A STUDY ON THE DETERMINANTS OF FOREIGN DIRECT INVESTMENT INFLOWS INTO INDIA

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Abstract

The expansion and integration of global financial capital markets has led to the changes in the composition of capital flows of the developing economies. FDI has gained wide recognition as a striking measure of economic growth and development in both developed and developing countries. This study intends to evaluate the trends and patterns of FDI inflows into India. The relationship between FDI inflows and its selected determinants are examined. The study is based on the secondary time series data collected for fifteen years ranging from FY 2000-01 to 2014-15. GDP, Index of Industrial Production, exchange rate, trade openness and inflation are the variables taken as the determinants of FDI inflows. The collected data was analysed by using Pearson's correlation analysis, linear regression analysis and compounded annual growth rate. The results revealed that FDI inflows exhibited a mixed pattern and the established trend line shows an upward trend. A significant relationship was found between GDP, IIP, TO, REER, CPI and FDI inflows and these variables were positively correlated. Equations were formulated using the regression analysis and they were found to be of good fit to predict the FDI inflows. Favourable measures should be taken by the policy makers to improve these variables under study which will result in increased foreign capital inflow.

1. Introduction

The expansion and integration of global financial capital markets has led to the changes in the composition of capital flows of the developing economies. FDI has gained wide recognition as a striking measure of economic growth and development in both developed and developing countries. According to the World Investment Report (2015), despite a significant decrease in FDI inflows of developed countries and economies in transition, the inflows to developing economies remained at historically high levels in 2014.

The history of FDI in India can be traced back to the establishment of East India Company by British. British capital came to India during the colonial era of Britain in India. The importance of FDI was recognised right from when India had attained its independence. But the major economic reforms took place in 1990's when India adopted liberalisation and globalisation policies, after which the FDI inflows into India grew rapidly.

The favourable policy regime of India and robust business environment has ensured that foreign capital flows into the country continuously. The government has taken many initiatives right from liberalisation in 1991 to the recent relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others. According to Department of Industrial Policy and Promotion (DIPP), the total FDI inflows soared by 24.5 per cent to US$ 44.9 billion during FY2015, as compared to US$ 36.0 billion in FY2014. FDI into India through the Foreign Investment Promotion Board (FIPB) route shot up by 26 per cent to US$ 31.9 billion in the year FY2015 as against US$ 25.3 billion in the previous year, indicating that government's effort to improve ease of doing business and relaxation in FDI norms is yielding results. Data for FY2015 indicates that the increase in the FDI inflows was primarily driven by investments in infrastructure and services sector. Within Infrastructure, Oil & Gas, Mining and Telecom witnessed higher FDI inflows, whereas IT services and trading (wholesale, cash & carry) drove the services inflows. During FY2015, India received the maximum FDI equity inflows from Mauritius at US$ 9.03 billion, followed by Singapore (US$ 6.74 billion), Netherlands (US$ 3.43 billion), Japan (US$ 2.08 billion) and the US (US$ 1.82 billion). Healthy inflow of foreign investments into the country helped India's balance of payments (BoP) situation and stabilised the value of rupee.

2. Foreign Direct Investment

IMF and OECD defines FDI in terms of "Direct investor" and "Direct investment enterprise" A ***direct investor*** may be an individual, an incorporated or unincorporated private or public enterprise, a government, a group of related individuals, or a group of related incorporated and/or unincorporated enterprises which have a direct investment enterprise, operating in a country other than the country of residence of the direct investor. A ***direct investment enterprise*** is an incorporated or unincorporated enterprise in which a foreign investor owns 10 per cent or more of the ordinary shares or voting power of an incorporated enterprise or the equivalent of an unincorporated enterprise. Direct investment enterprises may be *subsidiaries, associates or branches* that could establish in the foreign country.

2.1 Determinants of FDI

There are various factors that influence the FDI inflows into a country. The investors consider and evaluate various aspects of a country before investing in it. The relative importance of these determinants of FDI varies not only between countries but also between different types of FDI. Traditionally, the determinants of FDI include the following:

1. **Size of the Market**: The developing countries possess substantial markets where the consumers demand for certain goods far exceed the available supplies. This demand potential is a big draw for many foreign enterprises. In many cases, the establishment of a low cost marketing operation represents the first step by a multinational company into the market of the country. This establishes a presence in the market and provides important insights into the ways of doing business and possible opportunities in the country.

