
IMPLICATIONS OF FDI IN THE GROWTH OF SERVICES SECTOR IN INDIA

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ABSTRACT

Flow of the FDI to the countries of the world truly reflects their respective potentiality in the global scenario. India has been ranked at the third place in global FDI in 2009 and will continue to remain among the top five attractive destinations for international investors during 2010-11, according to United Nations Conference on Trade and Development (UNCTAD). One of the most significant contributors to India's booming economy is the development of the services sector. The basic objective of this paper is to emphasize on the implications of FDI in India specifically in services sector. The contribution of services sector in Indian economy is now almost half of GDP. The FDI Inflows to Service Sector has helped the development of several industries in the service sector of the Indian Economy, such as Tele Communication, Financial and Non financial, Hotel & Tourism, and many others. A look at FDI statistics shows that distribution of FDI is uneven across sectors. The paper also find out the reasons responsible for more of investment in services sector.

Keywords: FDI, Services Sector, GDP.

INTRODUCTION

Since the early 1990s developing countries have increasingly liberalized, privatized and deregulated their service industries, with a view to greater participation in the global economy. More welcoming policies on FDI have been a prominent component of this trend. National policies on FDI typically feature measures aimed at both attracting and discouraging inflows. Policies to attract FDI such as tax breaks, favorable regulatory treatment and subsidies of various sorts are usually focused manufacturing. Meanwhile, policies restricting inward FDI are mainly concentrated in the service sector. This paper focuses on the aspects of FDI in the services sector in India.

Services now constitute the largest recipient sector of FDI, accounting for about two third of FDI inflows worldwide, and about 55% of FDI inflows into developing countries. However, very little systematic quantification and analysis are available on the policies on FDI in services. Countries welcome FDI because of its potential benefits for employment creation, capital accumulation, transfer of technology, improved provision of services and increased competition. Nevertheless, inward FDI can also impose costs in the form of displacement of local firms and workers and possible monopolistic practices, and there can be valid economic rationales for restricting inward FDI. There may also be non-economic reasons for limiting foreign ownership and control, relating to national security or economic nationalism. Services are generally subject to more restrictions than manufacturing and natural resources. For example, such industries as telecommunications, banking, transportation and electricity provision are often viewed by host countries as strategic or sensitive. These sectors are typically subject to economic or prudential regulation, because of tendencies towards natural monopoly or other market failures, although such market failures do not in themselves provide a clear-cut rationale for discrimination between local and foreign investors.

Service sector has emerged as the largest and the fastest growing sector in the global economy in the last two decades, providing more than 60% of global output and, in many countries, an even larger share of employment. The growth in services has also been accompanied by the rising share of services in world

transactions. Testimony to the rise in international supply of services is the fact that trade in services has grown as fast as trade in goods in the period 1990-2003 (i.e.; 6% per annum). Interestingly, outward FDI from India has also grown rapidly and in 2003 outward FDI stock in services constituted around 25% of total outbound FDI stock. However, though the growth of service sector in India is in line with the global trends, there are two unique characteristics of India's service sector growth.

- First, the entire decline in the share of agriculture sector in GDP, i.e., from 32% in 1990 to 22% in 2003, has been picked up by the service sector while manufacturing sector's share has remained more or less the same. In general, such a trend is mainly experienced by high income countries and not by developing countries.
- And second, in spite of the rising share of services in GDP and trade, there has not been a corresponding rise in the share of services in total employment. This jobless growth of India's service sector, with no corresponding growth in the share of manufacturing sector; has raised doubts about its sustainability in the long run.

