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AN ANALYSIS OF FDI INFLOWS ON INDIA'S GDP IN THE SERVICE SECTOR AND THE COMPUTER SOFTWARE HARDWARE SECTOR

G. Justin Xavier Raj [1] & Dr. M. Suvakkin [2]

RESEARCH ARTICLE

Author Details: [1] Research Scholar (Part-Time), Department of Economics, St. Joseph's College (Autonomous), (Affiliated to Bharathidasan University, Tiruchirappalli, Tamil Nadu, India; [2] Associate Professor, Department of Economics, St. Joseph's College (Autonomous), (Affiliated to Bharathidasan University, Tiruchirappalli, Tamil Nadu, India

Corresponding Author:
G. Justin Xavier Raj

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Abstract

This study's secondary data is collected from a variety of sources, including articles from newspapers, journals, and the Department of Industrial Policy (DIPP). The study sample contained GDP (at factor cost), FDI inflows into the computer software and hardware sectors, and FDI inflows into the service sector. The financial year data of the service sector inflows of FDI, computer software hardware sector inflows of FDI and GDP (at factor cost) from the year 2010-2011 to 2020-2021.The results of this study, which applied linear regression, revealed that foreign direct investment (FDI) in the service sector significantly and favourably effects the gross domestic product (at factor cost). Inflows of computer hardware and software then significantly boosted India's GDP growth. The results of the multiple linear regression analysis reveals that the inflows of computer software and hardware and the service sector have a beneficial effect on GDP growth.

Keywords: *Industrial, FDI, GDP, Service sector, Positive impact*

Introduction

FDI plays major role in the service sector's rapid expansion. Financial, banking, insurance, non-financial/business, outsourcing, R&D, courier, technology testing and analysis, commodity exchange, and other services are example of FDI in service industries. There is foreign direct investment (FDI) in the computer hardware and software sectors, among others. 100% FDI is permitted in this sector using an automated process. The computer software and hardware sector accounted for 14 percent of India's total foreign direct inflows of Rs. 194291 crores in 2020-21. The rapid end-to-end digitalisation of businesses is driving rapid growth in India's computer software and hardware sector. The GDP of the country, which is expanding swiftly, is greatly influenced by these industries. The services sector's contribution to India's GDP has increased as a result of this substantial gain.

Review of literature

Debabrata Sutradhar (2014) in his studied FDI and service sector growth in India.This analysis fact that the rapid inflow of FDI in the service is a testimony that could play important role in the growth of different industries and sectors. The Manufacture sector in India could not reap the benefit of FDI may be because India lacks the necessary absorbing capacity. Though the role of FDI in India's economic growth cannot be ruled out, it failed to create growth in the manufacturing sector, where it was needed most. Moreover, a strong manufacturing sector was of utmost importance for the sustainable growth of the service sector. If the Indian economy wants to maintain sustainable service-led growth, then it must have a vibrant manufacturing sector, which was only possible by attracting more and more FDI in the manufacturing sector. Moreover, the rapid growth of new services in India may be attributed to the global FDI inflow in the services sector. So, this kind of growth dictated by the developed countries will have long-term repercussions. But if the manufacturing sector is developed than the host economy was less susceptible to a global economic slowdown and more insulated to external disruptions.

Goonipooti Dinesh, Dinesh Kumar Choudhury, Tarun Khandelwal (2019) in their paper identified that the determinants of Services sector FDI and also inspected any long-run relationship between the variables used in the study. The techniques used in the study include Ordinary Least Squares, Johansen Co-integration. The empirical analysis concludes that Gross Domestic Product, Bombay Stock Exchange, and Expenditure on Infrastructure have a positive relationship with the Services Sector Foreign Direct Investment. Exchange rate and Inflation have a negative relation with the Services Sector Foreign Direct Investment. From the policy perspective government should increase expenditure on infrastructure and take care of fluctuations

in the exchange rate and inflation, thereby relaxing the restrictions on the inflows of FDI into the Services sector helps a service-led economy like India to boost its performance.

Arpan Mahapatra (2020) in this paper examined the role of FDI in various sectors like financial services, Telecommunication services, Information Technology services, Construction development etc. in the Indian economy and the contribution of each sector year-wise. The paper has discussed the effect of FDI inflows on the Indian economy from 2000 to 2014 based on secondary data. A statistical model was developed to investigate the relationship between FDI inflow and Gross Domestic Product in the service sector. This analysis has revealed that Foreign Direct Investment has a positive and significant impact on GDP.

