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AN ANALYSIS OF DETERMINANTS OF FDI IN INDIA

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Abstract

India is one of the fastest growing economies in the world . Being a developing economy, India aspires to achieve the goal of sustainable growth development. The development strategy to achieve this goal demands a very heavy investment in all major sectors of the economy . In this context , Foreign Direct Investment (FDI) as a powerful engine for economic plays its crucial role by contributing to capital formation , generating employment , enhance productive capacity , improving skills of the human resources , moreover providing many other benefits by integrating the domestic economy with rest of the world . Due to the financial liberalization , technological inventions and adoption of free market economy model by many countries in the world have resulted in huge FDI movements globally . In order to understand how FDI works, it is essential to look at determinants that a foreign investor would look at before investing. These factors vary not only between countries but also between different types of FDI. The present study is an attempt to determinants of FDI in India during 2010-2019 by applying regression model .

Keywords : *Foreign Direct Investment , Trade Openness , Market Size , Infrastructure , Inflation , GDP*

Introduction

India is one of the fastest growing economies in the world . Being a developing economy , India aspires to achieve the goal of sustainable growth development . The development strategy to achieve this goal demands a very heavy investment in all major sectors of the economy . In this context , Foreign Direct Investment (FDI) as a powerful engine for economic plays its crucial role by contributing to capital formation , generating employment , enhance productive capacity , improving skills of the human resources , moreover providing many other benefits by integrating the domestic economy with rest of the world .

Due to the financial liberalisation , technological inventions and adoption of free market economy model by many countries in the world have resulted in huge FDI movements globally . FDI crates a win – win situation to the host as well as to the home countries in form of advantage of the vast markets opened by industrial growth while host countries get benefited in the long term sustainable development enabled by the help of FDI.

In order to understand how FDI works, it is essential to look at determinants that a foreign investor would look at before investing. Many macroeconomic indicators are considered the major pull factors of FDI inflows in the economy. These factors vary not only between countries but also between different types of

FDI. The present study is an attempt to analyse the trends and determinants of FDI in India during 2010-2019.

Review of Literature

FDI has been a subject of academic study over and a plethora of research has been conducted in this area . There are numerous scientific theoretical and empirical research focusing on the determinants factors of FDI. The analysis of the theoretical rationale and existing literature also provides a base in choosing the right combination of explanatory variables that explains the variations in the flows of FDI in the country. An extensive review of literature has been conducted to find out the most crucial factors responsible for FDI inflows in India .

Studies with Indian Perspectives

Pasupathi.S, & Sakthi.V (2019) in their study "Recent Trends of Foreign Direct Investment in India and Its Impact on Economic Growth" conclude that Inward FDI gives long term benefits to the investing firm by enjoying the surplus profit generation and helps in overcoming the socio- economic problems of hosting nations like unemployment by generating employment opportunities, increases market competition , promotes technological development.

George Anupama and Rupashree R (2019) in their research " Forecast of Foreign Direct Investment Inflow (2019-2023) with reference to Indian Economy" state that the FDI inflow for the next five years doesn't show an increasing trend when compared to the previous years and is on a constant trend. Hence it can be concluded that the Government must take some special care in framing policies and procedures which would enable the investors of other nations to invest into our economy .

Sharma Anshul and Ali Farman(2019) in their study "Does Political Ideology Affect the Growth of Indian Economy? (A Factor of FDI and Make in India as a Structural Transformation)". Researchers attempt to check the effect make in India campaign, demonetization and GST Bill on various economic barometers like FDI, GDP, Trade openness and foreign exchange etc and also try to give some recommendations to the government on the basis of the findings so that the campaign may be continued with full of energy and improvement.

Kumar Devesh (2017) in his research paper " FDI in India : A Review (2010-2015)" examines important economic determinants of FDI inflow to India as revealed by various researchers. He concluded that FDI is immensely influenced by GDP, Export and Gross Domestic Capital Formation in India.

