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FOREIGN DIRECT INVESTMENT AND GROWTH OF THE SERVICE SECTOR IN INDIA

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ABSTRACT

This research paper explores the role of Foreign Direct Investment (FDI) in India's services sector, focusing on its sustained economic growth and development. The study highlights factors such as pent-up demand, eased movement restrictions, vaccine coverage, and government initiatives that have bolstered the sector. The services sector accounts for 53.8% of India's GDP, driven by its skilled workforce and outsourcing of global businesses. The Department of Information Technology plays a pivotal role in positioning India as a leader in the information revolution. The services sector exhibited strong growth in FY22, with projections suggesting a 9.1% expansion in FY23, driven by a 13.7% increase in contact-intensive services. The paper also demonstrates a robust relationship between FDI inflows and GDP growth in the service sector, with 95% of FDI inflows explained by service sector GDP growth.

Keywords: - Foreign Direct Investment (FDI), Service Sector, Gross Domestic Product, Information Technology, Economic Growth

INTRODUCTION

Foreign Direct Investment (FDI) has emerged as a vital component of national development strategies for almost all countries globally. It serves as a conduit for the transfer of technology and constitutes a significant source of non-debt inflows, fostering competitive efficiency through the establishment of extensive global connections. During the 1990s, FDI played a pivotal role as the primary source of external financing for developing nations. FDI not only provides home countries with opportunities to optimise their earnings by harnessing their abundant resources but also facilitates economic progress in host countries. In India, approximately 23% of the workforce is engaged in the services sector, ranking the country 15th on a global scale. This sector encompasses diverse industries such as construction, trade, hotels, transportation, communication, storage, and various others. The Indian economy is currently among the most influential and attractive in the world, primarily attributed to the liberalisation efforts initiated by the government in the 1990s, propelling it towards rapid economic growth. At the beginning of the new millennium, India was hailed as an emerging superpower. By 2009, India boasted the fourth-largest economy globally, with a Gross Domestic Product (GDP) of USD 3.5 trillion based on purchasing power parity. Notably, the services sector accounted for a substantial 62.5% of India's GDP, while the agricultural sector, historically a cornerstone of the Indian economy, contributed a mere 17.5%. India's consistent economic growth, averaging 7% since 1997, even during periods of global recession, has been significantly influenced by information technology and IT outsourcing services. However, India's per capita income (PPP) remains modest at USD 4542.

Despite the pandemic's impact on contact-intensive services, the services sector in India rebounded in FY22, thanks to factors such as increased demand, relaxed movement restrictions, and widespread vaccination coverage. India has established itself as a major player in global services trade, with its share of global exports of commercial services rising from 3% in 2015 to 4% in 2021. The government has raised the FDI cap for insurance companies and allowed 100% foreign participation in communication services through the Automatic Route. The hotel sector is experiencing a boom, approaching pre-pandemic occupancy levels, while the tourism industry is showing signs of recovery with the return of international flights and eased COVID-19 restrictions. The real estate sector is also on an upward trajectory, surpassing pre-pandemic levels in terms of home sales and new property launches. The services sector has become the linchpin of India's economic performance, driven by government initiatives to promote the digital economy, increased internet penetration, smartphone adoption, and the embrace of digital technologies by emerging economies like China.

Service Sector: A Conceptual Framework

The service industry, classified as a tertiary sector, plays a significant role in a nation's GDP. The growth of the service sector is instrumental in the transformation of developing nations into developed ones. Over the past two decades, India has emerged as a giant in the IT sector, largely attributable to the expansion of the service industry. To delve deeper into this topic, it is essential to clarify the distinction between services and products.

Both services and products are susceptible to evolving economic trends and technological advancements. To differentiate between them, we can consider physical attributes such as tangibility, perishability, and the duration of use or consumption (Sanjay Tiwari, 2011). The division between services and products can also be traced back to the physiocratic school of thought in France. This school asserted that only agriculture was productive, generating net revenue, while all other non-agricultural occupations were deemed "sterile" as they merely allowed individuals to recover their investment costs. However, Adam Smith challenged this view by categorising most non-agricultural activities as forms of productive labour and recognising that they could yield profits comparable to those in agriculture. He introduced a distinction between productive and non-productive labour. According to Alfred Marshall, there is no scientific basis for distinguishing between various activities, such as cabinet manufacturing and furniture dealing, coal transportation above and below ground, or fishing and fishmongering, as they all contribute to fulfilling societal demands by providing services (Joshi, 2008). In essence, all activities aim to create value by offering services.

PRIOR STUDIES

A series of studies have investigated the significance of Foreign Direct Investment (FDI) inflows in India's service sector and their implications for economic growth and employment. Sirari & Bohra (2011) analyzed the role of FDI in the Indian service sector since 1991, highlighting its positive impact on output, productivity, and employment, particularly in skilled positions. Joshi (2008) explored the drivers of service sector growth in India, emphasizing the contributions of professional services, IT, telecom, organized retailing, and more, underscoring the sector's diversity. Chawla (2013) examined FDI trends in the service sector, noting substantial growth in FDI inflows since 1991, although overall FDI levels saw a slight decrease in 2012. Yadav (2014) delved into the contributions of various industries to the Indian economy, including financial services, telecommunications, and IT, using statistical models to demonstrate the positive impact of FDI inflows on GDP. Sumathy & Sridhar (2014) conducted a time-series analysis of FDI inflows in the service sector from 2000 to 2014, reaffirming the positive relationship between FDI and GDP in this sector. Sutradhar (2014) traced the increase in FDI in India's services sector to liberalization and globalization policies, as well as global FDI patterns. Kumar (2014) highlighted the phenomenal growth of India's IT sector, attributing it to liberalization policies and the emergence of IT giants like Infosys, Wipro, and TCS. Jana, Sahu, and Pandey (2019) examined the sector-specific impact of FDI on emerging economies like India, noting positive effects in manufacturing and a bi-directional causality between FDI and growth in the service sector. Dinesh et al. (2019) explored factors affecting long-term FDI in the services sector (2001–2017) and found correlations between GDP, stock exchange performance, infrastructure spending, and FDI. Mahapatra (2020) conducted a comprehensive analysis of sectoral contributions to the Indian economy and the impact of FDI inflows from 2000 to 2014, with a focus on assessing the relationship between FDI and GDP in the service sector.

Collectively, these studies provide valuable insights into the multifaceted relationship between FDI, the services sector, and India's economic growth, offering suggestions for policymakers to enhance FDI-driven growth and development in the country. The above review of literature proves beneficial in identifying the research issues and the research gaps, which are mainly the edifices on which the objectives of the present study are based. There is hardly any study in India which documents the impact of the FDI on the economic growth of the service sector of India. Thus, the present study is an endeavour to multifaceted relationship between FDI, the services sector, and India's economic growth, offering suggestions for policymakers to enhance FDI-driven growth and development in the country

THE SIGNIFICANCE OF THE STUDY

The significance of understanding the multifaceted relationship between Foreign Direct Investment (FDI), the services sector, and India's economic growth cannot be overstated. This relationship holds crucial implications for India's economic development and offers valuable guidance for policymakers in fostering FDI-driven growth. Firstly, the services sector serves as a cornerstone of India's GDP, and FDI has emerged as a significant catalyst within this sector. Recognizing how FDI influences the services sector's growth is vital because the services sector is a key driver of India's economic performance. Moreover, FDI in the services sector has the potential to spur employment opportunities, particularly for skilled workers, thus improving living standards for a significant portion of the population. Understanding the diverse impact of FDI across various service sub-sectors is essential, as it informs policy decisions and interventions tailored to each sector's unique characteristics.

Furthermore, FDI acts as a conduit for technology transfer and global networking, enhancing India's global competitiveness, especially in IT, telecom, and professional services. Policymakers can leverage this knowledge to formulate targeted policies that identify untapped potential in different service sectors, attract investment, and promote sustainable growth. In addition, this insight allows India to diversify its economic base, reducing reliance on a single sector and enhancing economic resilience in the face of global economic fluctuations. Furthermore, FDI-driven growth can be harnessed to foster inclusive development, reduce income disparities, and upskill the workforce. The robust services sector, fueled by FDI, can significantly contribute to India's global trade, further strengthening its position in the global market. Recognising the correlation between infrastructure spending and FDI guides infrastructure development, making it more attractive to foreign investors and supporting sustainable growth. Lastly, long-term planning based on longitudinal studies empowers policymakers to set clear objectives and monitor progress, ensuring sustained economic development. In conclusion, comprehending the intricate relationship between FDI, the services sector, and India's economic growth is pivotal for informed policymaking. It empowers policymakers to create an environment conducive to FDI inflows, address sector-specific challenges, and ultimately drive India's economic progress in a sustainable and inclusive manner.