Further, it is found that growth pattern in the service sector has not been uniform across all services in India. Some services have grown fast in terms of their share in GDP and also in terms of their share in trade and FDI (e.g., software and telecommunication services). But there are some services, which have grown fast but have not been able to improve their share in international transactions (e.g., health and education) while there are some services that have in fact witnessed a negative growth and also a low share in international transactions (e.g., legal services). One of the probable reasons for this lopsided growth in services is the fact that reforms in India at the sectoral level have evolved in an ad-hoc way rather than as part of a coherent overall strategy. Though there exists an overall industrial policy and agricultural policy in India, there is no integrated service policy. Consequently, the pace of reforms and their impact lacks uniformity across sectors. Moreover, most of the services have for a long time been in the public domain and they suffer from both external constraints in terms of high barriers to trade, as well as domestic constraints in terms of being highly regulated services with state monopolies. These services consequently suffer from inefficiencies and low growth.

Our services sector is attractive but due to lack of banking sector reforms and closure of retail sector for foreign investors, FDI is not taking up. But still, India remains a preferred destination for foreign investment and that is evident from the strong foreign institutional investors (FII) inflows. The services sector, despite the 30% dip in FDI, topped the chart in attracting maximum investment. Therefore, this paper strives to examine current status and future prospects of the Indian economy with special reference to the role FDI in services sector in achieving higher rate of economic growth and the removal of structural constraints.

COMPOSITION OF SERVICES SECTOR IN INDIA

In India, the national income classification given by Central Statistical Organization is followed. In the National Income Accounting in India, service sector includes the following:

- Trade, hotels and restaurants (THR)
- Transport, storage and communication
- Financing, Insurance, Real Estate and Business Services
- Community, Social and Personal services

SECTORAL COMPOSITION OF GDP GROWTH

During the process of growth over the years, the maximum part of the GDP in the economy was generated from the primary sector but now the service industry is devoting the maximum part of the GDP. This

share of agricultural sector in real GDP at 1993-94 prices declined from 55.53% in the 1950's to 28.66% in 1990's. The share of industry and services increased from 16% to 27.12% and 28.09% to 44.22% respectively during the same period. The service sector output increased at a rate of 6.63% per annum in the period 1980-81 to 1989-90 (i.e. pre-reform period) compared with 7.71% per annum in the period 1990-91 to 1999-2000 (i.e. post-reform period). The tertiary sector emerged as the major sector of the economy both in terms of growth rates as well as its share in GDP in 1990s. It is to be noted here that while agriculture and manufacturing sectors have experienced phases of deceleration, stagnation and growth, the tertiary sector has shown a uniform growth trend during the period 1950-51 to 1999-2000 (Joshi, 2004, 2008). The share of this sector in GDP further increased to 55.1% in 2006-07. This sector accounted for 68.6% of the overall average growth in GDP in the last five years between 2002-03 and 2006-07 (Economic Survey, 2006-07).

FDI IN THE SERVICES SECTOR

The availability of cheap labour has attracted several foreign investors looking for avenues to reduce their labour costs. To a casual observer it appears that the increased FDI in sectors such as power management, IT, telecom, etc. is responsible for the rapid developments in these fields. These fields provided India with abundant employment and avenues for improving India's infrastructure. But a close examination of the data by several economists reveals that there exist very weak casual linkages between the service sector and the FDI invested in it. The reasons for this could be fourfold:

- **Very weak linkages of service sector with the host economy:** The nature of work in the service sector fuelled by FDI is restricted to a few metropolitan centers performing back office jobs- IT and otherwise. Moreover, the kind of work necessarily requires an extremely skilled workforce and does not form much of a value add for the common Indian man. The firms behave like isolated export points that have a very weak interrelationship with the economy of the host country, negating the advantage of the FDI.
- **Nature of services expected:** The services that are exported to India are at the lower end of the value addition chain. Therefore, there wouldn't be much of a value add in terms of expertise that is expected to be made available as the end result of these investments.
- **Crowding out:** Most of the FDI in this sector comes by way of Mergers and Acquisitions and not as direct investment. Therefore, there is greater probability for replacing the local service providers.
- **Employee welfare:** The stringent employee welfare plans in place in the country of origin of the FDI necessitates the firing of the cheaper labour in the time of crisis.

