Determinates of Foreign Direct Investment: An Empirical Study on India

Sourabh Singha Roy * Prachuab Trinikornb

*Faculty of Business Administration, St. Theresa International College, Thailand, Bangkok.
bLecturer, International Business, Faculty of Business Administration, St. Theresa International College, Bangkok, Thailand,
*sourabh.sroy@gmail.com, bptrinikorn@gmail.com

Article History: Received: 10 November 2020; Revised 12 January 2021 Accepted: 27 January 2021; Published online: 5 April 2021

Abstract: Now a days, Foreign Direct Investment (FDI) is a buzz word for the developing countries not only to strengthen their Balance of Payment (BOP) account but also to accelerate overall economic growth of the countries. It also helps to generate employment in the country with new knowledge and knowhow. Naturally, it is very important for the policy makers of the respective countries to identify the key determinants which attracts more FDI and fine tune their policies to take comparative advantage in the competitive world. In this study the researchers tried to identify the important determinants of inflow FDI in Indian context. It is observed that some prominent determinants are existing to attract more FDI. However, government policies and restrictions are impediments to such inflow and these are regarded as moderating variables in this study. The statistical result also shows that services sectors and computer hardware and software are the significant areas where determinants of Foreign Direct Investment (FDI) inflows in Indian economy growth

Keywords: FDI, Indian Economy, Determinants

1. Introduction

Foreign Direct Investment (FDI) has been playing a significant role in the Indian Economy with respect to flows of capitals and to recover their economy from the severe debt crisis. A Foreign Direct Investment (FDI) is an investment made by a foreign company in the form of controlling ownership of business entity based in India. One of the major momentary sources for economic development in India, where foreign companies invest directly fast growing private Indian Businesses to reap the benefits of cheaper wages and changing dimension of business. Apart from the critical driver of economy growth, the Foreign Direct Investment (FDI) has a major non-debt financial resources for the economic development in India. India is one of the richest countries in the world with respect to natural resources, climates and environment.

Foreign Direct Investment (FDI) takes advantage of all these resources and expertise and performance. In December 2020, the Indian government agreed to provide Samsung display Noida Pvt. It is limited by the special incentive to set up Mobile and IT production units under the central government system. A central government scheme to promote the production of electronics and semiconductors (SPECS), Samsung will also receive a financial incentive of Rs. 460Crore (US62.61 Million). The Samsung project is being rolled out worldwide and will help the government attract more foreign investment (FDI) to India.

Home-based direct (DTH) services have been approved by the trade union cabinet which enables 100% Investment Direct Foreign (FDI) in DTH broadcasting and communications activities. There are some very important factors such as market size, openness, infrastructure, and investment recovery, actual labor costs, and integration, exchange rate, political risk, government incentives. An important role of all this in terms of direct investment (FDI) tends to grow rapidly in the Indian economy. The Government of India has provided 100% Foreign Direct Investment (FDI) under the automatic law for all activities / sectors under the required Government approval.

India’s economy is developing rapidly and attracting Foreign Direct Investment (FDI) to boost their domestic value for investment and acquire new technologies and management skills. The promotion of Foreign Direct Investment (FDI) is an important part of the ongoing economic transformation in India. Most of the approaches to attracting foreign direct investment (FDI), due to the indicators that make up foreign investment policy to ensure that various measures aimed at promoting Foreign Investment (FDI) are needed and will lead to increased investment by Nitti Sury (2008).

2. Literature Review

Vijay Kumar, Narayana murthy (2010) examined the factors determining Foreign Direct Investment (FDI) inflows in BRICS countries. The researcher investigated the determinant of Foreign Direct Investment (FDI) such
as currency value, infrastructure, market size, resources and roads, transports etc. The researcher examined that Foreign Direct Investment (FDI) seeks policy related determinant GDP, growth rate, trade openness, freedom in ex, and results shows the positive association for economic determinants. Ping Zheng (2009) explored the Foreign Direct Investment (FDI) in India and China and identify the determinants of FDI inflows from home countries to worldwide. The results statistics shows that market growth rate, labour costs, and country political risk a and policy are the significant determinant in both countries.