OBJECTIVES OF THE STUDY

The study specifically encompasses its scope. The following objectives are there:

- To analyze the performance of the Service Sector in India’s Gross value addition.
- To examine the growth of GDP in the Service Sector through FDI.
- To give suggestions to policymakers to attract more FDI.

RESEARCH METHODOLOGY

Data collection of information has been based on secondary data. To achieve the objectives data has been collected from UNCTADstat from 2000-2022. There are two variables used to measure the growth of GDP in the Service Sector through FDI namely growth of GDP in the Service Sector and FDI Inflows. FDI is taken as the independent variable whilst GDP, Trade, population, exchange rate, and inflation are taken as the dependent variable. And lastly, we have given suggestions on the basis of our study.

DATA ANALYSIS AND INTERPRETATION

Table No 1.1

Financial Year-Wise growth of GDP in the Service Sector through FDI

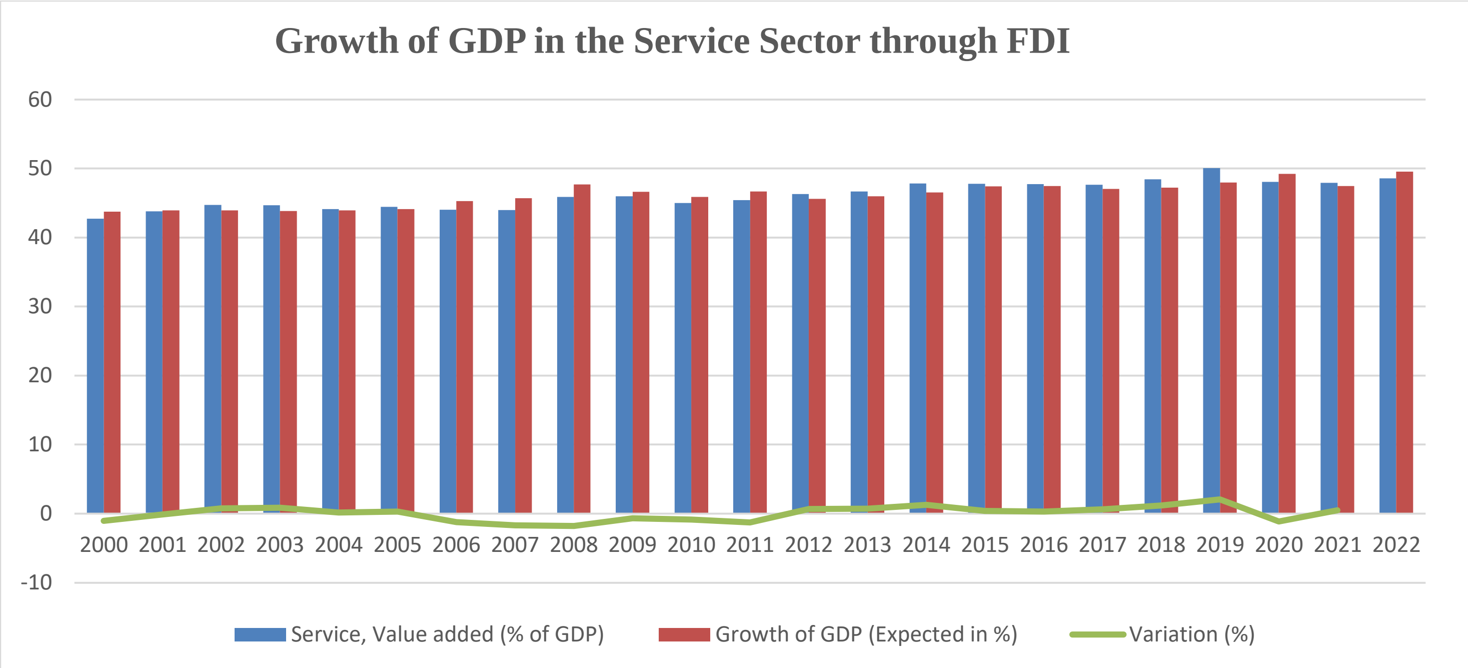
Year	FDI Inflows (US $ Million)	Service, Value added (% of GDP)	Growth of GDP (Expected in %)	Variation (%)
2000	3587.99	42.73	43.76317	-1.03317
2001	5477.64	43.81	43.93334	-0.12334
2002	5629.67	44.73	43.94703	0.78297
2003	4321.08	44.70	43.82919	0.87081
2004	5777.81	44.11	43.96037	0.14963
2005	7621.77	44.44	44.12643	0.31357
2006	20327.76	44.04	45.27064	-1.23064
2007	25349.89	44.01	45.72290	-1.7129
2008	47102.42	45.88	47.68177	-1.80177
2009	35633.94	45.98	46.64900	-0.669
2010	27417.08	45.03	45.90905	-0.87905
2011	36190.46	45.44	46.69912	-1.25912
2012	24195.77	46.30	45.61896	0.68104
2013	28199.42	46.70	45.97950	0.7205
2014	34582.10	47.82	46.55428	1.26572
2015	44064.10	47.78	47.40816	0.37184
2016	44480.57	47.75	47.44567	0.30433
2017	39903.84	47.67	47.03352	0.63648
2018	42156.19	48.43	47.23635	1.19365
2019	50558.33	50.08	47.99299	2.08701
2020	64072.24	48.07	49.20995	-1.13995
2021	44735.15	47.94	47.46859	0.47141
2022	49 355.00	48.58	49.53673	-

Source- UNCTADstat World Bank Report.

Analyzing the data from Table No. 4.8 on the Financial Year-Wise growth of GDP in the Service Sector through Foreign Direct Investment (FDI), we can observe the following trends and patterns:

1. FDI Inflows: The amount of FDI inflows has shown significant fluctuations over the years. It started with a relatively low value of $3,587.99 million in the year 2000 and gradually increased, reaching its peak of $64,072.24 million in 2020. However, there have been instances of fluctuations between these years, indicating the dynamic nature of FDI.
2. Service Value Added (% of GDP): The percentage contribution of the service sector's value added to GDP has shown relatively steady growth over the years. It started at 42.73% in 2000 and gradually increased to 48.07% in 2020. This indicates the importance and consistent growth of the service sector in contributing to the overall GDP.
3. Growth of GDP (Expected in%): The expected growth of GDP in percentage terms has varied from year to year. It has been projected based on certain factors and estimates. The variation in expected growth rates indicates the complexities involved in accurately forecasting economic growth.
4. Variation (%): The variation column represents the difference between the expected GDP growth and the actual growth. Positive values indicate that the actual growth exceeded the expected growth, while negative values indicate that the actual growth fell short of expectations. This variation suggests the challenges of accurately predicting economic performance and the potential impact of various factors on GDP growth.
5. Overall Trend: The data shows that there is no consistent pattern in the variation of GDP growth through FDI. Some years have seen positive variations, indicating better-than-expected performance, while others have experienced negative variations, indicating lower-than-expected growth.
6. Impact of Economic Events: Some significant events, such as the global financial crisis in 2008 and the COVID-19 pandemic in 2020, appear to have influenced FDI inflows and GDP growth in the service sector. These events may have caused the observed fluctuations in FDI inflows and GDP growth during those years.
7. Long-term Growth: Despite fluctuations, there is a general upward trend in both FDI inflows and the contribution of the service sector to GDP. This suggests a positive long-term growth trajectory for the service sector, driven by FDI inflows.

FIGURE 1.1



In conclusion, the data highlights the dynamic nature of FDI inflows and the steady growth of the service sector's contribution to GDP. The variation in expected GDP growth from actual growth indicates the challenges of accurately forecasting economic performance. It also underscores the impact of various economic events on FDI and GDP growth. Overall, the data suggest that FDI has played a significant role in driving growth in the service sector and contributing to the overall economic performance in the given period.

India was the seventh-largest beneficiary of FDI among the top 20 host countries in 2021, according to UNCTAD's World Investment Report 2022.[19] Inflows of FDI into India reached a record high of $84.8 billion in FY22, with FDI equity inflows into the services sector totaling $7.1 billion. The government has taken a number of steps to encourage investment, including the introduction of the National Single-Window System, a one-stop shop for the permissions and certifications required by investors, entrepreneurs, and firms. The government has allowed 100% foreign involvement in communications services, including all services and infrastructure providers, through the Automatic Route in order to ensure the liberalisation of investment in diverse industries. The FDI ceiling in insurance companies was also raised from 49 per cent to 74 per cent, under the Automatic Route. Further, the Government has allowed 20 per cent foreign investment. (Economic Survey 2022-23)[20].