There are even some studies that show that the long run causality links run from the output of the sector to the FDI investments- the better the performance of the sector, the higher number of foreign investors it is expected to attract. Some of them also claim that the impact of FDI on the service sector can swing its output both in the positive and the negative direction. This ambiguity in the impact on this sector makes it all the more difficult to frame appropriate precautionary regulations.

MAJOR POLICY ISSUES

The major policy issues in the services sector are 1) the Domestic policy Issues including FDI, Disinvestment, Tariff and tax Issues, Credit and Finance related issues and other policy Issues- General and Sector specific; 2) Domestic Regulations- Sector Specific and General; 3) Market Access Issues due to domestic regulations, subsidies and other barriers; and 4) Other Issues like bilateral, regional and multilateral negotiations and policies of multilateral institutions. This paper focuses on Domestic policy issues including FDI only.

DOMESTIC POLICY ISSUES: FDI

Some important policy issues in the case of FDI in services sector for India are the following:

- Opening retail trade: where FDI is prohibited (except single brand product retailing subject to 51% cap) while there is a large unorganized sector with low tax compliance. Along with allowing FDI in retail in a phased way beginning with metros, the existing mom and pop shops (kirana shops) could be incentivized to modernize and compete effectively with the retail shops foreign or domestic.
- Raising FDI cap in the Insurance sector from 26% has been in the Government's agenda for long but could not be implemented for various reasons. Given the practical difficulty in raising FDI cap in the insurance sector as a whole, at least some segments of the Insurance sector can be opened up further. One such segment is health insurance and FDI cap at least in health insurance can be raised in India on a priority basis as it will also help the export of super-specialty hospital services. There is also a 10 year disincentive clause in the insurance sector which could be removed. FDI restrictions in reinsurance sector could also be removed and foreign reinsurance companies should be allowed to set up their representative offices and function in India through a network of branches and divisions.
- In the Banking Sector there is scope for further liberalization. Though Foreign Investment (FDI + FII) of 74% is allowed, there are licensing requirements. There is also limit of 10% on voting rights in respect of banking companies. While many concerns have to be addressed here particularly in the light of the recent global financial crisis, atleast some segments of this sector could be opened up to foreign investment in areas like rural banking with the help of mobile technology.
- FDI in Animation studio needs to be liberalized as there is good scope for this.
- In Construction Sector, though 100% FDI is allowed under automatic route, there are conditions like minimum capitalization norms of US\$10 million for wholly owned subsidiaries and US\$ 5 million for joint venture, minimum area norms under each project- 10 hectares in case of development of services, housing plots and built-up area of 50,000 sq.mts. in case of construction development project and any of the above in case of a combination project. Besides, original investment cannot be repatriated before a period of 3 years from completion of minimum capitalization. Some of these conditions could be relaxed.
- For Uplinking News and current affairs TV channel, foreign investment cap is 26% (FDI + FII) under FIPB route and not automatic route. Besides there are conditions like the portfolio investment in the form of FII/ NRI deposits shall not be "persons acting in concert" with FDI investors, as defined in the SEBI regulations: the company permitted to uplink the channel to certify the continued compliance of this requirement through the company secretary at the end of each financial year; etc. While the foreign investment cap could be raised atleast upto 49% in the case of these services, other conditions mentioned above need to be examined for relaxation.
- Telecommunications: In the case of ISP without gateway, the 26% disincentive clause in 5 years to companies listed in other parts of the world could be relaxed.
- Air Transport Services: 49% FDI is allowed (100% for NRI Investment) subject to no direct or indirect participation by foreign airlines thus preventing those with experience from operating in this sector. Ministry of Civil Aviation's initiative to liberalize this sector needs to be taken to its logical conclusion, while security concerns are also addressed
- FDI in Railways: FDI is not allowed in railways. FDI upto 26% could be thought of which can help in modernization of railways.

