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IMPACT OF FDI ON SERVICE SECTOR GROWTH: A COMPREHENSIVE ANALYSIS

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ABSTRACT

Foreign direct investment (FDI) has emerged as a key engine of global economic growth, notably in the service sector. This study seeks to conduct a complete analysis of the influence of FDI on service sector growth, taking into account a variety of variables such as job creation, technical advancement, and productivity enhancement. The service sector, which includes areas like finance, healthcare, tourism, and information technology, is critical to modern economies, contributing significantly to GDP and job creation. In recent years, FDI inflows into the service sector have steadily increased as a result of many nations' globalisation and liberalisation policies. This research conducts a comprehensive literature review to investigate the theoretical framework and empirical data around the relationship between FDI and service sector growth. It explores how FDI contributes to the expansion and development of service industries, fostering innovation, knowledge transfer, and skill development.The service sector plays a pivotal role in modern economies, contributing significantly to GDP growth, employment generation, and overall economic development. In recent decades, Foreign Direct Investment (FDI) has emerged as a key driver of globalization, fostering cross-border flows of capital, technology, and expertise.

Key words: FDI Inflows, Service Sector, Globalisation

INTRODUCTION

Foreign Direct Investment (FDI) is a crucial driver of national development strategies worldwide, facilitating technology transfer and serving as a significant source of non-debt inflows. It fosters competitive efficiency and global connections, playing a pivotal role in providing external financing for developing nations and promoting economic progress in host countries. In the era of globalization, FDI is essential for both developing and developed countries, contributing to improved economic growth and development. In India, the services sector has played a vital role in the country's growth, with its GDP share doubling since independence. Unlike other emerging economies, India's economic growth has been led by its services sector, highlighting the importance of FDI and the services industry in India's development trajectory.

REVIEW OF LITERATURE

REVI Arti Pandit Dhawan's (2023) study explores how Foreign Direct Investment (FDI) contributes to India's services sector growth, emphasizing factors like pent-up demand, eased restrictions, and government initiatives. India's services sector, constituting 53.8% of GDP, thrives due to skilled labor and global business outsourcing, with the IT Department playing a crucial role. Strong growth in FY22, projected at 9.1% in FY23, is attributed to a 13.7% increase in contact-intensive services. The study highlights a robust correlation between FDI inflows and service sector GDP growth, with 95% explained by FDI.

P. Sudhakar and Dr. R. Velmurugan (2023) examine how FDI influences India's economic growth, focusing on its impact on the BSE Sensex and GDP. They find a positive correlation between FDI, GDP growth, and stock market performance.

Narolia Sunil Kumar's (2023) study aims to assess FDI's impact on India's service sector GDP, bank rate, and foreign exchange reserves. Using multiple regression analysis, it identifies foreign exchange reserves and GDP as significant determinants of FDI inflows in the service sector. The study also compares FDI inflows in the service sector with the telecommunication sector over 15 years.

Henry Pandian and V. Duraisingh's (2022) research evaluates FDI inflows in India's service sector from 2000-01 to 2020-21, highlighting its role in economic growth by enhancing domestic capital, productivity, and employment. They find India to be among the top recipients of FDI inflows, particularly in the service sector, showing a positive relationship with FDI.

Sumathy et al.'s (2022) study analyzes FDI inflows in India's service sector from 2000 to 2014, focusing on its impact on GDP. They find a positive and significant relationship between FDI and GDP, indicating consecutive growth in FDI inflows to the service sector.

STATEMENT OF THE PROBLEM

There are many factors that influence the economic condition. One of them is FDI. Hence there is a study for the impact of FDI on service sector economic growth in India. The statement problem centres on identifying the variables affecting foreign direct investment (FDI) into the services sector and assessing the effects of this activity on the Indian economy. It is necessary to resolve problems with regulatory frameworks, policy coherence, and sector specific restrictions.

OBJECTIVE OF THE STUDY

- To study the trends and pattern of the inflow of FDI in India from 2013-2014 to 2022-2023.
- To measure the Service Sector inflow of FDI in India from 2013-2014 to 2022-2023.
- To analyse the performance of the service sector in India through FDI.
- To study the relationship between the service sector growth and %of GDP.
- To examine the impact of FDI and economic growth of FDI on service Sector of India.