The study concentrates on a single variable, the GDP, which has a considerable influence on the influx of foreign direct investment (FDI) into India between 2000 and 2021. The influence of the service sector's share of the GDP on FDI inflows to India is examined, and it is discovered that there is a positive correlation between the two. In order to examine these variables, a regression equation is developed. The goal of the study is to comprehend how these elements affect FDI inflows to India.

$Y = b_0 + b_1 X_1 + b_2 X_2 + ... + b_n X_n + U_t$

FDI inflows in India $= b_{0+} b_{1,}$ Service, Value added % of GDP

To check the impact of independent variables on FDI inflows in India, the following hypothesis has been formulated:

$H_{0(1)}$: There is no significant impact of the independent variable on the dependent variable.

$H_0: b_1 = b_2 = b_3 = 0$, where b is the slope of the regression line or regression coefficient.

$H_{a\,(1)}$: There is a significant impact of the independent variable on the dependent variable.

Ha: $b_1 \neq b_2 \neq b_3 \neq 0$, where b is the slope of the regression line or regression coefficient

Table No 1.2

Descriptive Statistics

Variables	Mean	Std. Deviation	N
Growth of GDP in Service Sector (%)	46.0655	1.91841	22
FDI Inflows (US $ Million)	29153.8736	17755.44364	22

Source: SPSS Multiple Regression Output.

Table- 4.9, depicts the analysis of descriptive statistics of independent and dependent variables of India, like mean and standard deviation. The mean value of FDI inflow in India is 29153.8736, along with the standard deviation is 17755.44364. The mean values of independent variable growth of GDP in the service sector percentage of India is 46.0655 along with its standard deviation i.e. 1.91841.

Table No 1.3: Correlations Matrix

Variables		Growth of GDP in Service Sector (%)	FDI Inflows (US $ Million)
Pearson Correlation	Growth of GDP in Service Sector (%)	1.000	0.833
	FDI Inflows (US $ Million)	0.833	1.000
Sig. (1-tailed)	Growth of GDP in Service Sector (%)		0.000
	FDI Inflows (US $ Million)	0.000	
N	Growth of GDP in Service Sector (%)	22	22
	FDI Inflows (US $ Million)	22	22

Source: SPSS Multiple Regression Output

The correlation matrix, shown in Table 4.10, shows the correlations between any two pairs of variables. The pairing of the independent variable with the dependent variable has a correlation that is 0.833 which is more than 0.75, indicating that the analysis is multicollinear.

Table No 1.4

Model Summary

Model	**R**	**R Square**	**Adjusted R Square**	**Std. Error of the Estimate**	**Change Statistics**					**Durbin-Watson**
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.833[a]	0.695	0.679	1.08624	0.695	45.501	1	20	0.000	1.076
a. Predictors: (Constant), FDI Inflows (US $ Million)										
b. Dependent Variable: Growth of GDP in Service Sector (%)										

Source: SPSS Multiple Regression Output.

Multiple regression model statistics are shown in Table 4.11. The calculated value of the regression coefficient is 0.833, while the calculated value of the R2 coefficient is 0.695. The value of the coefficient of determination R^2 explains that near about 95% of the variation in FDI inflows in India can be explained by the growth of GDP in the service sector (%) while the remaining 5 per cent variation in FDI inflows is explained by other factors which are not included in the model. The Durbin-Watson statistics are also obtained to examine the assumption of independence. The Value of Durbin Watson is 1.076 which falls between the accepted ranges of 1-3, indicating that there is no problem of autocorrelation. This simply means that the variables that belong to the model are not included in the error term, meaning that there is no specification error in the model.

Table No 1.5

ANOVA

Model		**Sum of Squares**	**df**	**Mean Square**	**F**	**Sig.**
1	Regression	53.688	1	53.688	45.501	.000[b]
	Residual	23.598	20	1.180		
	Total	77.286	21			

a. Dependent Variable: Growth of GDP in Service Sector (%)

b. Predictors: (Constant), FDI Inflows (US $ Million)

Source: SPSS Multiple Regression Output.

The F-test determines that at least one of the regression coefficients is different from zero and explains the overall relevance or validity of the model. Table 4.12 shows that the computed F-value is 45.501, rejecting the null hypothesis, and the corresponding p-value is 0.000. As a result, it can be inferred Growth of GDP in the service sector (independent variable) significantly correlates with Foreign Direct Investment inflows, and analysis supports the validity or statistical significance of the entire regression model.

Table No 1.6 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Correlations		
		B	Std. Error	Beta			Zero-order	Partial	Part
1	(Constant)	43.440	0.453		95.916	0.000			
	FDI Inflows (US $ Million)	9.005E-05	0.000	0.833	6.745	0.000	0.833	0.833	0.833

a. Dependent Variable: Growth of GDP in Service Sector (%)

Source: SPSS Multiple Regression Output.

Table 4.13, presents the output relating to the significant linear relationship between Foreign Direct Investment inflow and Growth of GDP in the service sector in India. The standardised Beta – coefficient shows the relative contribution or importance growth of GDP in the service sector in predicting the value of FDI inflows in India. The analysis reveals that the FDI inflow in India (0.833) is the most important variable in the growth of GDP in the service sector in India.

Results state that with a one per cent increase in FDI inflows, the growth of GDP in the service sector in India will increase by 9.000 per cent by holding other variables constant, which is more than proportionately. FDI inflows have a positive influence on the growth in GDP in the service sector inflow in India and the significant p-value also supports the argument.

Table 1.7 Number of Greenfield FDI Projects in Services Industries

Sector	2007	2008	2009
Hotel and Tourism	297	553	370
Transport, Storage, and communications	1024	1269	1133
Communications	448	594	544
Financial Services	1161	1616	1267

Business Services	2922	3647	2927

Source: UNCTAD, WIR 2010

The data from Table 4.14 represents the number of Greenfield Foreign Direct Investment (FDI) projects in various service industries for the years 2007, 2008, and 2009. Greenfield FDI projects refer to new investments made by foreign companies to establish businesses or facilities in a host country. Analyse the data for each service sector as follows:

1. Hotel and Tourism:

- In 2007, there were 297 Greenfield FDI projects in the Hotel and Tourism sectors.
- In 2008, this number increased to 553 projects, indicating a substantial growth in foreign investments in this sector.
- In 2009, the number of projects decreased to 370, but it still remained higher than in the initial year.

2. Transport, Storage, and Communications:

- In 2007, there were 1024 Greenfield FDI projects in the Transport, Storage, and Communications sectors.
- In 2008, the number increased to 1269 projects, showing a further rise in foreign investments.
- In 2009, the number declined slightly to 1133 projects but remained relatively high compared to 2007.

3. Communications:

- In 2007, there were 448 Greenfield FDI projects in the Communications sector.
- In 2008, the number increased to 594 projects, indicating a positive trend in foreign investments.
- In 2009, the number decreased slightly to 544 projects but remained higher than the initial year.

4. Financial Services:

- In 2007, there were 1161 Greenfield FDI projects in the Financial Services sector.
- In 2008, this number increased to 1616 projects, reflecting significant growth in foreign investments in this sector.
- In 2009, the number decreased to 1267 projects, but it was still higher than the initial year.

5. Business Services:

- In 2007, there were 2922 Greenfield FDI projects in the Business Services sector, making it the sector with the highest number of projects.

- In 2008, the number increased to 3647 projects, showing significant growth in foreign investments in business-related services.
- In 2009, the number decreased slightly to 2927 projects but remained considerably high compared to 2007.

Overall, the data indicates that the number of Greenfield FDI projects in the services industries showed a positive trend in the years 2007–2008, with many sectors experiencing significant growth in foreign investments. While there was a slight dip in some sectors in 2009, the overall trend remained positive, indicating the attractiveness of India's service industries to foreign investors during this period. The Business Services sector, in particular, stood out as the sector with the highest number of FDI projects throughout the years analyzed. The global economic and financial crisis slowed down Cross-border FDI flows. The services sector was also impacted, even though the crisis had a significant negative impact on flows to industrial operations. The United Nations Conference on Trade and Development (UNCTAD) reports that the impact of the crisis across sectors has caused a change in the relative weights of FDI flows, with manufacturing experiencing a decline compared to the primary and services sectors. Manufacturing accounted for less of the overall cross-border mergers and acquisitions (M&As) value in industrialised nations (30% of their value in 2009) than it did in emerging and transition economies (32% of the transaction value).