Shiba Shankar Pattayat (2016) highlighted the determinant factors of Foreign Direct Investment (FDI) which are more effective with respect to economy growth, the determinants give the flexibility to the countries for Foreign Direct Investment (FDI), the researcher defined the dependent variable and FDI, trade openness and exchange are independents variables. This research study is based on time series data which are collected from various sources like IMF, RBI etc. The result shows that there are a significant relationship between dependent variable and FDI, trade openness and exchange are independents variables. Chidlow, Agnieszka and Young, Stephen (2008) emphasized the location determinant of inflows of Foreign Direct Investment (FDI) using multinomial logic model and incorporating the investors specific characterises. The results statistics shows that knowledge seeking factors are the significant towards Foreign Direct Investment (FDI) beyond the locations determinants.

Javeria Maryam, Ashok Mittal, (2020) identified factors for determining foreign direct investment (FDI) in BRICS countries using an annual database. The researcher compared the trends and overall factors that have a significant impact on Foreign Direct Investment (FDI) in BRICS countries. During the study the researcher found that the Index of industrial production, total domestic production, foreign exchange rates (FOREX) had a significant impact on Direct Investment (FDI) in the Indian economy. Vinit Ranjan, Dr. Gaurav Agrawal (2011) examined Foreign Direct Investment (FDI) in the Indian economy, the researcher used a random approach to incorporate Foreign Direct Investment (FDI) indirect investment into the Indian economy. Statistical analysis shows that market size, business openness, labor costs, and infrastructure are the key factors in direct foreign direct investment (FDI) in the Indian economy with a view to greater economic stability and the prospect of growth.

Sharma, R. and Kautish, P. (2020) argue that the entry of Foreign Direct Investment (FDI) has a significant impact on individual earnings, final spending, global trade index and Foreign Direct Investment (FDI) exchange rate. The researcher used a nonlinear auto regressive distributed with a lag bind frame and an unknown structural break. Outcome statistics show that the development of Foreign Direct Investment (FDI) in per capita income, personal consumption costs, global index and monetary value in relation to trading partners. Das, K.C. and Banik, N. (2015) have raised incentives for direct investment (FDI) and its overseas investment decisions to seek markets, resources, strategies, efficiency and exports. The high external volume in relation to direct investment (FDI) has dynamic implications for investing in Indian markets. Indian firms have been found to invest overseas in terms of resources, technology and efficiency.

Tripathi, V. and Thukral, S. (2018) have emphasized the framework of the Foreign Investment Program (FDI) in the Indian economy by building a three-tier framework that resides in the flaws of the holding market. Parental debt support by an Indian parent in relation to the development of a high-risk credit market. Nayyar, R. (2018) proposed a framework for determining direct foreign direct investment (FDI) from India. The combination of theoretical framework debate and strong studies shows that foreign direct (Invest Direct Investment (FDI)) such as market size, natural resources, infrastructure, roads, logistics and other available resources to establish industries in Indian markets have a significant impact on Foreign Direct Investment (FDI) Indian economy.

Adhikary, B.K. (2017) investigated the macroeconomics determinants of Foreign Direct Investment (FDI) in India economy. The researcher pointed out the determinants of Foreign Direct Investment (FDI) such as market size, natural resources, roads, and transports are playing significant role to establish Industries in India. Foreign Direct Investment (FDI) determinants have a negative correlation FDI and market size. The researcher emphasized that other factors such as infrastructure, domestic investments, lending rates, exchange rate, inflations and financial stability are the significant and positive correlation with Foreign Direct Investment (FDI) in Indian Economy growth. Quer, D. et.al. (2017) emphasized that Foreign Direct Investment (FDI) emerging economy determined the locations patterns behavioural of MNE less conventional for the organization which are facing institutional obstacles in the host countries. The researcher emphasized that Foreign Direct Investment (FDI) determinants are affected by political risk and cultural distance.