SECTOR-WISE SPLIT OF FDI IN INDIA

At present India is the leading country pertaining to the IT industry in the Asia- Pacific region. With more international companies entering the industry, the FDI has been phenomenon over the year. The telecom industry is one of the fastest growing industries in India with a growth rate of 45%. The rapid development of the telecommunication sector was due to the FDI inflows in form of international players entering the market and transfer of advanced technologies. The FDI in automobile Industry has experienced huge growth in the past few years. The increase in the demand for cars and other vehicles is powered by the increase in the levels of disposable income in India. The options have increased with quality products from foreign car manufacturers. The introduction of tailor-made finance schemes, easy repayment schemes has also helped the growth of this sector. For the past few years the Indian Pharmaceutical industry is performing well. The varied functions such as contract research and manufacturing, clinical research, R&D pertaining to vaccines are the strengths of this industry in India. The FDI in Semiconductor sector in India were crucial for the development of the IT and ITES (Information Technology Enabled services) sector in India. Electronic hardware is the major component of several industries such as IT, telecommunication, automobiles, electronic appliances and special medical equipments. Tourism is one of the largest services. This industry has the potential to grow at a high rate and ensure consequential development of the infrastructure.

STATEMENT ON SECTOR-WISE FDI INFLOWS FROM AUGUST 1991 TO SEPTEMBER 2005

The sector-wise analysis of FDI inflow in India reveals that maximum investment in India has come from the service sector including the telecommunication, IT, travel and many others.

Table: 1.1 Statement on sector-wise FDI inflows from august 1991 to September 2005

Sr. No.	Sector	Amount of FDI Inflows (in million USD)
1	Electrical Equip.	4266
2	Transportation Industry	3070
3	Services Sector	2840
4	Telecommunications	2730
5	Fuel (Power & Oil Refinery)	2505
6	Chemicals	1818
7	Food Processing Industry	1172
8	Drugs & Pharmaceuticals	936
9	Cement and Gypsum products	715
10	Metallurgical	544

Source: www.dipp.nic.in

Post liberalization, the trend of investments was predominantly in the services and the manufacturing sector. This period was also characterized by controlled investments. However, lately there has been a drastic paradigm shift towards the services sector with industries in the primary sector also figuring predominantly in the top 15 list (Ref table: 1.2). The manufacturing sector which is said to benefit most from the FDIs has been reduced to a small fraction.

Table: 1.2 Statement on sector-wise FDI inflows from April 2000 to august 2009

Sr. No.	Sector	Amount of FDI Inflows (In million USD)	%age of total FDI Inflows
1	Services Sector	21728.36	22.14
2	Computer Software and Hardware	9334.00	9.48



3	Telecommunications	8119.57	8.46
4	Housing & Real Estate(including Cineplex, multiplex, and commercial plazas)	7309.16	7.46
5	Construction	6090.31	6.09
6	Automobile	4205.41	4.36
7	Power	4009.26	4.13
8	Metallurgical	2945.51	2.89
9	Petroleum and Natural Gas	2598.08	2.57
10	Chemicals (other than fertilizers)	2257.64	2.33
11	Electrical Equip.	1886.42	1.95
12	Trading	1772.79	1.76
13	Cement and Gypsum products	1692.82	1.71
14	Information & Broadcasting (including Print Media)	1610.28	1.66
15	Hotel and Tourism	1614.61	1.65

Source: www.dipp.nic.in

As the statement reveals that the maximum amount of FDI inflows are coming from the services sector. But the inflow of FDI into this sector has been biased towards few of the services sectors. Sectors that have received largest approvals are telecommunications, consultancy services and financial services. The telecommunication sector, including radio paging, cellular mobile, basic telephone services, is the most favored FDI sector. The Telecom sector has attracted \$891 million FDI in April-May 2010-11. The second most favored is the service sector that attracted \$578 million investment during the same period. Further, metallurgical industries and power sector clinched third and fourth place with an investment of \$461 million and \$313 million respectively. This is the result of the continued effort of Government to make the FDI policy more attractive and investors friendly. One of the striking features of India's FDI flows is the growing proportion of outward FDI from the services sector. The share of services in total FDI outflow increased to around 45% in the period 1999-2003, in which non-financial services constitute around 36%, trade is around 5% and the rest was from financial and other services.