SCOPE OF THE STUDY

- FDI plays a significant role in the growth of the Indian economy, with several sectors experiencing increased FDI inflows in recent years.
- This study specifically focuses on analyzing the FDI inflows in the service sector in India.
- The main objective of the study is to assess the impact of FDI inflows on the service sector in India.
- The study evaluates the trends in FDI inflows and their influence on the country's economic growth, particularly in the service sector.
- It aims to provide insights into how FDI has contributed to the current growth trajectory of the service sector in India.

RESEARCH METHODOLOGY

- The research is based on the quantitative and analytical research.
- Data of FDI in service sector is taken for the study from the year 2013-2014 to 2022-2023.
- Data for the study is sourced from secondary sources include reports from the Reserve Bank of India (RBI), RBI Bulletin and Handbook of Statistics on the Indian Economy.
- Secondary sampling designs are applied after some data or other information has already been obtained. This study only focuses on Service Sector.
- Tools Used For The Study -Descriptive Statistics, Correlation analysis, Regression analysis, ANOVA and Chi-Square analysis

HYPOTHESIS

The study has been taken up for the period 2013-2014 to 2022-2023 with the following hypothesis

- Ho: Foreign Direct investment does not have the impact on service sector of India in its % of GDP
  H1: Foreign Direct investment have the impact on service sector of India in its % of GDP

SIGNIFICANT OF THE STUDY

- It offers valuable insights into how FDI contributes to India's economic growth.
- The study focuses on the service sector and its role in India's economic development through FDI and it identifies opportunities for further growth and development.
- This study highlights the significant contribution of the service sector to India's economic growth through FDI.

LIMITATIONS OF THE STUDY

- Data quality and availability issues may affect the accuracy and conclusiveness of the study due to inaccurate or missing data.
- Rapid technological advancements may alter demand for services, impacting FDI trends in the service sector annually.
- This study is limited to constraints within the FDI service sector over a 10-year period (2013-2014 to 2022-2023).

ANALYSIS AND INTERPRETATION

TABLE 4.1: TABLE SHOWING THE DESCRIPTIVE STATISTICS OF TOTAL INFLOW OF FDI, TOTAL SERVICE SECTOR INFLOW AND THE %OF GDP

DESCRIPTIVE STATISTICS			
	Mean	Std. Deviation	N
% OF GDP	1.74%	0.32035%	10
TOTAL SERVICE SECTOR INFLOW	42297.70	19392.365	10
TOTAL INFLOW OF FDI	308272.30	97089.477	10

SOURCE: FDI Inflows

The analysis of descriptive statistics of the variable shows the mean and standard deviation of Total inflow of FDI, Total service sector inflow and the %of GDP. The mean value of % of GDP is 1.7400%, Total service sector inflow is 42297.70, total inflow of FDI is 308272.30. The standard deviation of % of GDP is 0.32035%, Total service sector inflow is 19392.365 and total inflow of FDI is 97089.477.

TABLE 4.2: TABLE SHOWING THE CORRELATIONS BETWEEN TOTAL SERVICE SECTOR INFLOW AND THE %OF GDP

CORRELATIONS			
		% OF GDP	TOTAL SERVICE SECTOR INFLOW
Pearson Correlation	% OF GDP	1.000	.100
	TOTAL SERVICE SECTOR INFLOW	.100	1.000
Sig. (1-tailed)	% OF GDP	.	.392
	TOTAL SERVICE SECTOR INFLOW	.392	.
N	% OF GDP	10	10
	TOTAL SERVICE SECTOR INFLOW	10	10

SOURCE: FDI Inflows

The correlation shows the correlations between any two pairs of variables.The pairing of the independent variable with the dependent variable has a correlation that is 0.392 which is more than 0.75.The correlation coefficient between % of GDP and Total Service Sector Inflow is 0.100, the relationship between % of GDP and Total Service Sector Inflow is statistically significant., indicating that the analysis is multicollinear and the hypothesis is accepted.