2. **Political Stability**: In many countries, the institutions of government are still evolving and there are unsettled political questions. Companies will generally be unwilling to contribute large amounts of capital into an environment where some of the basics political questions have not yet been resolved.

3. **Macro-Economic Environment:** Instability in the level of prices and exchange rate enhance the level of uncertainty, making business planning difficult. This increases the perceived risk of making investments and therefore adversely affects the inflow of FDI

4. **Legal and Regulatory Framework:** The transition to a market economy entails the establishment of a legal and regulatory framework that is compatible with private sector activities and the operation of foreign owned companies. The relevant areas in this field include protection of property rights, ability to repatriate profits, and a free market for currency exchange. It is important that these rules and their administrative procedures are transparent and easily comprehensive.

5. **Access to Basic Inputs:** Many developing countries have large reserves of skilled and semi-skilled workers that are available for employment at wages significantly lower than in developed countries. This provides an opportunity for foreign firms to make investments in these countries to cater to the export market. Availability of natural resources such as oil and gas, minerals and forestry products also determine the extent of FDI.

2.2 Advantages of FDI

1. Economic Development Stimulation: Foreign direct investment can stimulate the recipient country's economic development, creating a more favourable environment for the investor and benefits for the local industry.

2. Easy International Trade: FDI opens up the economy to the global economy and there are industries which require its presence in the international markets to ensure their sales and goals will be completely met.

3. Employment and Economic Boost: Foreign direct investment creates new jobs, as investors build new companies in the investing country which in turn creates new opportunities. This leads to an increase in per capita income and more buying power to the people, which in turn leads to an economic boost.

4. Development of Human Capital Resources: The attributes gained by training and sharing experience at a global level would increase the education and overall human capital of a country.

5. Access to resources: FDI is an effective way to acquire important natural resources, such as precious metals and fossil fuels. Oil companies, for example, often make tremendous FDIs to develop oil fields. Foreign direct investment will allow resource

transfer and other exchanges of knowledge, where various countries are given access to new technologies and skills.

6. Access to markets: FDI helps to enter into a foreign market. Some countries may extremely limit foreign company access to their domestic markets. Acquiring or starting a business in these markets is a means for to gain access and benefits of their domestic markets.

7. Reduces cost of production: FDI is a means to reduce cost of production if the labour mark4et is cheaper and the regulations are less restrictive in the target foreign market

8. Increased Productivity: The facilities and equipment provided by foreign investors can increase a workforce's productivity in the target country.

2.3 FDI Investment routes into India

A foreign company planning to set up business operations in India may:

- Incorporate a company under the Companies Act, 1956, as a Joint Venture or a Wholly Owned Subsidiary.
- Set up a Liaison Office / Representative Office or a Project Office or a Branch Office of the foreign company which can undertake activities permitted under the Foreign Exchange Management (Establishment in India of Branch Office or Other Place of Business) Regulations, 2000.

Foreign investment is reckoned as FDI only if the investment is made in equity shares, fully and mandatorily convertible preference shares and fully and mandatorily convertible debentures. Partly paid equity shares and warrants issued by an Indian company in accordance with the provision of the Companies Act, 2013 and the SEBI guidelines, as applicable, are eligible FDI instruments.

An Indian company may receive Foreign Direct Investment under the two routes as given under:

- **Automatic Route:** Under the Automatic Route, the foreign investor or the Indian company does not require any approval from the Reserve Bank or Government of India for the investment in sectors/activities permitted under automatic route.

- **Government Route:** FDI in activities not covered under the automatic route fall under the Government Route, the foreign investor or the Indian company should obtain prior approval of the Government of India (Foreign Investment Promotion Board (FIPB), Department of Economic Affairs (DEA), Ministry of Finance or Department of Industrial Policy & Promotion, as the case may be) for the investment.