On the other hand, established nations had bigger proportions of the primary sector and services in the overall value of cross-border M&As than emerging and transition economies. Business services were one of the industries that were particularly badly impacted by the recession in terms of investment spending, with the number of greenfield investment projects globally declining by 20% in 2009 compared to 2008. Financial services had a similar fall in greenfield investments, from 1616 in 2008 to 1267 in 2009.

CONTRIBUTION OF THE SERVICES SECTOR TO THE INDIAN ECONOMY

The largest portion of India's GDP comes from the services sector. India's GDP is dominated by the services sector, which in 2005 accounted for about 53.8% of the total. In recent years, the services sector's share of India's GDP has significantly expanded. In 1950, the Indian GDP's contribution from the services sector was only 15%. Additionally, from 43.695 per cent in 1990-1991 to roughly 51.16 per cent in 1998-1999, the Indian services sector's contribution to the nation's GDP has grown. This demonstrates that more than half of India's GDP is generated by the services sector.

Since many foreign consumers have expressed interest in India's exports of services, the sector's contribution to the country's GDP has grown quite quickly. This is because India has a sizable population of highly educated, inexpensive, and skilled employees. This has ensured that the services offered across the nation are of the highest calibre. As a result, global businesses have begun to outsource their work to India, particularly in the area of business services, which includes information technology services and business process outsourcing. This has significantly increased the services sector's growth in India, which has increased the sector's GDP contribution.

It is a tool for economic growth in the service sector since it increases domestic capital productivity and employment. Over the past few years, the service sector has seen incredible inflows of FDI. India has seen dramatic growth in the entrance of foreign companies since the start of the liberalisation of the Indian economy in 1991. The Industrial Ministry's most recent figures show that from April to October 2012, India's FDI inflows into the service sector increased by just 5%, reaching $3.6 billion. In terms of total FDI, it decreased by around 27% in 2012.

Both developed and developing countries' economies depend heavily on services. The service industry is the single largest sector in the majority of developing nations and accounts for over half of the GDP of all established economies. trade, hotels and restaurants, construction, electricity, transport, storage, communication, banking, insurance, education and research, medical and health, ownership of dwellings, real estate and business services, and other services (business services, computer and related services, legal services, real estate activities, renting of machinery and equipment, and social and personal services) are all included in the service sector. Rapid urbanization, the growth of the public sector, and rising demand for intermediate and final consumer services are the primary drivers of the services industry's expansion. It is now essential for the productivity and competitiveness of the entire economy to have access to efficient services. To a considerable part, the success of the expansion of the primary and secondary economic activities depends on the services provided by banking, insurance, trade, commerce, entertainment, maintenance of machinery and equipment, and a wide range of other services categorised as tertiary activities (Soni and Parashar, 2013)[10].

In the current situation, the service sector, which contributes the most to the gross domestic product of the three core sectors, dominates the economy. It is a sizable and the most vibrant sector of the Indian economy, both in terms of job potential and contribution to national GDP. The need for skill-concentrated services has grown over time, and this has been accompanied by an increase in both relative earnings and the availability of highly skilled personnel (Buera and Kaboski, 2009)[11].

With an increase in salaries or income, more people turn to services, which causes the service sector's proportion of the GDP to rise as more services are consumed. High-skilled workers enable the delivery of high-quality services to the public, resulting in the expansion of the service economy. Health and education have historically been the two most significant services in the Indian economy. They are one of the biggest and most difficult industries, and they are crucial to the development of the entire nation. A robust and clearly defined healthcare sector aids in stabilizing the population as well as creating a fit and effective workforce.

The period of economic liberalization has brought about a quick transition in the service sector. As a result, India has been making the shift from an economy centred on agriculture to one based on knowledge over time. The creation, sharing, and use of knowledge are key components of the knowledge economy. Information technology (IT) and the IT-enabled services sector are two of the main functional pillars of this economy. To position India as a leader in the information revolution, the "Department of Information Technology" has been working nonstop. In terms of the overall expansion of the Indian industry, IT continues to be the dominant sector. Indian software firms have a huge number of international quality certifications. The main concerns of IT infrastructure have also been the subject of several policies, including.

Two perspectives on the potential effects of M&As on the economy should be mentioned. According to one theory, the demand for goods from domestic industries connected to the acquired company (backward linkage), according to one theory, may eventually dry up if a foreign investor purchases or takes control of an existing company because the foreign investor will shift demand to its own subsidiaries located abroad. In other words, such a takeover of a domestic enterprise could result in the host economy being less industrialised. On the other hand, when domestic enterprises are not viable, losing ground in the new environment, and consequently destined for closure, M&A's may complement domestic savings in the same way as Greenfield investments. In these situations, cross-border M&As could be a lifesaver by introducing fresh synergies from new management and improved technology. (Bhasin, 2012)[12].

TABLE 1.8

Pre-Liberalization Sectoral Composition of Gross Domestic Product at Constant Prices (at factor cost)

Year	Agriculture, forestry, and fishing, value added (% of GDP)	Industry (including construction), value added (% of GDP)	Services, value added (% of GDP)
1961	41.0924822	21.434844	38.7824618
1962	39.0659688	22.0526001	38.3258752
1963	39.8253517	21.8794758	39.935845
1964	41.3437167	20.9552885	38.0951803
1965	39.3846973	21.6551051	36.3408215
1966	40.3516512	21.3866172	37.4507382
1967	42.751558	20.0894429	36.4597967
1968	42.0860274	20.6271157	34.6095555

1969	41.5849236	21.4174846	35.0541314
1970	40.2896135	21.7293093	34.3058526
1971	38.6333912	22.3920079	35.0468709
1972	38.6268263	22.4080026	35.8036491
1973	41.6038246	21.3482303	35.5216549
1974	38.8780587	22.6756934	32.9477056
1975	35.9969148	23.2012521	33.610596
1976	34.3120367	24.4805234	35.1392414
1977	35.7771443	24.4002625	35.8037232
1978	34.2739627	25.3244196	34.6614496
1979	32.82553	25.9922062	34.9393647
1980	34.4088678	25.3362459	35.5214147
1981	33.2976974	26.1029192	33.8072587
1982	32.3267497	26.1498048	34.8968373
1983	32.6065349	26.2988433	34.5216006
1984	31.3805304	26.7391387	35.4208161
1985	29.7181384	26.6290712	36.1149998
1986	28.6411463	26.7308358	36.9884678
1987	27.9723784	26.6992365	37.4522795
1988	28.7698224	26.7115838	36.7964455
1989	27.8396058	27.5509935	37.229398
1990	27.5848881	27.4536955	37.0447852

Note: Figures in parentheses are their respective percentages.

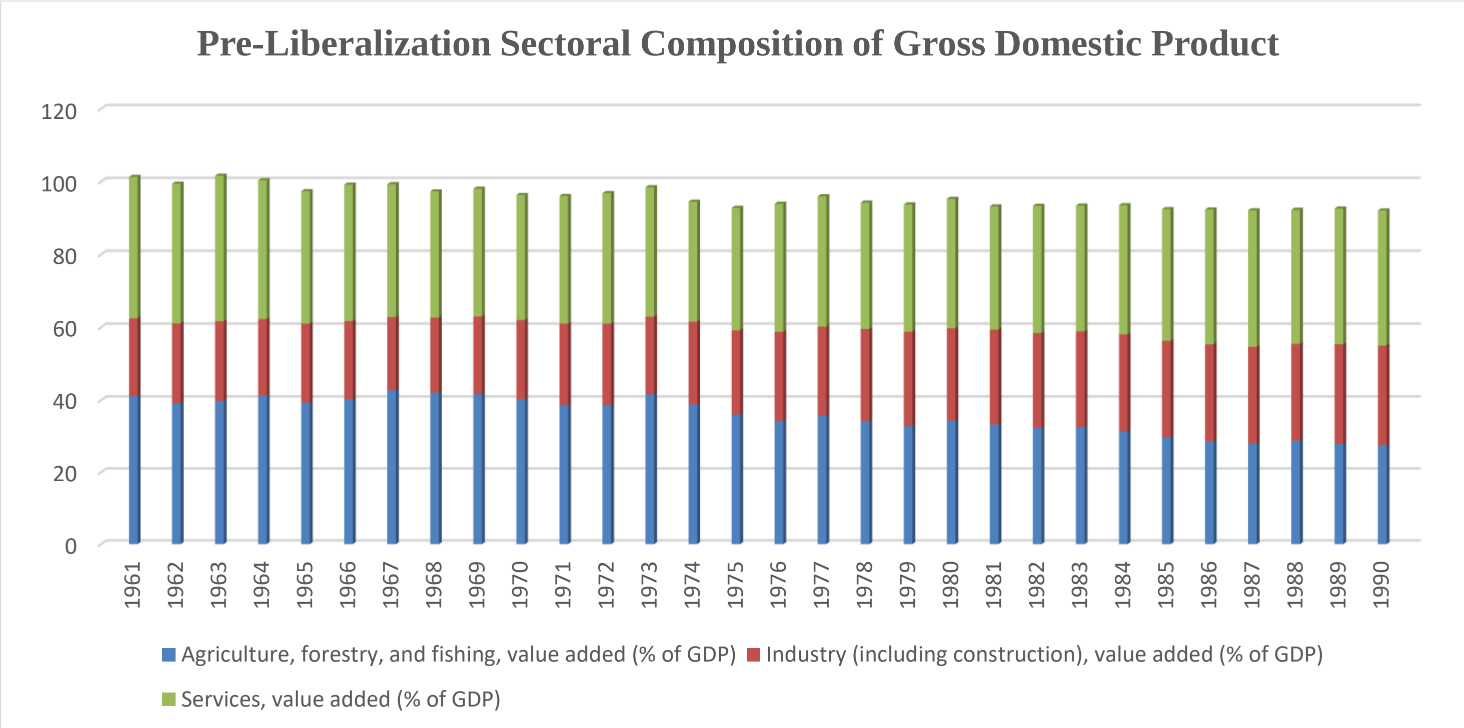
Source: Data compiled from the UNCTAD World Bank Reports.

