

Determinants of Foreign Direct Investment: Empirical Investigation into Post-Reform Era

Ranjan Kumar Nayak

Foreign Direct Investment (FDI) is dependent on a variety of factors such as growth of gross domestic product, interest rates, exchange rate movement, market size, macroeconomic stability and so on. This paper attempts to estimate the determinants of FDI in India, using regression analysis. Quarterly data from 1996Q1 to 2010Q4 have been used to estimate the main determinants of FDI. The monetary authority (RBI) should develop and implement measures that will ensure that inflation, foreign exchange rates and interest rate are sustained at levels that will ensure increasing level of inflow of FDI. Further, working towards more openness will also attract more FDI to India.

I Introduction

Foreign Direct Investment (FDI) has emerged as a major factor in growth and development in the theoretical understanding as well as policy research. The impact of FDI on growth is considered critical in a globally integrated economy. It is not only a source of capital formation, but also of technical know-how and productivity. If one assumes it as a major determinant of growth, then the relevant question is what determines it. Recent literature suggests that GDP, trade openness, trade policy, wage rates, infrastructure, etc., determine its inflows into a country. However, research on the determinants of FDI is still continuing. There is a need to test new variables and to continuously assess even the established factors. This study is an endeavour in this direction.

The earlier discussion has brought out that FDI is now an important factor in influencing the contemporary process of global economic development. The need is to develop deeper understanding about it. This study examines the literature on the subject and analyses the relation between FDI and related variables. The period chosen is essential post-reform years which is significant for a variety of reasons. First of all, in July 1991, India opened its doors to private sector and liberalized its economy. Hence, what are the essential variables that attracted the FDI so that one can recommend the appropriate policy

Ranjan Kumar Nayak, Doctoral Scholar, Centre for Gandhian Economic Thought, University of Hyderabad, Hyderabad 500046, Andhra Pradesh, India, Email: ranjankumarnayak5@gmail.com.

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