WHAT EXPLAINS GROWTH IN INDIA'S SERVICES SECTOR?

The literature on the growth in service sector primarily argues that when an economy grows, both demand side and supply side factors operate that lead to higher growth in the service sector as compared to the other sectors and also lead to a larger share of service sector in total employment. These factors are:

DEMAND-SIDE FACTORS:

- High- Income elasticity of demand for final product services:** It implies that at any relative price of services the quantity absorbed rises more than quantity of commodities as real income per capita increases.
- Slower productivity growth in services:** It has been long argued that productivity growth in services is slower than that in manufacturing sector. Different explanations have been put forward for it. Following Verdoon's Law, Kaldor (1966) argued that there will be a negative relationship labour productivity growth in the economy as a whole and the productivity growth in the non-manufacturing sector because most activity outside the manufacturing sector particularly land-based activities such as

agriculture and many service activities are subject to diminishing returns. Further, the unbalanced growth models by Baumol (1967) helped in popularizing the notion that because of their labour-intensive nature, service sector activities cannot be made more efficient through capital accumulation, innovation, or economies of scale. It has also been argued that in the creation of new ways of satisfying wants, technological changes are as important in service sector (such as health care) as in commodity sectors, but when it comes to cost reduction for existing products or services, technological change is more frequent and more powerful in its effects in the commodity sector. Therefore, productivity of service sector relative to productivity of commodity sector may vary inversely with income level of the country.

- c. **Structural changes:** Along with the notion of services being generally unprogressive there are arguments about structural changes that take place with growth in the economy. Greenfield (1966) and Francois (1990) argue that demand for producer services in total intermediate demand by manufacturing firms grow with development because higher specialization is now more profitable. This expansion is linked to growth in more roundabout process of production and the associated conversion of local markets into national markets. With technological progress and development, services also become more crucial to co-ordinate production processes: to create and absorb new innovations and to increase the benefit- extracting capacity in production and consumption. All these lead to higher use of services in the growth process.

A) SUPPLY SIDE FACTORS:

- a. Trade Liberalization and Reforms: Three supply side factors that lead to higher supply of services are increased trade, higher FDI and improved technology. But there are two distinguishing features of trade liberalization of services: First, imports of services must be locally produced and, secondly liberalization of services leads to enhanced competition, which is both domestic and foreign. In fact, if foreign participation merely substitutes for domestic factors and the sector does not expand, i.e., the degree of competition remains the same, then there cannot be a positive growth impact on account of scale effect. On the other hand, even without scale effects and even if service sector does not possess endogenous growth attributes, import of foreign factors that characterize services sector liberalization can still have positive effects because they are likely to bring with them the source of endogenous growth, namely, technology. Studies show that growth of India's services sector can be attributed to:
- Structural Changes that have led to increase in usage of services by other sectors;
 - Lower tariff and non-tariff barriers to trade; and
 - Other reforms carried out in the 1990s.

PROSPECTS OF INDIA AS FDI DESTINATION

Prospects of India as FDI destination for foreign countries may be counted on several grounds, which are outlined as:

- **Rationalization of FDI policy:** Government of India (GoI) has recently further reviewed the policy of FDI, which allow FDI under automatic route up to 100% in case of setting up of green field investment projects, distillation and brewing of potable alcohol, laying of natural gas and LNG pipeline, etc. (DIPP, 2006). With such policy initiatives GoI can expect more FDI inflow in the natural resource and infrastructure sector since world trend of FDI inflow in the recent times showed attraction towards such sector.