Singhania, M. and Gupta, A. (2011) examined the determined of Foreign Direct Investment (FDI) in Indian economy growth, the macroeconomy variables such as GDP, inflation rate, interest, patents, money growth and foreign trade are find the best suite model (ARIMA) to define the significant of Foreign Direct Investment (FDI) in Indian economy growth. Ramasamy, M et.al. (2017) investigated the Foreign Direct Investment (FDI) and its
factors which are significant to growth in Indian economy. The researcher emphasized that Foreign Direct Investment (FDI) determinants affects are based on regional productivity performance. The results statistics shows that research and development, technology, imports, human capital, and various specification of Foreign Direct Investment (FDI) have significant impact on Indian economy growth rate.

Kumari, R. and Sharma, A.K. (2017) argued that Foreign Direct Investment (FDI) shortcuts such as market size, business openness, infrastructure, inflation, interest rate, research and development, the human capital had a major impact on the Indian economy. The researcher used an appropriate model based on Houman’s experiment and found that Foreign Direct Investment (FDI) entities had positive coefficients in relation to the entry of Foreign Direct Investment (FDI) development panel by Arte, P. and Barron, A. (2016) proposed an international INV process from India and contributed to the dissemination of firm conduct under certain conditions. The researcher developed a research framework for analysing INV s from India.

Maniam, B. and Chatterjee, A. (1998) focused on the changing the attitude of Indian Government about Foreign Direct Investment (FDI) in Indian economy growth, the researcher identify the factors and its significant impact in Indian economy, during the research study the researcher found that Foreign Direct Investment (FDI) factors are significant to invest in Indian economy. Kumar, V. and Gaur, A.S. (2007) investigating the international patterns to invest in Indian economy inflows - Foreign Direct Investment (FDI). The researcher stated that the determinants of Foreign Direct Investment (FDI) such as market size, financial stability, infrastructure, and financial inclusion playing a significant role in Indian economy - Foreign Direct Investment (FDI).

Avioutskii, V. and Tens out, M. (2020) focused on the exploration of potential markets of Foreign Direct Investment (FDI) in Indian economy growth. The researcher investigated the structural factors and affects the locations choice of Indian MNE. The possible configuration of determinants of Foreign Direct Investment (FDI) in Indian economy growth such as market size, infrastructure, economy stability and others factors like as market seeking and knowledge seeking have a significant impact on Indian Economy. Verma, R. and Brennan, L. (2011) focused on the country specific level of Foreign Direct Investment (FDI) in Indian economy. The researcher identify the factors which are significant towards Foreign Direct Investment (FDI) in Indian economy growth. This research study is descriptive and empirical by nature to ascertain the relevance of Foreign Direct Investment (FDI) in Indian economy.

Pradhan, J.P. and Das, K. (2015) examined the subnational regional dimension of exports by small and medium sub ranges Industries - Foreign Direct Investment (FDI) inflows in Indian economy. The researcher focused on the emerging economies or rising powers and developed a conceptual framework and Foreign Direct Investment (FDI) India's economic entry Khachoo, Q. and Sharma, R. (2017) analyzed the impact of Foreign Direct Investment (FDI) entry into the Indian economy in research and behavioural development of firms in both domestic and foreign companies operating in the Indian manufacturing sector. During the research the researcher found that foreign exchange (FDI) inflows into the Indian economy - the development of research and production has a huge impact.

Malik, MH. and Velan, N. (2016) focused on Indian Information Technology approaches and business process management systems (IT-BPM) and analyzed software and service components that play a key role in the entry of Foreign Direct Investment (FDI) into the Indian economy. This study is based on the annual data collected from the various national organizations of software and services companies and the electronic and information technology department. During the study the researcher found that styles and patterns are important variables for foreign direct investment (FDI) in India’s economic growth.