Analysing the data from Table 4.4, which presents the Pre-Liberalization Sectoral Composition of Gross Domestic Product (GDP) at Constant Prices (at factor cost) for various years, we can observe the trends and changes in the three major sectors: Agriculture, Industry (including construction), and Services. The data are presented as percentages of GDP for each sector.

1. Agriculture, Forestry, and Fishing:
   - The percentage of GDP contributed by the agriculture, forestry, and fishing sectors declined from around 41% in 1961 to about 27.6% in 1990.
   - The sector experienced fluctuations over the years, with some periods of growth and decline.
   - The highest contribution to GDP by this sector was in 1967, reaching 42.75%.
   - The lowest contribution to GDP was recorded in 1990, with 27.58%.
2. Industry (including construction):
   - The percentage of GDP contributed by the industry sector remained relatively stable over the years, ranging from approximately 20% to 28%.
   - There were slight fluctuations, but the general trend remained steady.
   - The industry's highest contribution was in 1976, reaching 24.48%.
   - The lowest contribution was in 1964, with 20.96%.

3. Services:
   - The services sector's contribution to GDP showed a gradual increase over the years, starting from around 38.8% in 1961 and reaching about 37% in 1990.
   - The sector experienced a steady growth trend with occasional fluctuations.
   - The highest contribution to GDP by the services sector was in 1988, reaching 37.45%.
   - The lowest contribution was in 1965, with 36.34%.

FIGURE 1.2



Overall, the analysis suggests a shift in the composition of India's GDP over the years. The agriculture sector, which was once the dominant contributor to GDP, gradually declined in its share. On the other hand, the services sector witnessed steady growth and became an increasingly significant driver of the country's GDP. The industry sector remained relatively stable throughout the years, but its share did not witness any substantial growth. Numerous studies have shown that India has had significant growth since the early 1980s, ranking among the top nine fastest-growing economies worldwide. In the Indian economy, the service sector has grown in importance. Among rapidly rising nations. According to Eichengreen and Gupta (2010)[13], India stands out for the scale and dynamism of its service sector. The service sector has expanded quickly in India during the past ten years, following the global trend. In actuality, its expansion has outpaced that of the manufacturing and agricultural sectors. It's essential to note that this data represents the pre-liberalization era. Liberalization policies implemented in India during the early 1990s brought significant changes to the economy, leading to further shifts in the sectoral composition of GDP.

TABLE 1.9

Post-Liberalization Sectoral Composition of Gross Domestic Product at Constant Prices (at factor cost)

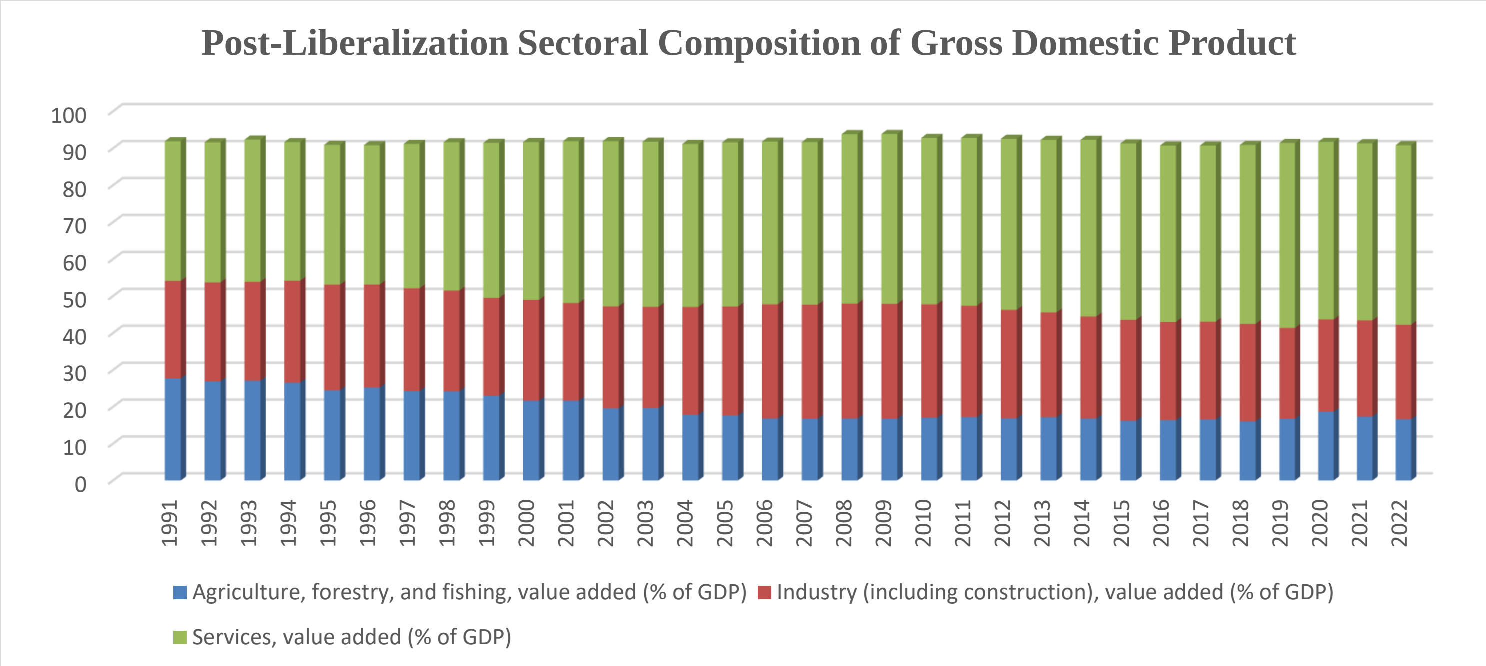
Year	Agriculture, forestry, and fishing, value added (% of GDP)	Industry (including construction), value added (% of GDP)	Services, value added (% of GDP)
1991	27.6627054	26.4417202	37.78569
1992	26.8969194	26.7927433	37.9125682
1993	27.0545588	26.7815543	38.4906849
1994	26.5199376	27.6282012	37.4963023
1995	24.4575478	28.5998094	37.8496681
1996	25.1993061	27.9122704	37.7093295
1997	24.2486745	27.8370308	39.0795515
1998	24.1804515	27.3030379	40.1325687
1999	22.9725619	26.5192933	41.9657378
2000	21.611062	27.3258284	42.7329266
2001	21.6188849	26.4877773	43.8089613
2002	19.5345433	27.6606542	44.7288276
2003	19.591998	27.4741071	44.7046457
2004	17.8146906	29.2191063	44.114859
2005	17.620207	29.5337642	44.4429329
2006	16.8094421	30.9272399	44.0432357
2007	16.7501198	30.9032383	44.0081579
2008	16.7909424	31.1367192	45.8825499
2009	16.7442702	31.1213721	45.9848828
2010	17.026509	30.7250782	45.0337496
2011	17.1919736	30.1616798	45.4421453
2012	16.8453771	29.3985277	46.3011473
2013	17.1484235	28.4048996	46.6987148
2014	16.7919345	27.6564012	47.8224138
2015	16.1745081	27.3473915	47.7837481
2016	16.3638006	26.6189999	47.7494013
2017	16.5583314	26.5000166	47.67089
2018	16.0316307	26.4120919	48.4315663
2019	16.7555683	24.5914753	50.0849579
2020	18.6355313	25.0202542	48.0681035
2021	17.3262632	26.0713493	47.9443522
2022	16.6183528	25.6208067	48.5828246

Note: Figures in parentheses are their respective percentages.
Source: Data compiled from the UNCTAD World Bank Reports.