3 Review of literature

Muhammad Azam, Ling Lukman (2010), "Determinants of Foreign Direct Investment in India, Indonesia and Pakistan: A Quantitative Approach", in this paper the authors aim to analyze the factors which discourage and encourage FDI inflows to Pakistan, India and Indonesia during the study period ranging from 1970 to 2005. They also studied the trends and importance of FDI inflows into the selected countries. Log linear regression model has been used and the method of least squares has been applied to estimate the various economic determinants effects on FDI inflows. The results revealed that market size, external debt, domestic investment, trade openness, and physical infrastructure are the important economic determinants of FDI. It was also observed that the empirical results of the economic determinants of India matched with the empirical results of Pakistan excluding two determinates (viz, trade openness and government consumption) while the results of Indonesia did not match with the results of Pakistan and India. The authors suggested that to enhance more FDI into Pakistan, India and Indonesia, the management authorities need to ensure economic and political stability, provision of infrastructure, peace and security, law & order situation, encourage domestic investment, curtail external debt, and equal importance may be given to appropriate monetary and fiscal policy.

Narayanamurthy Vijayakumar, Perumal Sridharan, Kode Chandra Sekhara Rao (2010), "Determinants of FDI in BRICS Countries: A panel analysis", the objective of this study is to examine the factors determining FDI inflows of BRICS countries for the period 1975 to 2007 except for Russia for which the required data set was available from 1990 onwards. Panel data analysis was used and the results revealed that the selected variables Market size, Labour cost, Infrastructure, Currency value and Gross Capital formation as the potential determinants of FDI inflows of BRICS countries. The Economic Stability and Growth prospects (measured by inflation rate and Industrial production respectively), Trade openness (measured by the ratio of total trade to GDP) were found to be the insignificant determinants of FDI inflows of the BRICS countries.

Nilofer Hussaini N H (2011), "Economic factors and Foreign Direct Investment in India: A correlation study", the authors' highlights the vital economic determinants of FDI inflow in India. They also examine the sector wise trend in the Foreign Direct Investment (FDI) inflow into India. The study is conducted for 20 years from 1991 to 2009 limiting to the top 10 sectors of Indian economy. The analysis revealed that the FDI inflow over the decades was very unsteady and fluctuating trend in various sectors of the Indian economy was seen. FDI inflow was found to be highly correlated with the economic factors taken into consideration and it is in India's interest to continue to boost foreign investment by liberalizing rules on equity caps, investment reviews and other provisions that have impeded India's ability to attract more foreign investment over the recent years.

Sapna Hooda (2011), "A Study of FDI and Indian Economy", has aimed to study the trends and patterns of flow of FDI, determinants of FDI and also the impact of FDI on the Indian economy. The time series data and the relevant data have been collected for the period 1991 to 2008. The tools used were trend analysis, annual growth rate, compound annual growth rate and regression analysis for model building. The results showed that despite troubles in the world economy, India continued to attract substantial amount of FDI inflows. India due to its flexible investment regimes and policies prove to be the horde for the foreign investors in finding the investment opportunities in the country.

Anitha R (2012), "Foreign direct investment and economic growth in India", the author analyses the FDI inflow into India during the Post Liberalization period, the trends of FDI inflow into the country are projected for a period of five years from 2010-11 to 2014-15 using Autoregressive Integrated Moving Average (ARIMA) forecasting technique. The author tries to examine the various factors which influence the flow of FDI identifying the causes for low inflow and suggestive remedial measures to increase the flow of FDI in India with that of other developing nations in the world. The author feels that there is an urgent need to adopt innovative policies and good corporate governance practices on par with international standards, by the Government of India, to attract more and more foreign capital in various sectors of the economy to make India a developed economy.

Priyanka Sahni (2012), "Trends and Determinants of Foreign Direct Investment in India: An Empirical Investigation", the author has studied the trends and the determinants of the FDI inflow into India for the post liberalisation period from 1992-93 to 2008-09.

Ordinary Least Square (OLS) method has been used by the author to analyse the time series data. The results indicate that GDP, inflation and trade openness are important factors in attracting FDI inflows in India during post reform period whereas Foreign Exchange Reserves was not an important factor in explaining FDI inflows in India.