The researcher analyzes an important gap between direct investment (FDI) decisions such as value for money, infrastructure, market size, resources and roads, transportation etc. By Vijay Kumar, Narayana murthy (2010) Ping Zheng (2009) explores Foreign Direct Investment (FDI) in India and China and identifies FDI imports from domestic to global countries. Shiba Shankar Pattayat (2016) highlighted the direct investment (FDI) determinants that work best in terms of economic growth, Javeria Maryam, Ashok Mittal. (2020) identified factors for determining foreign direct investment (FDI) in BRICS countries using an annual database.

Vinit Ranjan, Dr. Gaurav Agrawal (2011) examined Foreign Direct Investment (FDI) in the Indian economy, the researcher used a random approach to incorporate Foreign Direct Investment (FDI) indirect investment into the Indian economy. Sharma, R. and Kautish, P. (2020) argue that the entry of Foreign Direct Investment (FDI) has a significant impact on each captain's salary, final use, global index and exchange rate for Foreign Direct Investment (FDI), in Pradhan, JP and Das, K. (2015) examined the size of the regional exports of small and medium-sized industries Industry - Foreign Direct Investment (FDI) in the Indian economy.
3. Problem Statement And Research Objectives

The Indian Government’s favourable policy regime and robust business environment has ensured that foreign capital keeps flowing into the country. The Government has taken many initiatives in recent years such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others. There are number of determinants of foreign direct investment (FDI) inflows which are directly affected to the Indian economy. In this research study the researcher stated that some of the significant research issues and objectives

1. To study the determinants of foreign direct investment (FDI) inflows in Indian economy and its significant impact.
2. To study the impact of FDI on service sector of India.

4. Formulation Of Hypothesis

The researcher formulated the minor hypothesis which is stated as “determinants of foreign direct investment (FDI) inflows have positive significant impact on Indian economy”.

5. Proposed Framework Of Research Study

![Fig.1.1: Conceptual Framework of Research Study](image)

Independents Variables: Identification of Determinants:

1. Market Size
2. Economy stability
3. Infrastructure availability
4. Trade openness
5. Political Stability

Dependents Variables:

1. Foreign Direct Investment (FDI) Inflows in Indian Economy.
2. Efficiency and stability

Moderating Variables:

The researcher identify the moderating parameters on determinants of Foreign Direct Investment (FDI) inflows in Indian economy growth.

1. Government Policies / Constraints
2. Barriers/Obstacles

The Indian government relaxed the rules and regulations time to time to attract Foreign Direct Investment (FDI) inflows for accelerating economic growth of the country. The researcher pointed out the other factors...
obstacle and barriers which are creating problems and disrupting Foreign Direct Investment (FDI) inflows in Indian economic growth rate.

6. Research Design And Methods

This research paper is based on primary and secondary data which are collected from various research journals, books, internet web portals, and other resources. Whereas primary data are collected through the structured questionnaire using the Likert scale measuring unit. This research study is empirical and descriptive by nature where data analysis is presented. The researcher developed a conceptual model to establish a relationship between determinants of Foreign Direct Investment (FDI) inflows and Indian economy growth. The researcher used the IB-SPSS software tools for data compilations and interpretation. The determinants of Foreign Direct Investment (FDI) in Indian economy growth, such market size, economic stability, natural resources, infrastructure facilities, trade openness, and political stability are formulated and identify Foreign Direct Investment (FDI) inflows in Indian economy. The variables in this study are obtained from existing information and gathered from the statistic database for the time period of the study FDI inflows Distribution India FY 2020 by sector.

The researcher used the KMO and Bartlett’s Test to test the hypothesis, statistical analysis to measure the Mean, Media, first, third quartile and outliers. The statistics show that service sectors and computer hardware and software are the most significant sector for FDI inflows in Indian Economy.