Minimol M.C. (2017) in his study "Do Macroeconomic Indicators Stimulate FDI Inflows in India?" finds that not all the explanatory variables considered in the model are statistically significant in explaining the behaviour of FDI. Study also reveals absence of short-run relationship among the macroeconomic indicators and FDI inflows in India.

Reddy B. Raghunatha. (2015) in his study " Recent Trends in Foreign Direct Investment (FDI) In India" states that the decade gone by would be considered as the golden period for foreign direct investment (FDI) in India. The paper concludes that the Government should design the FDI policy in such a way where FDI inflows can be utilized as means of enhancing domestic production, savings and exports .

Khan , Azeem Ahmad (2014) in his work "FDI Flows in Developing Countries: An Empirical Study" concluded that the cross border mergers and acquisitions have emerged as the single largest way of

integrating the world economies on the basis of investment done way back where they accounted majority of FDI flows.

Gulshan (2013) in his research paper "Inflows of FDI in India: Pre and Post Reform Period" states that during pre-liberalization period FDI has increased at Compounded Annual Growth Rate of 19.05% and during post liberalization period it has grown to 24.28%. This indicates that liberalization has had a positive impact on FDI inflows in India and since 1991 FDI inflows in India has increased approximately by more than 165 times.

Nilanjana (2013) in her paper " A Study of FDI in India" examines that the flow of equity in any previous year determines the flow in the next year. Researcher recommends that India should formulate policies which will diverse the threats and channel the benefits, so that the economy may prosper globally.

Sharmiladevi and Saifilali (2013) in their study "An Empirical Examination of the Determinants of Foreign Direct Investment in India" concludes that among the selected variables, export, index of industrial production, inflation shows statistically significant at 5 % level.

Anitha R. (2012) in her study on "Foreign Direct Investment and Economic Growth in India" concludes that the need to adopt innovative policies and good corporate governance practices at par with international standards, by the Government of India are important factors, to attract more and more foreign capital in various sectors of the economy.

Sahni (2012) in her work "Trends and Determinants of Foreign Direct Investment in India: An Empirical Investigation" states that GDP, inflation and trade openness were found to be 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.

Singh S.& Singh M. (2011), in their study "Trends and prospects of FDI in India" analysed the reasons behind the fluctuations of the FDI inflows in India and to search the cause that is responsible for the fluctuations in the trends of FDI.

Singh J. (2010) in his article "Economic Reforms and Foreign Direct Investment in India: Policy, Trends and Patterns" suggested that the FDI inflows, in general, show an increasing trend during the post-reform period. Furthermore, country-wise comparison of FDI inflow also indicates that FDI inflow into India has increased considerably in comparison to other developing economies in the recent years.

Banga Rashmi. (2009), in her paper "Impact of Government Policies and Investment Agreements on FDI Inflows" concludes that fiscal incentives do not have any significant impact on aggregate FDI, but removal of restrictions attracts aggregate FDI.

Bajpai and Sachs (2000) in their research paper "Foreign Direct Investment in India: Issues and Problem" attempt to identify the issues and problems associated with India's current FDI regime and more importantly the other associated factors responsible for India's unattractiveness as an investment location. They find that despite India offering a large domestic market, rule of law, low labour costs, and a well working democracy, her performance in attracting FDI flows has been far from satisfactory level.

Studies with Global Perspective

Xaypanya et al (2015) in their study " The determinants of foreign direct investment in ASEAN: The first differencing panel data analysis" observed that in Laos, Vietnam and Cambodia the FDI key factors are the infrastructure, the trade openness and the inflation while in other countries market size and the infrastructure were the major determinants of FDI .

Kinuthia and Murshed (2014) in their research " FDI Determinants: Kenya and Malaysia Compared" concludes that the FDI contributed to economic growth only in Malaysia because of the country's macroeconomic stability, trade openness, infrastructure facilities and institutional development.

