transport and communication,
- B. Financing, insurance, real estate, and
- C. Community, social and personal services.

Thus, (**Table - 01**) shows the growth of the service sector. It is clear from Table I that the service sector had higher aggregate rates of growth than that observed in GDP. 'Trade, hotels, transport and communications' segment has continuously registered higher growth rates than the other two segments of

service. 'Community, social and personal services' segment has witnessed relatively lower rates of growth among the three segments.

Table - 1 Growth of Services Sector in India (In Percent)

Year	Trade, Hotel, Transport and Communication	Finance, Insurance and Real Estate	Community, Social and Personal Service	Total Service GDP
2001-02	9.2	7.3	3.9	7.1
2002-03	9.1	8.0	3.8	7.3
2003-04	12.0	4.5	5.4	8.2
2004-05	10.6	9.2	9.2	9.9
2005-06	11.5	9.7	7.8	10.0

Source: Central Statistical Organization

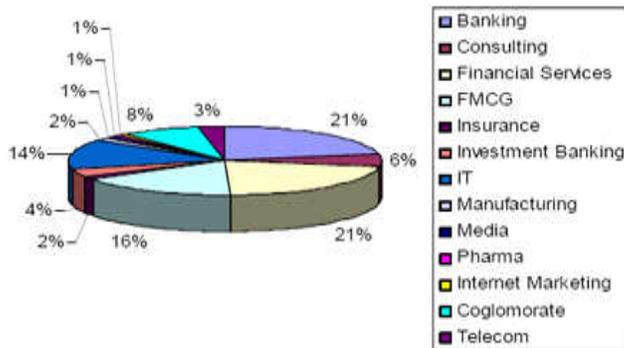
FDI and Economic Growth

The IMF definition of FDI includes as many as twelve different elements- equity capital, reinvested earnings of foreign companies, intercompany debt transactions, short-term and long-term loans, financial leasing, trade credits, grants, bonds, non-cash acquisition of equity, investment made by foreign venture capital investors, earnings data of indirectly-held FDI enterprises, control premium and non-competition fee. India, however, does not adopt any other element other than equity capital reported on the basis of issue or transfer of equity or preference shares to foreign direct investors.

Current Scenario of Employment Service Indian Service Sector

The number of service sector jobs (skill and unskilled) has increased in India, new findings have revealed. A survey conducted by the country's Labor Ministry indicated that during the last quarter, employment in the industry rose to 15.72 million, Channel News Asia reported. There has been an infusion of stimulus packages in sectors which were labor intensive. So, there has been a marginal improvement." Finance Services sector is growing with rapid rate, Finance sector is the second preferred choice of students of management postgraduate in top B-Schools in India, following figures are explaining the preference of skilled professional in Indian service sector. For analyzing the perception of skilled toward various segment of service sector, we have taken some data of top B- Schools in India. To exploring the employment interest of MDI batch 2008 - 10, it has been analyzed that Banking and Financial services was the most preferred area by the students for their future employments.

Figure - 1 Placement Batch 2008 - 10 MDI



It was same in case of IIM K and FMS (Figure 2 & 3) management student consulting and finance were the major options of students in comparison to other, it means FDI in service sector is creating more opportunities in case of skilled employment India. If it will continue with this rate then the disposable income in India will go higher and Indian economy crate more job opportunities in Indian economy.

Figure - 2 Placement Batch 2008 -10 IIM K Batch

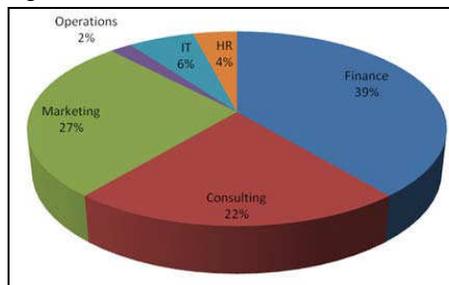
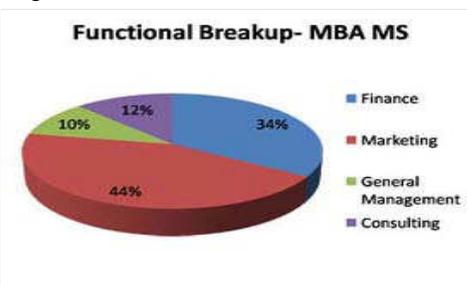


Figure - 3 Placement Batch 2008 -10 FMS Batch



Findings

- FDI is an important stimulus for the economic growth of India.
- FDI shown a tremendous growth in second decade (2000 -2010) that is three times then the first decade of FDI in services sector.
- Banking & Insurance is first and Telecommunication is second segment of service sector which pick the growth in second decade of reforms.
- FDI create high perks jobs for skilled employee in Indian service sector.

CONCLUSION

It can be observed from the above analysis that the sectoral level of the Indian economy, FDI has helped to raise the output, productivity and employment in some sectors especially in service sector. Indian service sector is generating the proper employment options for skilled worker with high perks.

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