Dr. Mamta Jain, Priyanka Lakshmi Meena, T N Mathur (2013), "Role of Foreign Direct Investment and Foreign Institutional Investment in Indian Economy". The authors have studied about the correlation between foreign institutional investments or foreign direct investment and the real economic growth in India over a period 2000-01 to 2009-10. GDP at factor cost has been taken as the proxy variable for real economic growth. They have concluded saying that the FII and FDI are influencing the economic development to a greater extent. FDI is preferred over FII investments since it is considered to be the most beneficial form of foreign investment for the economy as a whole.

Jha G M, Agrawal A, Gupta A and Mishra A K (2013), "Determinants of FDI in South Asia", the study aims to analyse the determinants of FDI in six South Asian countries – India, Bangladesh, Pakistan, Sri Lanka, Nepal and Maldives. The period of the study was from 1990 to 2010. GDP, Direct Investment, Trade Openness, Real Effective Exchange Rate, Interest Rate and Labour were the parameters taken into consideration as factors affecting FDI inflows. ADF test, Durbin Watson test and OLS regression were the statistical tools used by the authors to analyse the data. The econometric results show that Trade Openness, GDP and Direct Investment have a positive impact on FDI whereas Labour had a negative influence. It was suggested that if the countries of South Asia want to continue to attract FDI they should focus on bolstering the GDP, strengthening the level of direct investment to improve the infrastructure available and focus on increasing trade openness wherever possible.

Mrs. Sisili T, Dr. Elango D (2013), "FDI and its Determinants of India", in this study, the following model has been used to explain the determinants and its impact of SAARC nations by the authors. FDI and its competitiveness suggest that the basic determinants of the inflows of FDI's are 3 key variables: Size of the market, Growth of the market and the exchange rate of the country. This research paper is trying to find the influence of determinants on FDI inflows of India. The analysis indicated that the India's size of the market has expanded due to FDI inflow. The growth of the markets has also increased at a significant level. But the exchange rate has a negative influence on FDI inflow because of changes in the value of currencies.

Sharmiladevi J C, Saifilali M I (2013), "An Empirical Examination of the Determinants of Foreign Direct Investment in India", this paper aims to examine the macroeconomic variables that acts as potential determinants of FDI inflows. The authors makes use of time series data for the period 2000-01 to 2011-12, and the study employs ordinary Least Square (OLS) method. Order of integrity for all the variables is I (1). Results indicate that among the selected variables, export, index of industrial production, inflation shows statistically significant at 5 % level. The researcher concludes by saying that those vital parameters which influences the internal business environment of a nation like growth rate, inflation, IIP, exports is having a direct influence upon India's credibility in the international arena in terms of attracting more FDI. So it is the duty of the government and the reserve bank to keep these vital internal macro variables under effective control so as to ensure more FDI inflow in future.

Sumit Parashar (2015), "Factors affecting FDI inflow in China and India", the author investigates the determining factors of foreign direct investment (FDI) inflow in both China and India from 1980 to 2013 using econometric modelling. It was found that during this period, both nations went through major economic reforms, which began in 1991 in India and in 1992 in China. Linear regression analysis of time series data was done for 34 years. Macroeconomic indicators such as market size, infrastructure, and opportunity cost for investors, trade openness, growth rate, policy changes and inflation were assumed to be the determinants. Both ordinary least squares analysis and partial least squares analysis approaches were applied to obtain regression results. The analysis reveals that, for both countries, market size was an important factor. Also, in the case of China, lower wage rates played an important role in attracting FDI, while in India; it is policy reforms that play a crucial role in attracting FDI.

4 Research Design

4.1 Statement of the Problem

Liberalisation and the globalisation of the Indian markets have attracted foreign investments into India in the past two decades. But the flow of foreign investments into India is found to be fluctuating highly. FDI and FII are predominant and vital factors influencing the economic development of a host nation. Initiatives like Make in India, favourable changes in the policy regimes and robust business environment has caused an upsurge in the foreign capital inflows. But events like global financial crisis and the ongoing economic slowdown in China will have an effect on the global capital market. In this backdrop the researcher aims to study the trends and patterns of FDI inflows into India and examine the determinants of FDI flows and to understand whether India can attain the position of an attractive investment destination in the global scenario.