Seyoum et al (2014) in their study " Foreign Direct Investment and Trade Openness in Sub-Saharan Economies: A Panel Data Granger Causality Analysis" reveal a bidirectional causal relationship between trade openness and foreign direct investment in Sub-Saharan economies. These countries should devote more emphasis for the promotion and attraction of FDI in order to expand their productive capacity to produce and export.

Tintin (2013) in his study "The determinants of foreign direct investment inflows in the Central and Eastern European Countries: The importance of institutions" revealed the positive and economically significant role of GDP size, trade openness, EU membership, and institutions (measured by economic freedoms, state fragility, political rights, and civil liberties indices) on FDI inflows. The results also reveal the existence of notable differences in the determinant factors across four investor countries.

Vijayakumar et al (2010) in their research " Dominants of FDI in BRICS Countries : A Panel Analysis" suggested that the determinant factors of FDI are the market size, the labour cost, the infrastructure, the currency value and the gross fixed capital formation.

Akinmulegun, Sunday Ojo (2012) in his research work "Foreign Direct Investment (FDI) Trends in Developing Nations: Nigeria Experience in a Globalization Era" reveals that there is an undulating terrain in the flows of FDI to developing nations, with Africa and Nigeria in particular assuming a low position in the comity of developing nations' share of FDI.

Jadhav (2012) in his research paper " Determinants of Foreign Direct Investment in BRICS Economies: Analysis of Economic, Institutional and Political Factors" explores the role of economic, institutional and political factors in attracting foreign direct investment (FDI) in BRICS (Brazil, Russia, India, China & South Africa) economy . The results indicate that market size, trade openness, natural resource availability, rule of law and voice and accountability are statistically significant.

Anwar and Cooray (2012) in their study "Financial Development, Political Rights, Civil Liberties and Economic Growth: Evidence from South Asia" concludes that financial development increases the benefits deriving from FDI. In addition, improvement in political rights and civil liberties has also enhanced the benefits of financial development in South Asia.

Narayanamurthy et al. (2010) in their work " Determinants of FDI in BRICS Countries: A Panel Analysis" concluded from the results of the study that the selected variables Market size, Labour cost, Infrastructure, Currency value and Gross Capital formation are important determinants of FDI inflows of BRICS countries in terms of their potential.

Vittorio Daniele and Ugo Marani (2007) in their study, "Do institutions matter for FDI? A Comparative analysis for the MENA countries" suggests that institutional and legal reform is fundamental steps to improve the attractiveness of MENA in terms of FDI.

Dunning John H. (2004) in his study "Institutional Reform, FDI and European Transition Economics" examines the critical role of the institutional environment (comprising both institutions and the strategies and policies of organizations relating to these institutions) in reducing the transaction costs of both domestic and cross border business activity.

Objectives of the Study

1 To study the trends of FDI inflows in India.

2 To analyse the major determinants of FDI in India.

3 To suggest measures to increase FDI inflows in India.

Research Methodology

The study is based on secondary data. The major source of data is the government website of Department for promotion of Industry and Internal Trade (dipp.gov.in) . Data have also been collected from economic surveys of India and Ministry of Commerce and Industry, RBI bulletins, online data base of Indian economy, journals, and World Investment Reports and from websites of World Bank, WTO, IMF, RBI, UNCTAD etc. Asian Development Outlook, Country Reports on Economic Policy and Trade Practice- Bureau of Economic and Business Affairs, U.S. Department of State and from websites of EXIM Bank etc. have also been referred to collect the required information.

Research has been conducted on secondary data for the time period of year 2000 to 2019. Data has been used up to 2019 only to avoid the distorted results due to covid impact.

In order to make analysis of the collected data, percentage and statistical tools such as Measures of dispersion (Standard Deviation) , correlation , regression have been used .

Relevant econometric tests such as coefficient of determination R^2, Durbin – Watson [D-W] statistic, Standard error of coefficients, Statistics and F- ratio were carried out in order to assess the relative significance, desirability and reliability of model estimation parameters.

