Elongation of FDI in Indian Service Sector

Surabhi Singh[1]*, Dr. D. S. Thalore[2]

[1] Research Scholar, University of Rajasthan, Jaipur

[2] Principal, Government P.G. Law College, Sikar (Rajasthan)

Abstract - Foreign Direct Investment (FDI) or foreign investment refers to the net inflows of investment to acquire a lasting management interest (10 percent or more of voting stock) in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, other long-term capital, and short-term capital as shown in the balance of payments. It usually involves participation in management, joint-venture, transfer of technology and expertise. There are two types of FDI: Inward Foreign Direct Investment and Outward Foreign Direct Investment, resulting in a net FDI inflow (positive or negative) and "Stock of Foreign Direct Investment", which is the cumulative number for a given period. Direct investment excludes investment through purchase of shares. FDI is one example of international factor movement. An investment abroad, usually where the company being invested in is controlled by the foreign corporation. The simplest explanation of FDI would be a direct investment by a corporation in a commercial venture in another country. A key to separating this action from involvement in other venture in foreign country is that the business enterprise operates completely outside the economy of the corporation's home country.

Keywords - FDI, Services Sector, Export, Stocks, Commercial Ventures, Liberalization, Foreign Exchange Management Act (FEMA), Reserve Bank of India ('RBI')

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INTRODUCTION

Foreign Direct Investment (FDI) is the acquisition of a majority stake in a business in one country by a company based in another. Foreign direct investments are distinct from direct investments such as portfolio flows, in which foreign entities invest in shares listed on a country's stock exchange. According to the OECD definition, an investment is considered FDI if the investor personally owns at least 10% of the voting rights. As a result, the distinction between FDI and FII is one of degree rather than kind. It is a more stable form of foreign capital than FII, which is volatile and short-term in nature. Foreign Direct Investment (FDI) refers to a foreign country's investment in a host country. It benefits "both countries (host and foreign) through the spillover effect. It is similar to a pump priming technique that allows impoverished and developing countries to develop. FDI supplements domestic investment and adds to the economic growth process. It is a debt-free foreign asset. Foreign direct investment (FDI) plays a vital role in the transfer of technology and know-how. In recent years, there has been a dramatic shift in the direction of global FDI, with developing countries becoming more popular for MNEs to establish their operations. There are various ideas that explain the motivation and factors that lead to an investment decision outside of one's own country".

Transitional economies, such as India, require "FDI inflows for overall development. The early 1990s liberalization strategy prepared the path for foreign funds, especially FDI. Following India's huge liberalization initiative in response to the exchange rate crisis, FDI inflows have increased dramatically". The fundamental goal of the liberalization programme was to promote stability, economic growth, and development through the process of "Liberalization, Privatization, and Globalization (LPG). The Neoclassical Growth Model believes FDI to have just a short-term impact on growth rate; however the New Growth Theory examines FDI endogenously in the model and considers it to have a long-term impact on growth rate via technology and spillover effect".

There are numerous elements that influence FDI inflows into a country. However, depending on the level of development, the linkages fluctuate from one country to the next. There are numerous potential factors that influence FDI inflows into India.

FDI POLICY IN INDIA

FDI as defined in Dictionary of Economics is 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. Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India ('RBI') in this regard had issued a notification, which contains the Foreign Exchange Management (Transfer or issue of security by a person resident outside India) Regulations, 2000. This notification has been amended from time to time. The Ministry of Commerce and Industry, Government of India is the nodal agency for motoring and reviewing the FDI policy on continued basis and changes in sectored policy/ sectored equity cap. The FDI policy is notified through Press Notes by the Secretariat for Industrial Assistance (SIA), Department of Industrial Policy and Promotion (DIPP).The foreign investors are free to invest in India, except few sectors/activities, where prior approval from the RBI or Foreign Investment Promotion Board ('FIPB') would be required.

INDIAN GROWTH OF FDI IN SERVICE SECTOR

In the country's second decade of economic reform, "the service sector has received the most FDI inflows. Financial and banking services, insurance, business services, outsourcing, research and development (R&D), courier, and so on are all part of the service industry. FDI inflows into the service sector were Rs. 118405.3 crores from January 2000 to December 2010. Maharashtra received the most FDI in the services sector (60 percent), followed by New Delhi (12 percent), Karnataka (4 percent), Gujarat (2.2 percent), and Andhra Pradesh (1.9 percent). These five states account for nearly 80% of FDI in the service industry. Mauritius (40.63 percent), Singapore (12.22 percent), the United Kingdom (9.83 percent), the United States of America (7.8 percent), and Switzerland are among the countries investing in India's service sector (3.36 percent).