Analysing the data from the table no 4.5 representing the Post-Liberalization Sectoral Composition of Gross Domestic Product (GDP) at Constant Prices (at factor cost), we can observe the trends and changes in the three major sectors: Agriculture, Industry (including construction), and Services. The data are presented as percentages of GDP for each sector.

1. Agriculture, Forestry, and Fishing:
    - The percentage of GDP contributed by the agriculture, forestry, and fishing sectors declined from around 27.7% in 1991 to approximately 16.6% in 2022. This indicates a significant decrease in the sector's share of the overall GDP during the post-liberalization period.
    - The sector experienced fluctuations over the years, with some years witnessing a slight increase, but the overall trend was downward, suggesting a decreasing reliance on agriculture in driving economic growth.
    - The highest contribution to GDP by this sector was observed in 1991, when it accounted for 27.7% of the total GDP. The lowest contribution was recorded in 2022, at 16.6%.
2. Industry (including construction):
    - The industry sector's contribution to GDP remained relatively stable over the years, fluctuating between approximately 24.6% and 31.1%. This indicates that the industrial sector has maintained a consistent role in the economy during the post-liberalization era.
    - There were slight fluctuations, but the general trend remained steady, indicating a stable share in the GDP over time.
    - The highest contribution to GDP by this sector was observed in 2018, reaching 31.1%. The lowest contribution was recorded in 2021, at 26.1%.
3. Services:
    - The services sector's contribution to GDP showed a gradual increase over the years, starting from around 37.8% in 1991 and reaching about 48.6% in 2022. This indicates the rising importance of services in driving economic growth during the post-liberalization period.
    - Similar to the industry sector, the services sector also experienced fluctuations in its contribution to GDP, but the overall trend was upward, highlighting its growing significance in the economy.
    - The highest contribution to GDP by the services sector was observed in 2022, at 48.6%. The lowest contribution was recorded in 1991, at 37.8%.

Figure 1.3



Overall, the analysis suggests a significant structural shift in the composition of India's GDP during the post-liberalization era. The data indicates a declining reliance on agriculture and a rising prominence of the services sector as a major driver of economic growth. The industry sector remained relatively stable, but its share did not witness substantial changes during this period.

The increased share of services in GDP suggests a shift towards a more service-oriented economy, which is a common trend observed in many developing countries during their economic transformation. It's important to note that while agriculture's share has decreased, the sector still plays a crucial role in providing livelihoods and food security for a large portion of the population. These findings indicate the success of India's post-liberalization policies in diversifying the economy and fostering the growth of the services sector. However, it's essential to continue monitoring the sectoral composition of GDP to understand further shifts and challenges in the Indian economy.

RECENT CHANGES IN THE INDIAN SERVICE INDUSTRY

The tertiary sector, which contributes the most to India's Gross Domestic Product (GDP) out of the three core sectors, is what we mean when we say "services sector." Trade, lodging and dining establishments, transportation, storage, communication, financing, insurance, real estate, and business services, as well as other services, are all included in the service sector. This industry offers both intermediate and final consumption services, with the latter accounting for a significant share. Services like transportation and communication make up large portions of the intermediate inputs used in the production of other commodities and services.

The COVID-19 pandemic and subsequent local, national, and international lockdown measures imposed starting in March 2020 made 2020 an unusual year. Significant damage was done to the contact-intensive services industry, particularly to its subsectors in the travel, airline, and hospitality industries. In the first half of FY 2020–21, the services sector had an almost 16% decline. Increase in FDI inflows between April and September 2020, India moved up from 12th to 9th in the World Investment Report 2020. The largest recipient, the services sector, saw substantial growth, with gross FDI equity inflows totalling $23.61 billion, or approximately 45% of all inflows. Strong inflows into the retail trading, farm services, and education sectors, as well as the computer software and hardware subsector, were the main drivers of the growth (Economic Survey 2020-21). Most economic sectors were negatively impacted by the COVID-19 pandemic, but contact-intensive service industries, including tourism, retail, hospitality, entertainment, and leisure, were particularly hard hit. Non-contact services, including information, communication, financial, professional, and business services, on the other hand, continued to be robust. However, the services sector quickly recovered in FY22, expanding Year-on-Year (YoY) by 8.4% versus a contraction of 7.8% in the prior fiscal year. The sub-sector "Trade, Hotel, Transport, Storage, Communication, and Services Related to Broadcasting" grew the fastest, bearing the brunt of the epidemic. In FY23 as well, the economic pace has persisted. According to the First Advance Estimates, the services sector's Gross Value Added (GVA) is predicted to expand by 9.1% in FY23, driven by a 13.7% increase in contact-intensive services. *(Economic Survey 2022-23)*[15]. The proportional contribution of the service sector to GDP increased from 28% to 56% over the previous 60 years (1951–2012). A similar rise has been seen in the creation of jobs as well. (Lal, 2019)[16]. India's economy is now one of the ones that is expanding the quickest in the world thanks to economic reforms. Due to its massive population, India can double its GDP and transition to a mature economy in the next ten years. However, issues including a large workforce, insufficient training, and a lack of employability persist. India should concentrate on five current industries that can help create jobs and company growth to take advantage of these prospects. India's IT sector has transformed the country from an emerging economy to a major provider of technological solutions. IBEF statistics predict a $225 billion IT sector by 2020, with a growing IT workforce of 30 million and a $2.5 billion outsourcing sector. India's telecom sector is booming, with approximately 850 million mobile phone customers and a 15% smartphone penetration rate. Enterprise mobility and employment development are being fueled by this expansion. By 2014, the Telecom Regulatory Authority of India wants to have 10 times as many broadband subscribers. The telecom industry's outsourcing income is anticipated to increase at a CAGR of 31% to just under $2 billion in 2012. By 2020, the Indian healthcare sector is anticipated to employ 40 million people, draw medical tourists, and increase disposable money for a variety of uses. The infrastructure industry in India has grown rapidly, ranking as the second-fastest and fourth-largest economy. Despite fragmentation, the federal government and state governments are moving forward quickly, creating jobs, and maintaining a positive growth trajectory. With a ceiling of 51%, the retail industry in India is drawing 100% FDI for single-brand retail. A stronger, more organised industry will develop as a result of the opening, creating jobs. The industry is thought to be valued at more than $400 billion, and the next stage of expansion is anticipated to come from rural regions. (btMAG, 2011)[17]

Table 4.6

Service Sector Performance in India's Gross Value Addition

Sector	Share in GVA (per cent)	Growth (per cent)					
	2020-21 (AE)	2018-19 (1ST RE)	2019-20 (PE)	2020-21 (AE)	2020-21 (HI)	2020-21 (Q1.	Q2)
Total Services (Excluding construction)	554.3	7.7	5.5	-8.8	-15.9	-20.6	-11.4
Trade, hotels, transport, Communication & Services related to broadcasting	15.4	7.7	3.6	-22.41	-31.5	-47.0	-15.6
Financial, real estate & professional services	22.2	6.8	4.6	-0.82	-6.8	-5.3	-8.1
Public administration, defence & other services	16.7	9.4	10.0	-3.68	-11.3	-10.3	-12.2

Source: Ministry of Statistics and Programme Implementation. Note: Shares are in current prices and growth in constant 2011-12 prices; RE: Revised Estimates. PE: Provisional Estimates. AE: Advance Estimates

Analyzing the data from Table 4.6 on the Service Sector Performance in India's Gross Value Addition (GVA), we can observe the following trends and patterns for the year 2020–21 in comparison to the previous years:

1. Overall Decline in GVA: The total services sector (excluding construction) experienced a significant decline in GVA growth in 2020–21. The growth rate fell to -8.8% in the Advance Estimates (AE) for 2020–21, compared to 7.7% in 2018–19 and 5.5% in 2019–20.
2. Impact on Trade, Hotels, Transport, Communication, and Services: This sub-sector saw a substantial decline in GVA growth during 2020–21. The AE for 2020–21 reported a sharp decline of -22.41% compared to 7.7% in 2018–19 and 3.6% in 2019–20. The High-Frequency Indicator (HI) data and the quarterly data (Q1 and Q2) indicate a severe impact with growth rates of -31.5%, -47.0%, and -15.6%, respectively.