Trends of FDI inflow in India – 2000-2019

The following table shows the FDI Inflows in India from 2000-2019:

Amount in million

Financial Year (Apr-Mar)	***Amount of FDI Equity Inflows***	***Amount of FDI Equity Inflows***	***%age growth over the previous year***
in Rupees Crore	***in Rupees Crore***	***in US$ million***	
2000-01	10,733	2,463	-
2001-02	18,654	4,065	(+) 65 %
2002-03	12,871	2,705	(-) 33 %
2003-04	10,064	2,188	(-) 19 %
2004-05	14,653	3,219	(+) 47 %

2005-06	24,584	5,540	(+) 72 %
2006-07	56,390	12,492	(+)125 %
2007-08	98,642	24,575	(+) 97 %
2008-09	142,829	31,396	(+) 28 %
2009-10	123,120	25,834	(-) 18 %
2010-11	97,320	21,383	(-) 17 %
2011-12	165,146	35,121	(+) 64 %
2012-13	121,907	22,423	(-) 36 %
2013-14	147,518	24,299	(+) 8%
2014-15	189,107	30,931	(+) 27%
2015-16	262,322	40,001	(+) 29%
2016-17	291,696	43,478	(+) 9%
2017-18	288,889	44,857	(+) 3%
2018-19	309,867	44,366	(-) 1%
CUMULATIVE TOTAL	**2,378,353**	**420,021**	**-**

Source: Department for Promotion of Industry and Internal Trade (DIPP)

It is evident from the table that the total cumulative amount of FDI in India which was just US $ 2460 million in 2000-01 grew to US $ 420,021 million in 2018-19 . This can be viewed as a very good performance on this front. The Indian economy has started attracting a good amount of FDI after 2004. Before 2004 the FDI flow was almost stagnant. From the above data we can also analyse that during the period of global financial crisis, 2008-2010, there was a significant decrease in the flow of FDI in most of the countries but this decline of FDI in India was relatively moderate in absolute term reflecting robust equity flows on the back of strong rebound in domestic growth ahead of Global recovery and steady reinvested earnings reflecting better profitability of foreign companies in India.

Table shows that in 2006-07 and 2007-08 the growth rate of FDI has been significantly high in comparison to previous year, 125 and 97 per cent respectively. It is a bumper increase and is highest in any years under the study . Though the Indian Economy was showing signs of slowing down but foreign investors were sold on the country's growth story. No doubt that It has been a reflection of the confidence that foreign investors have in the India growth story.

This excellent performance in terms of FDI can be attributed to several underlying factors namely trade and exchange liberalisation, current account convertibility, emphasis on private sector led development, liberalisation of the investment regime, opening up of infrastructure and services to the private sector - both domestic and foreign, and above all the interest of foreign investors in the energy and telecommunication sector. After 1995, India's foreign investment policy was largely influenced by the Uruguay Agreement of 1995 wherein foreign firms could no longer be treated on less favourable terms. Also, the revolution in the communications sector created a whole new set of businesses which were classified as 'industries' in terms of FDI regulations.

Determinants of FDI in India

However, in order to understand how FDI works, it is essential to look at determinants that a foreign investor would look at before investing. Macroeconomic indicators of an economy are considered as the major pull factors of FDI inflows to a country. Empirical studies have been conducted to explain the determinants of FDI within a host country 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. The analysis of the theoretical rationale and existing literature also provides a base in choosing the right combination of explanatory variables that explains the variations in the flows of FDI in the country. In order to have the best combination of explanatory variables for the determinants of FDI inflows into India, different alternatives combination of variables were identified and then estimated, which have been mentioned below.