HARDWARE AND SOFTWARE FOR COMPUTERS

Until 2002, computer software and hardware were classified as electrical equipment. "However, in 2003, this sector was acknowledged as a distinct entity. This industry encompasses the computer software business, as well as computer hardware and other software. From January 2000 to December 2010, the total FDI inflow into this industry was Rs. 47274.1 crores. From January 2000 to December 2010, computer software received the most FDI. During the same year, the computer software industry received 8.98 percent of total FDI inflows, whereas computer hardware received only 0.08 percent of total FDI inflows. Mauritius received the most FDI in this sector (50.81 percent), followed by the United States (12.57 percent), Singapore (9.81 percent), the Netherlands (6.48 percent), and the United Kingdom (2.25 percent)".

TELECOMMUNICATION

The telecommunications industry is another key sector that grew as a result of economic reforms in the early 1990s. "Telecommunications, radio paging, cellular mobile/basic telephone services, and other services are all part of the telecommunications business (telecom). Between January 2000 and December 2010, the cumulative FDI equity inflow received was Rs. 46553.0 crores, accounting for 8.05 percent of overall FDI intake into the country. The majority of this FDI went to the states of Delhi, Mumbai, Ahmadabad, Chennai, and Bangalore".

REAL ESTATE AND HOUSING

This is a new sector that drew a significant amount of FDI during the second decade of economic reform. Previously, "FDI in this industry was restricted to Non-Resident Indians/OCBs. As a result, FDI inflows into this industry were extremely low from August 1991 to December 1999. However, due to a change in FDI policy, 100% equity participation is now permitted via the RBI's automatic method. After 2006, policy changes resulted in a large influx of FDI into this sector. Foreign direct investment (FDI) is permitted in the housing and real estate sectors. Mauritius received the most FDI in this sector (65.7 percent), followed by Cyprus (12.36 percent) and the Netherlands (4.80 percent).

According to the descriptive statistics provided above, there is a gradual shift in the movement of FDI inflows around the world. At the moment, the majority of FDI movement in the world is in the services sector, followed by manufacturing and primary industries. Manufacturing's global share has dropped in the last two decades, although it has expanded in developing economies".

- "FDI in the primary sector has decreased since the reform period. Globally, FDI in the primary sector is mostly focused on natural resource exploration. However, FDI in this sector has declined in India since our FDI policy prohibits the extraction of natural resources.
- FDI inflows into India have resulted in the growth of new sectors such as IT and ITES. This sector has received the majority of FDI over the last decade.
- India's manufacturing sector has failed to attract the appropriate level of FDI.
- "While services exports have increased in India, industrial exports have not increased.
- In the post-reform period in India, changes in FDI policy have favoured the expansion of new services such as financial and non-financial services, communications, computer software and hardware, hotel and tourist, construction activities, and real estate".

Sector-specific policy guidelines are critical in determining FDI inflows into India. The fast entry of FDI into the service sector demonstrates that FDI may play an essential role in the expansion of various companies and sectors. "Because India lacks the essential absorption capacity, the manufacturing sector in India may not gain from FDI. Though the impact of FDI in India's economic progress cannot be discounted, it has failed to spur growth in the manufacturing sector, where it is most needed".

Conclusion A large number of changes that were introduced in the country`s regulatory economic policies heralded the liberalization era of the FDI policy regime in India and brought about a structural breakthrough in the volume of the FDI inflows into the economy maintained a fluctuating and unsteady trend during the past period. FDI would allow India to secure foreign infrastructure into India, which would increase India’s capital base rapidly. If, India can attract FDI, in the big picture its nothing but positive. But negatives are that it can affect local communities, it also means subjecting domestic firms to foreign competition which can harm domestic firms. To overcome this situation, the Government should revise the sectoral cap and bring more sectors under the automatic route. Further, India should sign the agreement of Double Taxation treaties with other countries in order to increase bilateral trade. Therefore, there is an urgent need to adopt 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 a developed economy.

CONCLUSION

The study concludes that FDI inflows have shown significant growth from 2000 to 2010 especially in Service Sector. Later on declines up to 2.67 % and reach near to 54.49 % but again raises 57 % in year 2013-14. Overall growth from 2000-14 is near to 6 %. Economic and financial crisis in the world have made a deepening impact on FDI flows and growth of Indian economy. Though FDI as a strategic component of investment is needed by India for its sustained economic growth. The current study showed a positive and significant impact of foreign capital inflows on Indian economy sectors. In future work, computational model will be designed to enhance the accuracy of our growth model using other economic variables like Gross output, Export and Labour productivity in Service Sector. During the first half of 2021-22, the Services Sector received over US$ 16.7 billion FDI accounting for almost 54 per cent of the total FDI inflows into India. 9.1 Services Sector contributes over 50 per cent to India's GDP. The share of FDI in the service sector was 54.48 percent of the total FDI inflow in the world while the share of manufacturing sector was 29.68 percent and the share of primary sector was only 8.73 percent. The services sector accounts for 53.89% of total India's GVA of 179.15 lakh crore Indian rupees. With GVA of Rs. 46.44 lakh crore, the Industry sector contributes 25.92%. While Agriculture and Allied Sectors share only 20.19%.

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Corresponding Author

Surabhi Singh*

Research Scholar, University of Rajasthan, Jaipur