Anjali Arora (2021), the goal of the study is to evaluate the factors that influence foreign direct investment (FDI) in the computer software and hardware industry and to determine the factors that influence foreign investors' locational preferences. For this reason, the Indian states that get the most foreign direct investment (FDI) in the industry are examined in order to ascertain the factors that contribute to their appeal as investment locations. Examined are the quantity and accessibility of infrastructure facilities that are critical to this sector as well as the availability of skilled labour, which is a requirement for this sector. The study provides evidence to support the hypothesis that the availability of trained workforce and the necessary infrastructure, which are essential to this industry, stimulates foreign investors to invest in areas where these resources are available.

Objective

To analyses the Impact of the service sector and computer software hardware sector of FDI inflows on India's GDP growth

Statement of the problem

FDI comes and acts as a driving force for the growth and development of any country. Based on that, sector-specific incentives in FDI and its growth are essential for India. To solve these problems the researcher wants to study the topic "An analysis of FDI inflows on India's GDP in the service sector and computer software hardware sector".

Methodology

Newspapers, numerous publications, articles, and the Department for Promotion of Industry and Internal Trade (DPIIT) are the sources of secondary data used in this study. The study sample included GDP (at factor cost), FDI inflows into the computer software and hardware sectors, and FDI inflows into the service sector. The financial year data of the service sector inflows of FDI, computer software hardware sector inflows of FDI and GDP (at factor cost) from the years 2010-2011 to 2020-2021. The linear regression and multiple linear regression models' stepwise approach aids in determining the relative significance of the independent variables in explaining changes in the dependent variable.

Table No. 1
Linear regression of inflows of service sector and GDP

a	b	t	sig	R square
7072138.147	93.657	4.574	.001	0.699

From regression model Table No.1, it is revealed that service sector inflows and GDP are statistically significant. The regression result confirms that FDI of service sector inflows is an essential factor for an increase in GDP in India. it is noted from the linear result that the coefficient between service sector inflows and GDP performance is 93.65 which means that a 1% increase in service sector inflows may cause a 93.65% increase in GDP (at factor cost). Hence the FDI of the service sector's inflow positively influences Gross domestic product (at factor cost). The coefficient value of determination R square value indicates that the linear model has 69% of GDP is being described by service sector inflows.

Table No. 2
Linear regression of inflows of computer software and GDP

a	b	t	sig	R square
9643283.923	22.273	2.307	.046	0.372

This simple linear model explains that computer software-hardware inflows has a positive coefficient value of 22.27 and therefore an increase in computer software hardware inflows of FDI would likely lead to an increase in total GDP. It clarifies that an increase in 1% in computer software hardware inflows would likely increase total GDP (at factor cost) by Rs.22.27 crores. Also, the significant value is 0.046<0.05. Hence from this analysis, we conclude that computer software hardware inflows had a positively significant impact on GDP growth in India. the R square value is 0.372, which shows that the computer software hardware inflows has explained the GDP at 37.2 per cent.

Table No. 3
Multiple linear regression results of computer software-hardware, the service sector of inflows and GDP

Variables	b	t	sig	R square
Service sector	80.280	4.782	.001	0.837
Computer software sector	14.255	2.603	.031	

The R square value in the following multiple linear regression model is 0.837, showing that 83.7 per cent of the total variation in GDP in India can be explained by independent variables like service sector inflows and computer software hardware inflows. However, the value of the coefficient of service sector inflows and computer software hardware inflows showed that a 1 per cent significantly increase in contribution GDP growth brings 80.28% and 14.255 percent increase per year in GDP growth in India and to both 0.001, 0.031 < 0.05 level. It reveals the coefficient value of service sector inflows and computer software hardware inflows is showing a positive impact on GDP growth.

Limitation

The study has only two sectors in FDI to GDP growth and the researcher has taken Eleven years for analysis.

Conclusion

The linear regression result finding concluded that FDI of the service sector inflows positively significant influences of Gross domestic product (at factor cost). Then Computer software-hardware inflows had a positively significant impact on GDP growth in India. the determination of multiple linear regression results reveals the coefficient value of service sector inflows and computer software hardware inflows is showing a positive impact on GDP growth.

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