7. Results And Discussion

<table>
<thead>
<tr>
<th>Table 1.2: Communalities</th>
<th>Initial</th>
<th>Extraction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Size</td>
<td>1.000</td>
<td>.518</td>
</tr>
<tr>
<td>Economic Instability</td>
<td>1.000</td>
<td>.688</td>
</tr>
<tr>
<td>Natural Resource Availability</td>
<td>1.000</td>
<td>.843</td>
</tr>
<tr>
<td>Infrastructure Facilities</td>
<td>1.000</td>
<td>.878</td>
</tr>
<tr>
<td>Trade Openness</td>
<td>1.000</td>
<td>.915</td>
</tr>
<tr>
<td>Institutional Stability</td>
<td>1.000</td>
<td>.845</td>
</tr>
<tr>
<td>Political Stability</td>
<td>1.000</td>
<td>.725</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.

The above data analysis report is showing the Foreign Direct Investment (FDI) inflows in Indian economy growth in between 2000 to 2017 with respect to different sectors. This statistical analysis report shows the max and min value of an investment that varies in between mean and median value. The researcher also calculated the first quartile and third quartile, which shows the statistical analysis report of 25% to 75%. The statistical analysis report showing that in 2017 the Foreign Direct Investment (FDI) inflows in Indian economy growth were high.

<table>
<thead>
<tr>
<th>Table 1.3: Total Variance Explained</th>
<th>Initial Eigenvalues</th>
<th>Extraction Sums of Squared Loadings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Component</td>
<td>Total</td>
<td>% of Variance</td>
</tr>
<tr>
<td>1</td>
<td>5.420</td>
<td>77.431</td>
</tr>
<tr>
<td>2</td>
<td>7.444</td>
<td>10.631</td>
</tr>
<tr>
<td>3</td>
<td>3.26</td>
<td>4.654</td>
</tr>
<tr>
<td>4</td>
<td>2.06</td>
<td>2.937</td>
</tr>
<tr>
<td>5</td>
<td>1.60</td>
<td>2.287</td>
</tr>
<tr>
<td>6</td>
<td>1.04</td>
<td>1.479</td>
</tr>
<tr>
<td>7</td>
<td>.41</td>
<td>81</td>
</tr>
</tbody>
</table>

Extraction Method: Principal Component Analysis.
Fig. 1.4: Statistics of Determinants of Inflows in Indian Economy Growth

Table 1.4: KMO and Bartlett’s Test

<table>
<thead>
<tr>
<th>Kaiser-Meyer-Olkin Measure of Sampling Adequacy</th>
<th>.873</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bartlett’s Test of Sphericity</td>
<td></td>
</tr>
<tr>
<td>Approx. Chi-Square</td>
<td>825.158</td>
</tr>
<tr>
<td>df</td>
<td>21</td>
</tr>
<tr>
<td>Sig.</td>
<td>.000</td>
</tr>
</tbody>
</table>

Inference

The above data analysis report is compiled by SPSS software at 0.0 significant levels on Market Size, Economic Instability, Natural Resource Availability, Infrastructure, Facilities, Trade Openness, and Institutional Stability, Political Stability find out the significant impact on Foreign Direct Investment (FDI) inflows in Indian economy growth. The probability of statistics P-value 0.000 which is very less than 0.05 significant levels, so the null assumption is rejected and the result is significant. The researcher concluded that the determinants such as Market Size, Economic Instability, Natural Resource Availability, Infrastructure, Facilities, Trade Openness, and Institutional Stability, Political Stability are having a significant impact on Foreign Direct Investment (FDI) inflows in Indian economy growth (Table 1.4).