4.2 Objectives of the Study

1. To study the trend and pattern of Foreign Direct Investment inflows into India.
2. To examine the influence of Gross Domestic Product, Index of Industrial Production, Real Effective Exchange Rate, Trade Openness and Inflation on the FDI inflows of India each individually and collectively.

4.3 Hypotheses

To fulfil the objectives of this study, the following hypotheses have been set:

1. H_0: There is no significant relationship between the FDI inflows and GDP of India
   H_1: There is a significant relationship between the FDI inflows and GDP of India
2. H_0: There is no significant relationship between the FDI inflows and IIP of India
   H_1: There is a significant relationship between the FDI inflows and IIP of India
3. H_0: There is no significant relationship between the FDI inflows and REER of India
   H_1: There is a significant relationship between the FDI inflows and REER of India
4. H_0: There is no significant relationship between the FDI inflows and Trade Openness of India
   H_1: There is a significant relationship between the FDI inflows and Trade Openness of India
5. H_0: There is no significant relationship between the FDI inflows and CPI of India
   H_1: There is a significant relationship between the FDI inflows and CPI of India

4.4 Research Methodology

4.4.1 Type of Research: This is an analytical research as it aims to study the relationship between the selected variables and FDI inflows.

4.4.1 **Type of data:** The objectives of this study are satisfied by collecting and analyzing the secondary time series data from various sources.

4.4.2 **Sources of data:** The data for this study has been collected from various secondary sources like Handbook of Statistics on the Indian economy published by RBI, DIPP, SEBI, Ministry of Commerce, Ministry of Statistics and Programme Implementation, CSO, World Development Indicators report and other online publications.

4.4.3 Statistical Tools used: Descriptive Statistics, CAGR, Correlation analysis, Regression Analysis

4.4.4 Period of the study: The study is conducted for a period of fifteen financial years starting from 2000-01 to 2014-15.

4.5 Variables used in this study:

4.5.1 Foreign Direct Investments inflows (FDI)

4.5.2 Gross Domestic Product (GDP)

4.5.3 Index of Industrial Production (IIP)

4.5.4 Inflation (CPI)

4.5.5 Real Effective Exchange Rate (REER)

4.5.6 Trade Openness (TO)

5. Analysis and Interpretation

5.1 To Study the Trend and Pattern of Foreign Direct Investment Inflows into India.

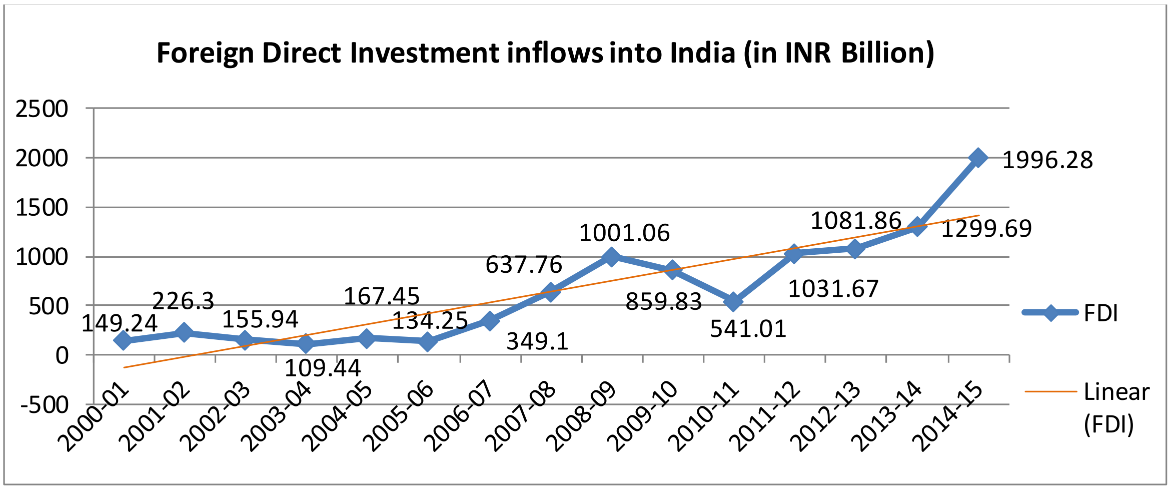
Table 5.1: Net Foreign Direct Investment Inflows into India (in INR Billion)