3. Financial, Real Estate, and Professional Services: This sub-sector also witnessed a decline in GVA growth, though relatively less severe. The AE for 2020–21 reported a decline of -0.82% compared to 6.8% in 2018–19 and 4.6% in 2019–20. However, the HI data and quarterly data indicate a more significant impact, with growth rates of -6.8%, -5.3%, and -8.1%, respectively.
4. Public Administration, Defence, and Other Services: This sub-sector experienced a decline in GVA growth as well. The AE for 2020–21 reported a decline of -3.68% compared to 9.4% in 2018–19 and 10.0% in 2019–20. The HI data and quarterly data suggest a more significant impact, with growth rates of -11.3%, -10.3%, and -12.2%, respectively.

In conclusion, the data from Table 4.6 indicates a significant decline in the service sector's GVA growth in India during the years 2020–21. This decline was observed across all major sub-sectors, including Trade, Hotels, Transport, communication, and Services related to broadcasting; financial, real estate, Public Administration, Defence & Other Services. The COVID-19 pandemic and the associated lockdowns and restrictions had a severe impact on various service sector activities, leading to negative growth rates in most sub-sectors. The data highlights the challenges faced by the service sector during the pandemic-induced economic downturn.

It is important to note that while the services sector contracted by more than 20% in the first quarter (Q1) of FY 2020–21, the contraction narrowed to 11.41% in the second quarter (Q2) of FY 2020–21. Sub-sectors "Trade, hotels, transport, communication, and broadcasting services," "Financial, real estate, and professional services," and "Public administration, defence, and other services" are each expected to experience declines of 21.41%, 3.68%, and 0.82 per cent, respectively. his rate of recovery is generally consistent with high-frequency indicators, which point to an increase in economic momentum with the measured opening up of the economy starting in June 2020 (Economic Survey 2020-21)[18]

Table No 1.10

TOP 10 SECTORS RANKING-WISE ATTRACTING THE HIGHEST FDI EQUITY INFLOWS:

Ranks	Sector	Cumulative Inflows April 2000-Dec 2010	% age to total inflows (in terms of US$)	Ranks	Sector	Cumulative Inflows April 2000-June 2022	% age to total inflows (in terms of US$)
1	***SERVICE SECTOR (Financial & Non-financial)***	***26,454***	***21%***	1	***SERVICES SECTOR (Financial & Non-financial)***	***96,767***	***16%***
2	*COMPUTER SOFTWARE & HARDWARE*	*10,601*	*8%*	2	*COMPUTER SOFTWARE & HARDWARE*	*88,944*	*14%*
3	*TELECOMMUNICATIONS (radio paging,*	*10,258*	*8%*	3	*TELECOMMUNICATIONS*	*38,950*	*6%*

	cellular mobile, basic telephone services)						
4	*HOUSING & REAL ESTATE*	*9,380*	*7%*	**4**	*TRADING*	*36,774*	*6%*
5	*CONSTRUCTION ACTIVITIES (including roads & highways)*	*8,964*	*7%*	**5**	*AUTOMOBILE INDUS TRY*	*33,532*	*6%*
6	*AUTOMOBILE INDUSTRY*	*5,662*	*4%*	**6**	*CONSTRUCTION (IN FRASTRUCTURE) ACTIVITIES*	*28,649*	*6%*
7	*POWER*	*5,656*	*4%*	**7**	*CONSTRUCTION DE VELOPMENT: Townships, housing, bu ilt-up infrastructure and construction-development projects*	*26,221*	*5%*
8	*METALLURGICAL INDUSTRIES*	*4,105*	*3%*	**8**	*CHEMICALS (other than fertilizers)*	*20,412*	*3%*
9	*PETROLEUM & NATURAL GAS*	*3,207*	*3%*	**9**	*DRUGS & PHARMACEUTICALS*	*19,902*	*3%*
10	*CHEMICALS (other than fertilizers)*	*2,849*	*2%*	**10**	*METALLURGICAL INDUSTRIES*	*17,078*	*3%*

Source: Data compiled from various Fact Sheets on Foreign Direct Investment, Note: Service sector includes Financial, Banking, Insurance, Non-Financial/Business, Outsourcing, R&D, courier, Tech. Testing and analysis, other

The data from Table 4.7 provides information on the top 10 sectors, ranking-wise, attracting the highest Foreign Direct Investment (FDI) equity inflows in India. The table presents two sets of data, one for the period April 2000 to December 2010 and the other for April 2000 to June 2022. Data analyzed for both periods:

For the period April 2000 to December 2010:

1. The service sector (Financial and Non-financial) ranked first with cumulative FDI inflows of US$ 26,454 million, constituting 21% of the total FDI inflows during this period.
2. Computer Software and Hardware ranked second with FDI inflows of US$ 10,601 million, contributing 8% to the total FDI inflows.
3. Telecommunications (including radio paging, cellular mobile, and basic telephone services) ranked third with FDI inflows of US$ 10,258 million, making up 8% of the total FDI inflows.
4. Housing and Real Estate ranked fourth with FDI inflows of US$ 9,380 million, representing 7% of the total FDI inflows.
5. Construction Activities (including roads and highways) ranked fifth with FDI inflows of US$8,964 million, making up 7% of the total FDI inflows.

For the period April 2000 to June 2022:

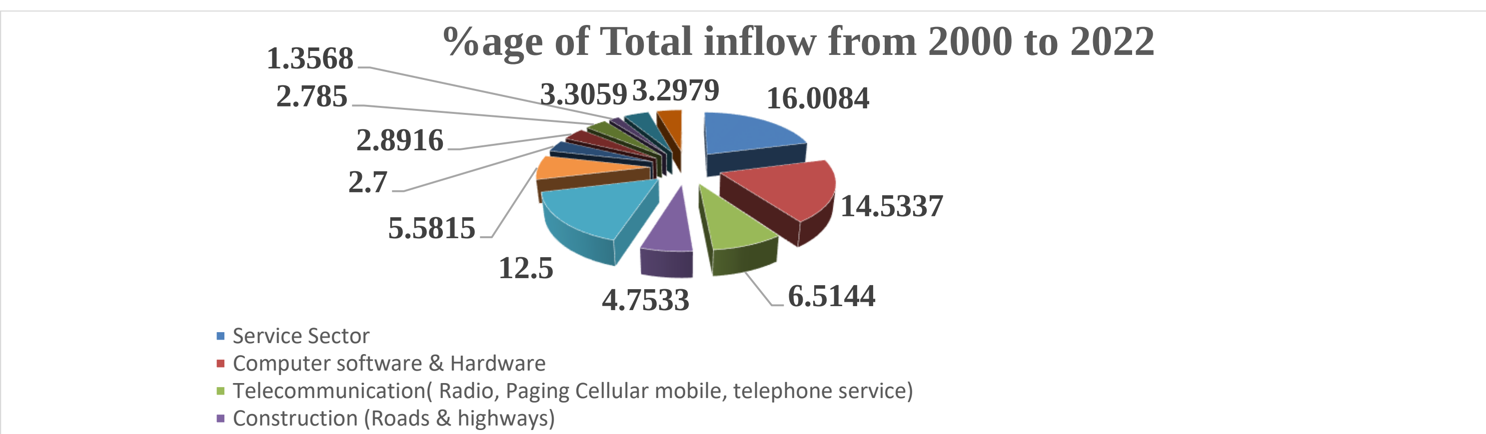
1. The service sector (Financial and Non-financial) continues to be the top-ranking sector, with cumulative FDI inflows of US$ 96,767 million, constituting 16% of the total FDI inflows during this extended period.
2. Computer Software & Hardware maintains its second rank with FDI inflows of US$ 88,944 million, contributing 14% to the total FDI inflows.
3. Telecommunications ranked third with FDI inflows of US$ 38,950 million, making up 6% of the total FDI inflows.
4. Trading ranks fourth with FDI inflows of USD 36,774 million, representing 6% of the total FDI inflows.
5. The automobile industry ranks fifth with FDI inflows of US$ 33,532 million, making up 6% of the total FDI inflows.

Other notable observations:

- The sectors related to services, technology (computer software and hardware), and telecommunications have consistently attracted significant FDI inflows over both time periods.
- The real estate and construction sectors have also shown substantial FDI interest over the years.
- The automobile industry has seen considerable FDI inflows, indicating its importance in India's FDI landscape.
- The data for the period up to June 2022 shows a diversified range of sectors attracting FDI, reflecting India's growing economic attractiveness.