Source: Statista - Table 1.1: FDI inflows Distribution India FY 2020 by sector

<table>
<thead>
<tr>
<th>Sectors</th>
<th>FDI Amount in Billion Indian Rupees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Service Sectors</td>
<td>554.29</td>
</tr>
<tr>
<td>Computer HW and Software</td>
<td>542.5</td>
</tr>
<tr>
<td>Trading</td>
<td>324.06</td>
</tr>
<tr>
<td>Telecommunications</td>
<td>309.4</td>
</tr>
<tr>
<td>Hotel and Tourism</td>
<td>210.6</td>
</tr>
<tr>
<td>Automobiles Industry</td>
<td>197.53</td>
</tr>
<tr>
<td>Infrastructure Activity</td>
<td>145.1</td>
</tr>
</tbody>
</table>
Determinates of Foreign Direct Investment: An Empirical Study on India

<table>
<thead>
<tr>
<th>Chemicals</th>
<th>74.92</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constructions Development</td>
<td>43.5</td>
</tr>
<tr>
<td>Drugs and Pharmaceuticals</td>
<td>36.5</td>
</tr>
</tbody>
</table>

The above data analysis report is showing that Service Sectors 554.29, Computer HW and Software 542.5, Trading 324.06, Telecommunications 309.4, Hotel and Tourism 210.6, Automobiles Industry 197.53, Infrastructure Activity 145.1, Chemicals 74.92, Constructions Development 43.5, Drugs and Pharmaceuticals 36.5, FDI inflows Amount in Billion Indian Rupees. The statistics/statistical analysis shows that service sectors and computer hardware and software services are having a high significant sector for Foreign Direct Investment (FDI) inflows in Indian economy growth. For more accuracy the researcher collected data at determinants level, such as Market Size, Economic Instability, Natural Resource Availability, Infrastructure, Facilities, Trade Openness, and Institutional Stability, Political Stability find out the significant impact on Foreign Direct Investment (FDI) inflows in Indian economy growth.

Limitation Of The Research Study

The research study is only limited to determinants such as Market Size, Economic Instability, Natural Resource Availability, Infrastructure, Facilities, Trade Openness, and Institutional Stability, Political Stability on Foreign Direct Investment (FDI) inflows in Indian economy growth. The researcher found that there are numbers of other determinants which are also playing one of the significant role for Foreign Direct Investment (FDI) inflows in Indian economy growth. The researcher stated some of the limitations of this research study:

1. The researcher didn’t cover the all dimension of Foreign Direct Investment (FDI) determinants.
2. The researcher used the small amount of data which does not shows the interpretation of entire datasets.

Future Scope Of Research Study

In this research study the research emphasized on determinants such as Market Size, Economic Instability, Natural Resource Availability, Infrastructure, Facilities, Trade Openness, and Institutional Stability, Political Stability which is playing a significant Foreign Direct Investment (FDI) inflows in Indian economy growth. During the research study, the researcher analyzed that these all determinants are the catalyst to enhance the Foreign Direct Investment (FDI) inflows in Indian economy growth. The researcher recommended future scope of research study, which are stated as:

1. Use predictive analysis to find out accuracy and significant of FDI determinants,
2. Identify the motivational factors about Foreign Direct Investment (FDI) and its determinants

Apart from the above future scope of research study, the researcher pointed out political stability and cultural value of any countries is one of the major concerns of Foreign Direct Investment (FDI) determinants inflows in Indian economy growth.
8. Conclusion

In this research paper the researcher emphasized that the determinants of Foreign Direct Investment (FDI) such as market size, economic instability, natural resources availability, infrastructure facilities, and trade openness, political stability are having significant impact towards Indian economy growth. The researcher developed a conceptual framework of research study which shows the significant impact of determinants of Foreign Direct Investment (FDI) on Indian economy growth in different sectors and established a relationship between dependents and independents variables. The researcher found that service sectors, computer hardware and software are the significant areas of Foreign Direct Investment (FDI) inflows in Indian economy. The statistical analysis shows that determinants of Foreign Direct Investment (FDI) are more affective/prominent on service sector and computer hardware and software services, where as other sectors are having very less impact in Indian economy growth. So, government should frame attractive policies towards inviting more FDI on other sectors as well, such as agricultural and industrial sector.

References