Year	FDI	Increase / Decrease
2000-01	149.24	-
2001-02	226.3	51.63%
2002-03	155.94	-31.09%
2003-04	109.44	-29.82%
2004-05	167.45	53.01%
2005-06	134.25	-19.83%
2006-07	349.1	160.04%
2007-08	637.76	82.69%
2008-09	1001.06	56.97%
2009-10	859.83	-14.11%
2010-11	541.01	-37.08%
2011-12	1031.67	90.69%
2012-13	1081.86	4.86%
2013-14	1299.69	20.13%
2014-15	1996.28	53.60%
CAGR of FDI inflows		20.35%

From the above table, it is seen that there is no particular pattern found in the FDI inflows. There is mixed trend in the FDI inflows. From the calculated % of increase or decrease, it is seen that the highest increase % is in the year 2006-07 at 160.04% and the lowest decrease % is in the year 2010-11 at 37.08%.

Compounded Annual Growth Rate is calculated to be 20.35% for the period under study. This means the FDI inflows have increased on an average of 20.35% year after year for fifteen years. On the whole there is a gradual increase in the FDI inflows into India.

Chart 5.1: Foreign Direct Investment Inflows into India



The above graph indicates that the FDI inflows into India has been stable from 2000-01 to 2005-06 after which an increasing trend is seen till 2008-09. From 2009-10 to 2010-11 there is a downfall in the FDI inflows which may be the effect of the financial crisis. The FDI flows have increased from the FY 2011-12 onwards. From the established trend line in the graph it is seen that there is an overall increasing trend in the FDI inflows of India.

Table 5.1.1: Summary of descriptive statistics for FDI and its determinants

	Maximum	Minimum	Mean	Std Deviation	Co-efficient of Variation
FDI	1996.28	109.44	649.39	554.33	0.85
GDP	66472.85	25540.04	43199.36	13672.88	0.32
IIP	176.87	77.03	130.48	37.90	0.29
REER	115.02	97.65	104.61	5.56	0.05
TO	58.30	27.57	45.38	11.50	0.25
CPI	12.40	3.80	6.92	2.93	0.42

The above table shows that the average FDI inflow into India for the period of study is Rs. 649.39 billion. The Coefficient of variation for FDI inflows is found to be the highest and hence it is more volatile or inconsistent than the other variables under study. From the maximum and minimum values, it can be inferred that the FDI inflows have increased 18.24 times from its minimum value.

5.2 To Examine the Influence of Gross Domestic Product, Index of Industrial Production, Real Effective Exchange Rate, Trade Openness and Inflation on the FDI Inflows of India Each Individually and Collectively.

5.2.1 Correlation Analysis: Correlation analysis has been used for testing of hypotheses.

Table 5.2.1: Correlation coefficients of FDI and its determinants

	FDI	P value
GDP	0.911	0
IIP	0.852	0
REER	0.601	0.018
TO	0.817	0
CPI	0.581	0.023

The above table shows that the *p* value of all the variable are less than 0.05, $p < 0.05$, therefore the hypotheses set for these variables are rejected at 0.05 level of significance.
There is a strong positive correlation between FDI and GDP, FDI and IIP, FDI and TO, whereas a moderate positive correlation is found between FDI and REER; and FDI and CPI.

5.2.2: Regression Analysis: to further verify the relationship and to predict the FDI flows, regression analysis has been used.

Table 5.2.2: Regression Equations of FDI and its determinants

Dependent Variable	Equation	R square
FDI	- 946.226 + 0.37 (GDP)	0.830
FDI	- 977.670 + 12.470 (IIP)	0.727
FDI	- 5616.952 + 59.902 (REER)	0.362
FDI	- 1138.203 + 39.389 (TO)	0.668
FDI	- 110.686 + 109.838 (CPI)	0.337

The above regression equation evolved is of good fit and the r square values seems to be significant in explaining the variations in the dpendent variable FDI. Using the above equations, FDI inflows can be predicted with the help of independent variables.