Major determinants of FDI are as follows:

- Market Size
- Openness to Trade
- Labour cost
- Infrastructure of the host country
- Capital Formation in the host country
- Foreign Exchange Reserves of the country
- Research and Development in the host country
- Stability in the host country

Market Size

One determinant of FDI is the market size and growth potential in the host country. An increase in market size shows that there is enormous demand for products and services. In addition to this, economies of scale are present in the host country, therefore providing lower transaction costs, which is an attractive proposition for FDI. Market size is generally measured by Gross Domestic Product (GDP), GDP per capita income and size of the middle-class population. It is expected to be a positive and significant determinant of FDI flows. In this context it is relevant to state that India has been one of the fastest growing countries in the world.

Trade Openness

The ‘openness’ of the host country is an important determinant of FDI as it is easier to import raw materials and capital goods, which are necessary for investment. Numerous empirical studies suggest that trade (imports and exports) complements rather than substitutes for FDI. Openness is generally expected to be a positive and significant determinant of FDI. Trade openness is proxies as the ratio of the Export plus Import divided by GDP.

India’s trade as a % of GDP has increased dramatically since the trade reforms took place in 1991. It has been the outcome of liberalised trade policy formulated by government with intention to attract more and more FDI inflow. The following graph shows the trends of trade openness in India since 2000:

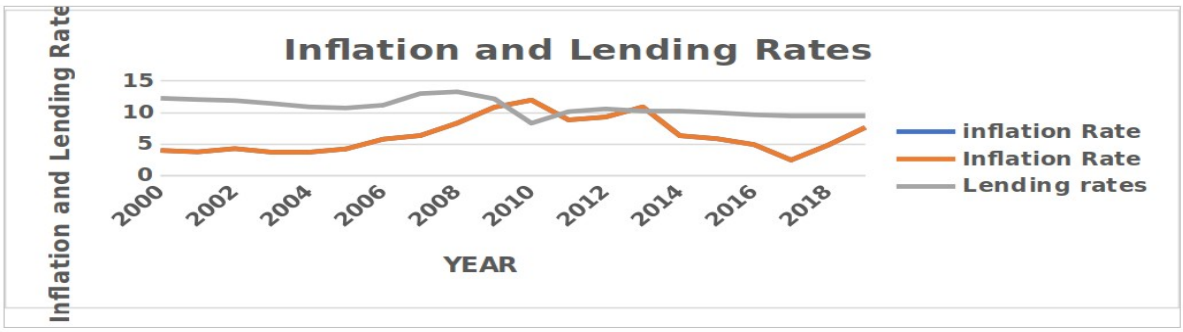
Trends of Trade Openness in India

Source : World Bank

Economics and Political Stability

There is no concrete evidence to suggest that the relationship between political instability and FDI is risky for MNCs when investing in foreign markets. Economic stability is also one of the important factor determining FDI flow in the country. Iinterest rates are critical determinants of foreign direct investment. A high **inflation rate** also impacts capital preservation of **foreign investment**. It affects profitability as higher prices can lead to increased costs and lower profits. So, stable **inflation rate** is desirable to attract foreign capital

Trends of Inflation and Lending Rates in India



The graph shows that since 2000, lending rates in India have been declined drastically, 12.29 per cent in 2000 to 9.47 in 2019 which resulted in low cost of capital for FDI investors thereby increasing their profitability continuously. Though inflation rate has been fluctuating, but except few years, in has been moving between the ranges of 4-8 percent which is also encouraging for foreigner investors.

Labour Cost

Labour costs and productivity will also have an impact on whether MNCs invest in a foreign country. Higher wages in the host country tend to discourage FDI. However, when cost of labour is not of the utmost importance, the productivity and skills of the labour force are expected to have an impact on decisions about whether FDI is a viable solution. The availability of educated and skilled labour at a low cost is a factor as to why many MNCs decide to enter the Indian market to conduct their business. Labour cost can be provided by wage rate.