Overall, the data illustrates the sectors that have been major recipients of FDI in India over the years and highlights the sectors that have consistently attracted foreign investment into the country.

Figure 1.4



Sector-wise classification of FDI is essential to understand better the structure and direction of foreign investment in the country. Figure no 4.1 depicts that the Service sector has been the highest contributor of FDI inflow to India (16%) followed by computer software and hardware (14%), housing and real estate (12%), telecommunication (6%), automobile industry (5%), construction activities (4%).

This demonstrates that the services sector in India contributes more than half of the nation's Gross Domestic Product to real estate and commercial services, civic services (public safety and administration), and other services. This industry offers both intermediate and final consumption services, with the latter accounting for the major share. Services like transportation and communication make up large portions of the intermediate inputs used in the production of other commodities and services. Services like transportation and communication make up large portions of the intermediate inputs used in the production of other commodities and services. India's FDI inflows remained above pre-pandemic levels in the first half of FY23, driven by structural reforms and improved business ease. The government's investor-friendly policy allows up to 100% FDI through automatic routes in most sectors. India continues to open up sectors, remove regulatory barriers, develop infrastructure, and improve the business environment.

CONCLUSION

India needs foreign direct investment (FDI) as a strategic component of investment for sustained economic growth and development, including projects for short- and long-term periods in the areas of outsourcing, healthcare, education, research and development (R&D), etc. According to the current study, foreign capital inflows in the service sector have a favourable and considerable influence on the Indian economy. The release of pent-up demand, eased movement restrictions, nearly universal vaccine coverage, and proactive government initiatives have all contributed to India's services sector development, which was highly unpredictable and fragile over the previous two fiscal years, showing resilience in FY23. A broad-based recovery has recently been noted, with improvement in nearly all sub-sectors, particularly the contact-intensive services sector, which took the brunt of the pandemic. The performance of several HFIs has improved recently, demonstrating a strong recovery in recent months, and this suggests that the services sector will be better represented in the upcoming fiscal year. With increased performance in a number of subsectors, including tourism, hotels, real estate, IT-BPM, and e-commerce, the future appears promising. The downside risk, however, lies in the external exogenous factors and bleak economic outlook in Advanced economies, which impact the growth prospects of the services sector through trade and other linkages. (Economic Survey 2022-23)[23]. The service industry significantly contributes to a nation's GDP and has helped develop developing nations like India. The distinction between services and products is based on physical traits like tangibility, perishability, and duration of use or consumption. The Physiocratic school of thought categorised non-agricultural jobs as "sterile" and argued that agriculture was productive. Adam Smith criticised the Physiocratic school for equating manufacturing trade and transportation as non-productive vocations, creating a line between productive and non-productive labour. Alfred Marshal argued that all activities aim to fulfil demands by offering services, as they all generate utilities.

India's services sector, accounting for 53.8% of the country's GDP, has experienced significant growth in recent years. The sector's contribution to GDP has increased due to the large population of skilled employees, leading to global businesses outsourcing their work to India. The service sector is a tool for economic growth, increasing domestic capital productivity and employment. India has seen significant FDI inflows, with the Industrial Ministry reporting a 5% increase in FDI inflows from April to October 2012. The service sector is the most vibrant in the Indian economy, contributing the most to the gross domestic product and national GDP.

The Department of Information Technology is working to position India as a leader in the information revolution, with IT being the dominant sector. Cross-border M&As have two perspectives on the potential effects on the economy. The services sector, the tertiary sector, contributes the most to India's GDP and includes trade, lodging, dining establishments, transportation, storage, communication, financing, insurance, real estate, and business services. The COVID-19 pandemic caused significant damage to the contact-intensive services industry, particularly in the travel, airline, and hospitality sectors. However, the services sector experienced substantial growth, with FDI inflows totalling $23.61 billion, or 45% of all inflows. The services sector quickly recovered in FY22, expanding by 8.4% YoY, with the sub-sector "Trade, Hotel, Transport, Storage, Communication, and Services Related to Broadcasting" growing the fastest. The services sector is predicted to expand by 9.1% in FY23, driven by a 13.7% increase in contact-intensive services.

Analysis shows that computer software has grown 14% in the past 22 years, followed by services at 16% and telecommunications at 6.5%. The services sector dominates India's Gross Domestic Product, accounting for 53.8% in 2005 and 58% in 2012.

study shows India's FDI inflow mean value of 29153.8736, with a standard deviation of 17755.44364, and GDP growth in the service sector percentage of 46.0655.

Further study displays a multicollinear analysis with a correlation matrix of 0.833 between independent and dependent variables.

The present study found multiple regression model statistics, showing a regression coefficient of 0.833 and an R2 coefficient of 0.695. The R2 coefficient indicates 95% of FDI inflows in India can be explained by service sector GDP growth, while the remaining 5% is explained by other factors. Durbin-Watson statistics show no autocorrelation, indicating no specification error in the model.

The F-test confirms the model's validity by showing a significant correlation between GDP growth in the service sector and Foreign Direct Investment inflows, rejecting the null hypothesis and supporting the overall significance of the regression.

Further study revealed a significant linear relationship between Foreign Direct Investment inflows and GDP growth in India's service sector. The analysis reveals that FDI inflow (0.833) is the most important variable, affecting GDP growth by 9.000% with a 1% increase. This positive influence is supported by a significant p-value.

The global economic and financial crisis slowed cross-border FDI flows, with the services sector also affected. Manufacturing experienced a decline, accounting for less of the overall cross-border mergers and acquisitions value in industrialized nations (30% of their value in 2009). Established nations had larger proportions of the primary sector and services in cross-border M&As value. Business services experienced a 20% decline in greenfield investment projects globally, while financial services experienced a similar fall in greenfield investments.

India's service sector contributes to GDP, growth, employment, trade, and investment, but challenges like slow growth, insufficient job creation, and a lower WTO ranking hinder inclusive growth. To promote inclusive growth, India increases FDI limits and removes regulatory obstacles. In FY20, 100% FDI was allowed for coal sales and mining activities, with a 26% cap on government routes. The government's policy aimed to prevent opportunistic acquisitions during COVID-19. In 2017, the Foreign Investment Promotion Board was abolished, leading to a more streamlined FDI licencing procedure. The "Foreign Investment Facilitation Portal" is an updated online interface for investors, simplifying the government approval process.

RECOMMENDATIONS:

Based on the extensive research and analysis conducted on the multifaceted relationship between Foreign Direct Investment (FDI), the services sector, and India's economic growth, several key recommendations can be made to further harness the potential of FDI for the country's sustained development:

1. **Promote Sector Diversification**: While the services sector has been a dominant force in India's economic growth, diversification into other sectors should be encouraged. This can reduce vulnerability to external shocks and further bolster economic resilience.
2. **Invest in Human Capital**: As the services sector heavily relies on skilled labour, investing in education and skill development programmes is essential to ensuring a continuous supply of a skilled workforce. This not only supports FDI-driven growth but also contributes to inclusive development.

3. **Enhance Infrastructure**: Improved infrastructure is a critical factor in attracting FDI. Continued investments in transportation, communication, and digital infrastructure can make India even more attractive to foreign investors.
4. **Support Contact-Intensive Services**: Given the pandemic's impact on contact-intensive services, targeted support and incentives can help these sectors recover and contribute significantly to economic growth.
5. **Strengthen Policy Framework**: Policymakers should continue to streamline FDI regulations and remove unnecessary obstacles to investment. This includes maintaining a conducive policy environment for foreign investors.
6. **Foster Global Competitiveness**: Building on India's strengths in IT, telecom, and professional services, policies should be aimed at enhancing global competitiveness in these sectors. This can involve R&D incentives and innovation-driven strategies.
7. **Monitor External Factors**: Given the potential risks from external exogenous factors and the global economic outlook, policymakers should closely monitor international developments and adapt their strategies accordingly.
8. **Promote Inclusive Growth**: To address challenges related to job creation and inclusivity, FDI should be leveraged to create opportunities for all segments of society, particularly in sectors with high growth potential.
9. **Encourage Sustainable Practices**: FDI should align with sustainable development goals, emphasising environmentally responsible practices and corporate social responsibility.
10. **Continued Research and Analysis**: Maintain a strong focus on research and analysis to continually assess the impact of FDI on India's economic growth. This will provide valuable insights for timely policy adjustments.

In conclusion, recognising the significance of FDI in the services sector and its implications for India's economic development, policymakers should remain proactive in creating an environment conducive to foreign investment. By implementing these recommendations, India can unlock the full potential of FDI as a strategic component of its economic growth and development, ensuring long-term prosperity for the nation.

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