5.2.3 Multiple regression analysis

Table 5.2.3: Multiple Regression Equation for FDI and its determinants

Dependent variable	Equation	R square
FDI	4599.723 + 0.032 (GDP) + 28.111 (IIP) – 59.080 (REER) – 48.328 (TO) - 88.624 (CPI)	0.902

In the above table R^2 = 0.902, which means the independent variables GDP, CPI, REER, TO, IIP can explain 90.2 % of the variations in the dependent variable which is FDI inflows. From the above equation, FDI can be predicted with the help of GDP, IIP, REER, TO and CPI.

6. SUMMARY OF FINDINGS AND SUGGESTIONS

6.1 Findings

- The Compounded Annual Growth Rate (CAGR) for FDI inflows is calculated to be 20.35%, which means FDI inflows have increased at the rate of 20.35% approximately year after year for the past fifteen years.
- The established trend line shows that the FDI inflows into India have an increasing trend indicating a positive future.
- Gross Domestic Product, Index of Industrial Production and Trade Openness have a very strong influence on the Foreign Direct Investment inflows. FDI inflows into India tend to increase when these variables increase and vice versa.
- Real Effective Exchange Rate and Inflation (CPI) hav a moderate influence on the Foreign Direct Investment inflows. They tend to move in the same direction.
- Simple linear Regression equation formulated for FDI and GDP, FDI and IIP, FDI and REER, FDI and TO, FDI and CPI are found to be of good fit to statistically significantly predict the FDI inflows.
- Multiple Linear Regression model formulated for dependent variable FDI and the independent variables (GDP, IIP, REER, TO, CPI) is found to be of good fit with R^2= 0.902, which means the independent variables can explain 90.2 % of the variations in

the dependent variable which is quite large. This model can be used to predict the FDI inflows when the other independent variables are known.

6.2 Suggestions

- India is expected to grow at 8.2% in the FY 2016-17 as per the forecast made by Asian Development Bank. The growth rate of GDP expected in the near future looks favourable for increasing the FDI inflows. The Government should ensure that the GDP of Indian economy grows as expected because it is found to be the major factor determining the FDI inflows.

- The policy decisions taken by the government should have a favourable effect on the exchange rates, inflation, trade openness, and the industrial production in order to increase the inward FDI flow into India.

- Government requires huge amount of funds to develop the infrastructure sector in India. This demand and supply gap of the financial requirements can be met by increasing the FDI inflows and by formulating policies that are FDI friendly.

- Initiatives like Make in India is a step towards attracting foreign capital, likewise Government should formulate constructive policies.

- Exchange rate of INR is found to influence the FDI inflows, therefore the policy makers should bring about policy changes to appreciate the INR which will lead to increased FDI inflows.

- The government should be prudent while pursuing policies and it should exercise stringent control over inefficient bureaucracy, red-tapism, and the widespread corruption, so that India can gain the investor’s confidence and attract more FDI inflows to India.

6.3 Conclusion

Foreign capital is considered to be a vital component for the economic growth of a developing country. Since 1990’s to this date the Government of India has eased its foreign capital policies and norms and many initiatives to attract foreign capital has been implemented. It is found that the FDI inflows have increased for the period under study and it exhibits an upward trend. FDI inflows of India were found to be influenced by the GDP, IIP, exchange rate, level of trade openness and the inflation rate of India.

The policy decisions taken by the government should have a favourable effect on the exchange rates, inflation, trade openness, gross domestic product and the industrial production in order to increase the inward FDI flow into India. Government requires huge amount of funds to develop the infrastructure sector in India. This demand and supply gap of the financial requirements can be met by increasing the FDI inflows and by formulating policies that are FDI friendly. Initiatives like Make in India is a step towards attracting foreign capital, likewise Government should formulate constructive policies. The government should be prudent while pursuing policies and it should exercise stringent control over inefficient bureaucracy, red-tapism, and the widespread corruption, so that India can gain the investor's confidence and attract more FDI inflows to India.

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