The data shows that wages in India are very low and have increased very gradually and slowly offering competitive advantage in terms of cheaper cost of production. This is one of the important
reasons why more and more multinationals prefer to investing India to get this advantage . Minimum wages

Source: Economic Survey (Various Issues)

Infrastructure

Infrastructure is another key factor that is important in determining the impact of FDI. FDI inflows will increase within a country if infrastructure is preserved and maintained continuously. India has made it a key priority to build world-class infrastructure in order to provide better conditions to promote FDI .Over the last few years , numerous projects have taken place in order to provide better infrastructure such as railway lines, public roads, irrigation and technology in order to keep up with the rest of world.

So the chance of positive effect of infrastructure facility on FDI inflow cannot be denied. The following graph and data show spending on infrastructure in Indi as a percentage of GDP:

Source : RBI

Though infrastructure spending in India has increased but still it is very low in comparison to other developing countries. It is just 4.2 percent of GDP at present while this value is in double digits in many developing countries. To invest hugely in infrastructure is a pre requisite for domestic as well as foreign investment . Though government has allocated more resources for the development of infrastructure in India in recent budget but still a lot has to be done in this direction.

Capital Formation

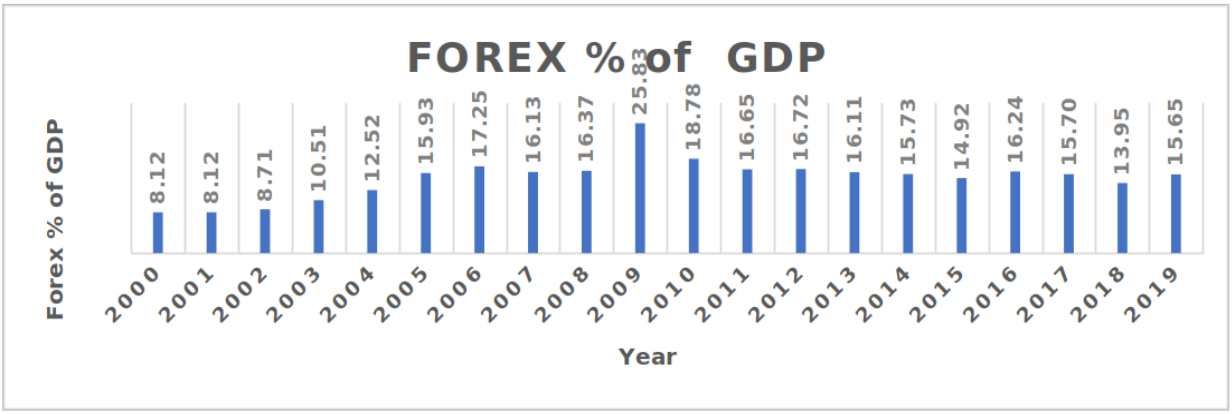
Higher Gross capital formation leads to greater economic growth which is result of improvements in the investment climate which further helps to attract higher FDI inflows.

Source : RBI

The graph shows that there has been a significant increase in gross capital formation in India . Total Value of gross capital formation in India which was as low as Rs 542682 crores in 2000 increased to Rs 5269522 crores in 2019. This continuous increase in gross capital formation has pulled a huge amount of FDI in India .

Foreign Exchange Reserves

Financial position refers to Foreign Exchange position in the host country which also acts as an determining factor for FDI . To provide confidence to foreign investors, the central bank uses foreign reserves as leverage. It assures the investors that their investments will be protected.

