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# FACTORS DETERMINING FDI INFLOWS IN INDIA

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## Abstract

*India having a fast growing economy has pooled in lot of Foreign Direct Investment inflows into the country since the 1991 Liberalization. FDI being a major component for development of an economy has a huge impact of various components in the host country. This study mainly focuses on the determinants of FDI in India. The variables used in our study are Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Inflation, Real Effective Exchange Rate (REER), Index of Industrial Production (IIP), Imports and Exports. All the variables are independent except FDI. The data have been considered from the period of 1991-92 to 2017-18. The sources for data are Reserve Bank of India (RBI), Department of Industrial Policy and Promotion (DIPP), Central Statistics Office (CSO), World Wide Inflation Data (Inflation.eu), International Monetary Fund (IMF) database. The methodology used is Kendall Tau Relationship and Least Squares. By analyzing the selected determinants under the Kendall Tau methodology, we found that there is a significant relationship of FDI with GDP, Imports and Exports and there is a moderate relationship of FDI with REER and a negative relationship of FDI with IIP and Inflation. Under Least square methodology, we found that Inflation, REER and Imports have positive impact on FDI whereas GDP, IIP and Exports have negative impact on FDI in India but further analysis state that only IIP, Imports and Exports have significant impact on FDI inflows into India.*

**Key words-** *Foreign Direct Investment (FDI), Gross Domestic Product (GDP), Real Effective Exchange Rate (REER), Index of Industrial Production (IIP)*

## Introduction

India, being one of the emerging economies in the global market has a great influence of FDI inflows into the country. Over the years, FDI has gained a wide recognition in playing a major role in developed and developing economies. FDI has been associated with improved economic growth and development in the host countries which has led to global competition to attract FDI. In order to attract greater FDI inflows, developing economies including India are offering a range of incentives to the foreign investors like tariff concessions, tax holidays, R&D support, etc.

FDI refers to Foreign Direct Investment, which basically means an investment made by a firm or individual of one country into business interests of another country. It also includes establishing ownership or controlling interest in a foreign country. In India, it is mainly because of the 1991 reform .i.e. LPG – Liberalization, Privatization and Globalization, there is a boost in FDI inflows into the country which has led to positive GDP growth Rate.

FDI has positively triggered growth in India and there a need for FDI in India as it is a developing country and it has scare capital which is usually required for economic development. As capital is limited, there are many issues like health, poverty, unemployment, education, R&D, technology obsolesce, global competition. Therefore, FDI fills all these gaps and help in development. FDI creates new jobs in the host country as the investor builds a new company and provide employment opportunities to the people of the host country and this leads to improvement in the standard of living of the people and which in turns leads to development of the economy.

Currently, India is the leading country in attracting FDI inflows. Mauritius, Singapore and Japan are the top three countries investing in India. Service Sector of the country attracts most of the FDI inflows.

The study focuses on the determinants of FDI Inflows in India. In India, there are various factors affecting Foreign Direct Investment, such as, Gross Domestic Product, Growth Rate, Inflation, Exchange Rate, Foreign Exchange Reserves, Industrial Production, Trade Openness, Government Debts, Trade Balance, etc. It is very important to know how these variables impact FDI.

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