- **Large and growing domestic market:** Because of fast growing disposable income, increased availability and use of consumer finance and credit cards complement the keenness of the average Indian to adapt to and assimilate global trends. This has led to the creation of rapidly growing consumer base and one of the world's largest markets for manufactured goods and services.
- **Versatile, skilled human capital:** An unparalleled resource of educated, hard working, skilled and ambitious workforce is the hallmark of India's human capital.
- **Sound economic performance:** Indian economy is growing at 7% annual average growth rate from the 1993. Most recently, GDP growth rate increased to 9.2% for the second quarter of 2006-07. Definitely, this is a good sign because investors are attracted towards rapidly growing countries.
- **Tax Measures:** Double taxation avoidance treaty is one of the main achievements in the field of tax regime, which is at present implemented with 79 nations. It will definitely boost up confidence of foreign investors since tax on both corporate profit and dividends are treated as disincentive by investors.
- **Liberalized investment policy:** The policy on FDI has been progressively liberalized since 1991. Today, the FDI policy in India is widely reckoned to be among the most liberal in the emerging economies and FDI up to 100% is allowed under the automatic route in most sectors and activities. Recently, FDI up to 100% has been permitted under automatic route in civil aviation, automobiles, and telecommunication, power and road sectors.
- FICCI had conducted a survey in 2004 on the experience of investment by the foreign investors in India. According to them India's strengths as FDI destination lies in following: The respondents had identified market size, highly skilled manpower and low cost of infrastructure and operation as important motivating factors for their entry into Indian market.

PROSPECTS FOR GROWTH IN THE SERVICES SECTOR

One of the major drivers of service sector growth in the post globalization era in India is the IT and ITES sector. That is why NASSCOM (2005) says that, "The It and BPO industries can become major growth engines for India, as oil is for Saudi Arabia and electronics and engineering are for Taiwan. India's IT and BPO industries could account for 10-12% India's GDP by 2015" (NASSCOM, 2005, p.80). According to NASSCOM (2005), India's offshore IT and BPO industries hold the potential to create over 9 million jobs in 2010, 2.3 million direct jobs and 6.5 million indirect/ induced jobs. The revenue generation from total software and services segment is likely to touch \$ 60 billion mark by 2010 as per NASSCOM estimates. In addition, there is a huge potential for growth in the services sector because of increase in disposable income, increasing urbanization, growing middle class, a population "bulge" in the working age groups providing 'demographic window of opportunity', and emergence of a wide array of unconventional/ new services like IT, ITES, new financial services (ATMs, credit cards) and tourism services (eco-tourism, health tourism) etc.

POLICY MEASURES FOR THE DEVELOPMENT OF THE SERVICES SECTOR

In post 1991 period, there were several measures undertaken by the government to develop services sector, especially through deregulation of some-sectors of services sector. FDI varying between 26% (in print media) to 100% in IT sector, BPOs, e-commerce activities, infrastructure etc. has been permitted. There are several other promotional measures taken by the government to sustain the growth of services sector. For example, having realized that in knowledge- intensive world driven by IT, integration with global economy cannot take place without making quality telecom services accessible at affordable prices, a large number of steps like launching of National Telecom Policy 1994, New Telecom Policy 1999, Broad Band Policy 2004 etc were undertaken. In addition to this, a number of promotional measures have

been taken up in IT and ITES segment, trade, tourism, banking and insurance and real estate sectors. India has emerged as a top destination for off shoring as per Global Service Location Index 2007. There is a lot of scope for future expansion as only 10% of the potentially addressable global IT/ITES market has been realized. The remaining 90% (worth \$ 300 billion) remains to be tapped as per An Approach to the 11th Five Year Plan (Joshi, 2007).

CHALLENGES: BARRIERS TO FDI IN SERVICES

There are several reasons why developing countries on average, remain restrictive on FDI in services or have other barriers to investments in services. Apart from the sensitivity of services with cultural, social, distributional or strategic significance, there are also economic concerns.