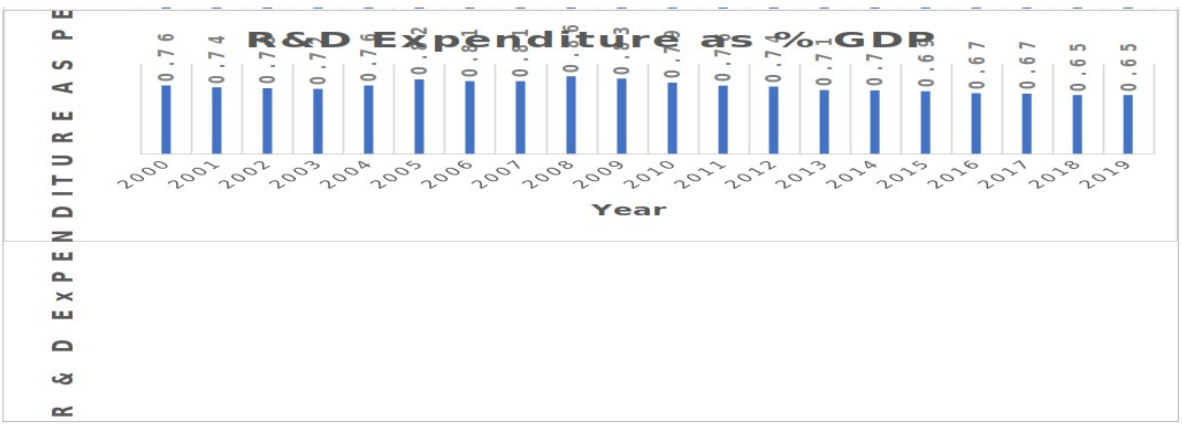


Source : RBI

This graph revels that Forex as a percentage of GDP have increased significantly in India since 2000 which was as low as 8.12 percent of GDP stood at 15.65 in 2019 almost doubled in the a period of 20 years .

Research and Development in Host Country

While FDI inflow leads to absorption and diffusion of foreign technology through the up gradation of local skills, a host country's levels of human capital and R&D determine the level of FDI it attracts.



Source : Economic Survey (Various Issues)

This data show that India allocates very negligible resources towards & D expenditure. On an average just 0.6 percent of GDP is spent on R & D which cannot be considered satisfactory. There is an urgent need to pay attention to this issue as more R & D expenditure enhances competitiveness of the economy leading to long term sustainable development.

Model Specification and Regression Analysis

Based on above discussion the present study applies the multiple regression method to find out the explanatory variables of the FDI inflows in the country. The stepwise regression analysis has been carried out in two steps. In the first step, all possible variables which may determine FDI are taken into consideration in the estimable model. Based on the literature review, this study reckons a set of potential determinant variables that influence the FDI inflows and classify as mentioned below. The dependent variables in the model is FDI inflow (current USD) and the independent variables that are expected to determine FDI flows are carefully chosen, based on previous literature and availability of dataset for the selected period. The independent variables in this estimation are:

- GDP (in current US$)
- Inflation
- Labour Cost
- Infrastructure
- Trade Openness
- Gross Capital Formation
- Research and Development
- Interest Rate
- Foreign Exchange Reserves

There are following nine hypotheses in terms of determinants of FDI :

H1: Larger market size of the host country attracts more FDI.

H2: Stable macroeconomic condition with high and sustained growth rates attract FDI to the host country.

H3: More liberal policies and trade facilities presents opportunity for FDI to come to the hosting country.

H4: An established and advance infrastructure facility of the host country provides great platform for investment and leads to greater FDI inflow.

H5: Lower labour cost in the host country pulls FDI to the country.

H6: High Gross capital formation shows the potential of the country for spending and thus has a significant impact on FDI inflow.