TABLE 4.3: TABLE SHOWING THE ANALYSIS OF VARIANCEANNOVA

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.009	1	.009	.081	.783[b]
	Residual	.914	8	.114		
	Total	.924	9			
2	Regression	.042	2	.021	.168	.849[c]
	Residual	.881	7	.126		
	Total	.924	9			
a. Dependent Variable: % OF GDP, b. Predictors: (Constant), TOTAL SERVICE SECTOR INFLOW, c. Predictors: (Constant), TOTAL SERVICE SECTOR INFLOW, TOTAL INFLOW OF FDI						

SOURCE: FDI Inflows

Analysis of Variance (ANOVA) test indicates a significant difference in the inflow of FDI across service sectors in India. The model 1shows the variance in the dependent variable (% OF GDP), as indicated by the small sum of squares for regression (.009), The F-statistic is 0.081, The associated p-value (Sig.) is .783.um of squares for regression (.042). The model 2 shows the sum of squares for regression (.042). The F-statistic is 0.168, The associated p-value (Sig.) is .849 In the above ANOVA table show that the GDP and TOTAL SERVICE SECTOR INFLOW have score of significant is .783 and it is greater than the 5% of significant level hence there is no significant relationship and null hypothesis is not accepted. In the above table of ANOVA show that the significant score is .849 and it is greater than the level of 5% hence there is no significant relationship.

TABLE 4.4: TABLE SHOWING THE CHI-SQUARE TESTS FOR TOTAL SERVICE SECTOR INFLOW AND THE %OF GDP

CHI-SQUARE TESTS			
	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	90.000[a]	81	.231
Likelihood Ratio	46.052	81	.999
Linear-by-Linear Association	.090	1	.764
N of Valid Cases	10		
a. 100 cells (100.0%) have expected count less than 5. The minimum expected count is .10.			

SOURCE: FDI Inflows

The above analysis shows The Pearson Chi-Square statistic, with a value of 90.000 and 81 degrees of freedom, has an asymptotic significance of.231. This test concludes that there is no statistically significant relationship between the variables based on the p-value. Similarly, the Likelihood Ratio test, with a statistic of 46.052.The Linear-by-Linear Association test, with a statistic of.090 and one degree of freedom, yields a non-significant p-value of.764. This test explicitly investigates the linear trend in the relationship between two ordinals. The calculated value is 0.231 is lesser than the table value 101.879. Hence the null hypothesis is accepted.

TABLE 4.5: TABLE SHOWING THE % OF GROWTH OVER PERVIOUS YEAR

YEAR	% OF GROWTH OVER PERVIOUS YEAR
2013-14	5%
2014-15	25%
2015-16	23%
2016-17	8%
2017-18	1%
2018-19	2%
2019-20	20%
2020-21	10%
2021-22	3%
2022-23	16%

SOURCE: FDI Inflows

The years 2014-15 and 2015-16 stand out with remarkable growth rates of 25% and 23%, respectively. During these periods, India attracted significantly more FDI compared to the previous year. In 2019-20, there was a substantial growth of 20%, indicating sustained investor interest. The years 2016-17 and 2020-21 also witnessed moderate growth rates of 8% and 10%, respectively. The years 2017-18 and 2018-19 had minimal growth rates of 1% and 2%, respectively. These years might have been influenced by global economic conditions or specific policy changes. In 2022-23, there was a significantgrowth rate of 16%. This bounce-back suggests renewed confidence in India’s economy.

FINDINGS

- Descriptive statistics reveal mean values for % of GDP (1.74%), Total service sector inflow ($42,297.70), and total inflow of FDI ($308,272.30), with corresponding standard deviations.
- Pearson Correlation Coefficients indicate weak correlation, with nonsignificant values between Total Service Sector Inflow and Total Inflow of FDI, but a statistically significant relationship between % of GDP and Total Service Sector Inflow.
- ANOVA results suggest no significant relationship between GDP and Total Service Sector Inflow, as well as between % of GDP and Total Inflow of FDI.
- The Pearson Chi-Square test concludes no statistically significant relationship between total service sector inflow and % of GDP, implying no significant association between them.

SUGGESTION

- Simplify FDI procedures to encourage more investment.
- Introduce additional incentives for foreign investors.
- Maximize FDI inflows in the sector to directly impact India's GDP.
- Provide governmental support to attract higher FDI levels.
- Continue promoting FDI in the industry to sustain economic growth.

CONCLUSION

In summary, it is imperative for authorities to maintain efforts in fostering a conducive environment for foreign investment, recognizing the pivotal role of FDI in India's services sector and its broader impact on economic development. By implementing these measures, India can effectively harness FDI as a strategic catalyst for long-term prosperity and sustained growth. FDI remains essential for India's economic trajectory, supporting projects across various sectors such as outsourcing, healthcare, education, and R&D. Recent analyses underscore the significant benefits derived from foreign capital inflows, particularly evident in the resurgence of subsectors like contact-intensive services post-pandemic. Continued emphasis on attracting FDI will be instrumental in securing India's economic resilience and advancement in the years ahead.

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