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Determinants of Foreign Direct Investment (FDI) in India : An Analysis

MADAN M. GOEL*
RITU K.WALIA**

Abstract

Foreign Direct Investment (FDI) is an engine of growth in any country in general and in India particular. It is non-debt creating foreign capital resources and may generate benefits through bringing technology up gradation, skill enhancement, new employment, spillovers and allocative efficiency effects. The relationship between FDI and economic growth has long been a subject of great interest in the field of international development. The article is an attempt to analyze the determinants of FDI in India. For this FDI inflow from 1991-92 to 2013-14 has been taken and its relationship with Gross Domestic Product, Foreign Exchange Reserves, Inflation Rate, Exchange rate, Trade Openness and External Debt has been analysed empirically. It is evident from the analysis that GDP, inflation and Trade Openness, Foreign Exchange Reserves are important factors in attracting FDI inflows in India during post-reform period.

I. Introduction

FDI IS A powerful instrument for growth and development in any country in general and India in particular. Its relevance is enhanced today by its role as the crucial engine of trade, via global value chains, and by the critical need to increase investment flows to boost the global economy. It creates jobs, and promotes knowledge and productivity enhancements. It usually represents a long term commitment to host country and contribute significantly to gross fixed capital formation in developing countries. FDI plays multidimensional role in the overall development of host country. It is non-debt creating foreign capital resources and may generate benefits through bringing technology up gradation, skill enhancement, new employment, spillovers and allocative efficiency effects. The relationship

* Professor of Economics and Former Dean, Kurukshetra University, Faculty of Social Sciences, Kurukshetra, Haryana 136119, INDIA
** Research Scholar, Kurukshetra University, Department of Economics, Kurukshetra, Haryana 136119, INDIA

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V. Conclusion and Policy Implications

In the concluding words, we can say that present paper analyzes the performance of FDI in Indian economy through examining country-wise, sectoral and total inflows of FDI on one hand and the determinants of FDI on the other hand. The study confirms that Mauritius, Singapore, U.K., Japan, U.S.A. are top five nation contributing highest share in FDI inflows in India. In terms of sectoral share, the services sector is enjoying first place in attracting FDI inflows. On the whole, the total FDI inflows have increased at the considerable 13.03 per cent Linear Growth Rate (LGR) during the period from 1991 to 2014. The study also highlights the determinants of FDI inflow in India and confirms that FDI inflow is highly positively correlated with Gross Domestic Product, Trade Openness, Foreign Exchange Reserves and Real Expected Exchange Rate while Inflation rate and debt service ratio have negative correlation with FDI inflow during the period from 1991 to 2014. Therefore, FDI is necessary for creation of jobs, expansion of existing manufacturing industries and development of the new one. Indeed, it is also essential in the healthcare, education, infrastructure development, R&D, retailing and in long-term financial projects. There is a rationale to welcome the inflow of foreign investment because it enables us to achieve our cherished goal like making favorable the balance of payment, rapid economic development, removal of poverty, and internal personal disparity in the development and also it is very much convenient and favorable for Indian economy. Last but not least, government must pay attention to attract FDI to improve the health of different sectors of Indian economy. Government should try to develop India as an emerging investment destination to solve all the problems of Indian economy. It is also said that the government must promote sustainable development through FDI by further strengthening of quality education, healthcare facilities and R&D system, political involvement of people and by ensuring personal security of the citizens in the country.

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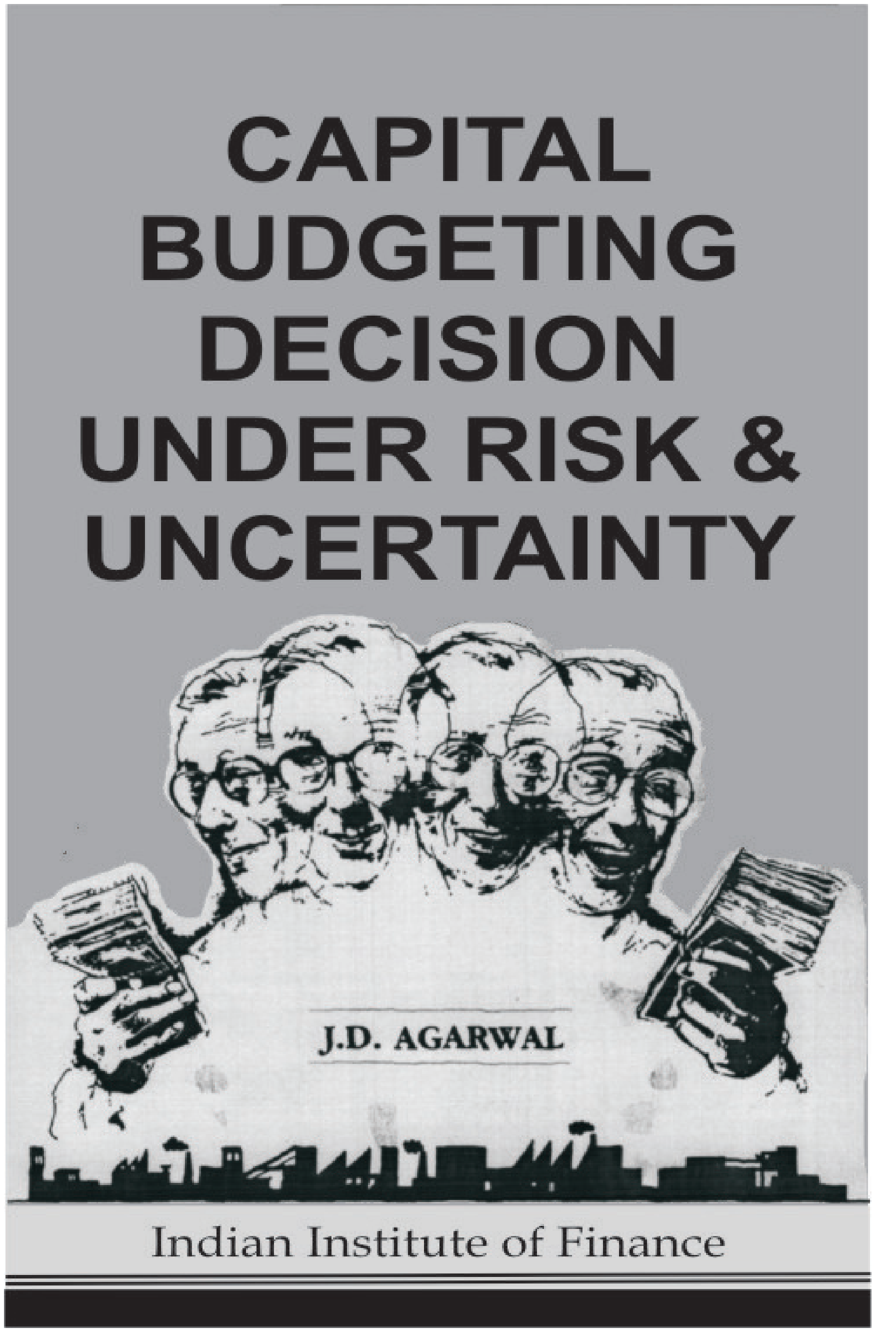
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