- Countries restrict FDI to avoid the risk of foreign investors out-competing domestic investors. Services where domestic investors are not able to cater to the growing demand, or where domestic service- providers do not have the ability or capacity to provide the required quality of services, are where the least barriers exist. These are also services sectors where the government is encouraging FDI. These include infrastructure services like telecommunications.
- The sale of public utilities to foreign firms raises complex issues related to privatization and the regulation of natural monopolies. Countries without the necessary regulatory framework may lose by rushing into liberalization, particularly when a reversal of liberalization is hard to achieve or when liberalization has “systemic implications”, as in the case of the financial industry.
- Entry by large service transnational corporations involves competition policy considerations and many host countries may not feel ready to deal with the technical and legal issues involved. Industries that are characterized by lack of competition are also likely to be subject to more regulations.
- It is difficult to assess the impact of liberalization in particular service sector, especially if it employs a large number of unskilled people. In such cases, as for example in the distributive services, it becomes important to undertake an in-depth study prior to the decision to allow foreign firms. Many countries lack the will or expertise to undertake such an analysis.
- Ground level hassles continue to be a major impediment for foreign investors.
- Transport, Road, Power and water availability continue to remain a cause of concern for investors, as revealed in the survey of FICCI, 2004.
- Approval procedure of FDI in India is time consuming.
- One of the most prominent hurdles in attracting FDI inflow is its stringent labour laws, which discourage the entry of Greenfield FDI because of the fear that the company concerned would not be possible to downsize the labour strength in the time of downturn of business. (Planning Commission, 2002).
- High rate of tariff barriers, excessive red-tapism and bureaucracy and barriers of perception pose as a challenge in realizing FDI inflow in India.
- Finally, since a number of services closed to foreign investors are monopolies and, in any event, need to be regulated, domestic regulations are often difficult to put in place.

The above reasons for barriers to FDI in services indicate that though the services sector has provided ample opportunity for trade and growth in the region, it has also, in the process of liberalization, exposed economies to competition in a sector that, for a long time, has been predominantly under public monopoly. Lack of domestic competitive skills may erode domestic investments in some services. It may

also lead to higher prices of services that were earlier available at a subsidized rate under government ownership. The rise in prices could translate to higher inflationary pressures, reducing the overall welfare of economies. To circumvent such spirals it is important for the region to have appropriate domestic regulations in place, which will assure better quality of services at affordable prices. Clear domestic regulations increase transparency in the system and encourage FDI. To sustain the momentum of growth in services trade in the region, conscious efforts should be made to improve the competitive advantage of the region as a whole.

CONCLUSION

The crux of the analysis is that FDI has helped the Indian Economy to grow and the investment profile has also been very diverse. While the silver lining is continuous increase in FDI for services sector, the nominal amount of investment for manufacturing and agriculture is a matter of grave concern. Moreover signs for 2010 don't seem to be very encouraging, clearly requiring GoI to go extra mile to achieve the parity with its peers in FDI inflow. To sustain the momentum of growth in services trade, conscious efforts should be made to improve the competitive advantage of the sector as a whole. The prospects of India as a FDI destination would be realized if some of its constraints could be overcome. Bureaucratic hassles, corruption and time consuming procedures should be reduced to attract more FDI inflow. After all a more transparent investment system will benefit and secure future prospect of FDI inflow in India. To sum up the present paper it provides a brief overview of performance, prospects and problems encountered by the services sector in India's economy. It is heartening to note that India is called the 'service hub' of the world because of huge FDI inflows. A number of sector specific measures have been taken up by the government of India to promote IT and ITES and other sun-rise sectors like Telecom, Organized retail, Hospitality, Entertainment and Financial services sectors. That is why; the futurists are very optimistic regarding the bright future and performance ahead of the sector. To conclude "On the tourism front, it is incredible India, but on the economic front, it is clearly Opportunity India".

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