H7: More spending on R & D by the host country leads to higher inflows of FDI.
H8: Higher interest rate in host country discourages FDI inflow.
H9: Higher value of Forex attracts more FDI in the country.
On the basis of theses hypothesis regression model can be formulated as below:
FDI = f (market size, economic stability and growth prospect, labour cost, infrastructure, trade openness, gross capital formation, research & development expenditure , rate of interest and foreign exchange reserves .)
Equation (1) can be changed into mathematical form model:
FDIt = α +β1 GDPt + β2 INFLt + β3 WAGE t + β4 INFRA t + β5 TRAO t + β7 GCF t + β7 RDGDP t + β8 $INTEREST_t$ + + β9 $FOREXGDP_t$ + e t (2)
Where,
FDIt is the inflow of Foreign Direct Investment (in current US$) for country the at time t.
GDPt is the Gross Domestic Product in current US$ for country at time t and is the measure of market size.
INFLt is the Inflation Rate (Annual percent) for country at time t, which is the measures of Growth prospects and economic stability of country.
WAGEt is the minimum for country at time t and is the measure of Labour cost.
INFRAit is the Infrastructure Spending in country at time t.
TRAOt is the Trade Openness for country i at time t and is computed as ratio of import of Goods and Services plus Export of Goods and Services divided by GDP.
GCFt is gross capital formation for country at time t.
RDGD t is Research & Development Expenditure as a percentage of GDP
$INTEREST_t$ is the lending rate in the economy.
$FOREXGDP_t$ is the foreign exchange reserves of the country as a percentage of GDP at the time period t, it is the error term over the time t.
After applying regression equation on these variables through SPSS , in the first stage , it was found that certain independent variable had a very high degree of correlation , thus creating a problem of multi collinearity . Accordingly, in the second phases theses variables are dropped to avoid the problem of multi-collinearity and thus final variables selected are as below .

- GDP (Proxy for Market Size)
- Labour Cost
- Foreign Exchange Reserves
- Infrastructure Spending

Empirical Results

The empirical results obtained are acceptable and significant on the basis of R-squared (R2) and Adjusted R-squared values. Almost multi-co linearity problem has been removed by dropping some collinear variables during regression analysis and the Durbin Watson Statistics is 2 or very near to 2, which shows no autocorrelation problem as well.
Result obtained by using SPSS is show below:

Coefficients

	B	Std. Error	t	Sig.	Co linearity Statistics	
					Tolerance	VIF
(Constant)	-17.669	4.206	-4.201	0.001		
GDP$billion	0.008*	0.003	2.417	0.029	0.135	7.403

MINIMUM WAGE	0.03**	-0.006	4.689	0	0.928	1.077
FOREX %GDP	1.034**	0.282	3.667	0.002	0.746	1.341
INFRA % OF GDP	5.735*	2.635	2.177	0.046	0.148	6.744

Dependent Variable: FDI $ billion
R^2 = 0. 944 Adjusted R^2= 0.930

D-W Statistic = 1.825,

* - Significant at 5% level
** - Significant at 1% level

The results of the table show that one of the important variables is market size (GDP proxy for market size) which positively affects the FDI at one percent level of significance. The value of regression coefficient is .008 with positive sign .This is the main reasons that most of the multinationals see India as a very lucrative market leading to economies of scale. Thus providing an opportunity to foreign investors to reap the benefit of large scale and maximise profits. The empirical result revealed that large market permits the exploitation of economies of scale which is likely to increase the attractiveness of FDI vis-à-vis alternative forms of internalization.

Wage rate has also been found significant determinant of FDI at one percent level of significance with negative sign . Value of regression coefficient is - 0.006 which means that means that lower wages in the country leads to more inward FDI. Foreign exchange reserves were found significant at 5 percent level. Higher level of foreign exchange reserves boosts the confidence of foreign investors by increasing the credibility of the country at global level.

This study also found that the impact of infrastructure is positively significant at five percent level. The effects of infrastructure facilities are positively significant in explaining inflow of FDI.
Due to problem of multi-co linearity others variable such as gross capital formation, inflation, are dropped from the model as the predictors of FDI inflow. But this does not mean that they are not important. They might not be significant statistically in a mathematical model but they are equally important to determine FDI inflow in the country. Management authorities of the country need to ensure that all these variables because these all are the key factors for potential investors in making investment choices.

Conclusion

In a nutshell, 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.
Indeed, India needs a business environment which is conducive to the needs of business. As foreign investors doesn't look for fiscal concessions or special incentives but they are more of a mind in having access to a consolidated document that specified official procedures, rules and regulations, clearance, and opportunities in India.

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