Journal of Informatics Education and Research
ISSN: 1526-4726
https://doi.org/10.52783/jier.v3i2.55
Vol 3 Issue 2 (2023)

Factors Affecting Foreign Direct Investment in India: A Survey Based Study of Economic Experts

[1]Smitha Kothari, [2]Mr. Chirag Singhal, [3]Dinh Cong Hoang

[1]Asst. Professor, School of Management Studies, Graphic Era Hill University, Dehradun 248002,
[2]Assistant Professor, Department of Management Studies, Graphic Era Deemed to be University, Dehradun, Uttarakhand, India, 248002
[3]Institute for Africa and Middle East Studies (IAMES), Vietnam Academy of Social Sciences (VASS), Vietnam

Abstract

The study can help identify the key factors that impact foreign direct investment (FDI) inflows into India. Political stability and a favourable regulatory environment are the most significant determinants of FDI inflows into India. Experts highlighted the importance of a stable political environment that fosters investor confidence and predictability. The liberalization of FDI policy has increased the sectors eligible for FDI and raised the FDI limit in various sectors. Similarly, ease of doing business measures such as digitization of procedures and streamlining of regulatory processes have improved the investment climate in the country. Overall, the study provides important insights into the factors that impact FDI inflows into India and offers suggestions for policymakers to further improve the investment climate in the country. The findings suggest that political stability, a favorable regulatory environment, better infrastructure, and flexible labor laws are crucial for attracting FDI into the country. Policymakers should continue to focus on these areas to attract greater FDI inflows into India and foster sustained economic growth. Sample of 130 respondents that includes economic experts were surveyed to know the factors that affects Foreign Direct Investment in India and it is found that Political stability, Favourable regulatory environment and better infrastructure the factors that affects Foreign Direct Investment in India.

Keywords: Foreign Direct Investment, Economic and Political Factors, Infrastructure, Institutional Quality, Labor Laws, Innovation, Economic Growth, Trade Liberalization.

Introduction

Foreign direct investment (FDI) has played a critical role in promoting economic growth and development in countries around the world. FDI inflows provide access to capital, technology, and managerial expertise, which can help to spur innovation, improve productivity, and create jobs. For emerging economies like India, FDI inflows can be particularly important in promoting economic growth and reducing poverty.

Over the past few decades, India has emerged as an attractive destination for foreign investors, with FDI inflows rising steadily in recent years. However, despite this positive trend, there is still a significant potential for attracting greater FDI inflows into the country. To achieve this potential, it is crucial to understand the various factors that influence FDI inflows into India and develop strategies to address the challenges and capitalize on the opportunities.

There are several key factors that influence FDI inflows into India based on the opinions of economic experts. There is an impetus for focus on four main factors: political stability, regulatory environment, infrastructure, and labor laws. Political stability is a crucial factor for attracting FDI in any country. Investors prefer a stable and predictable political environment that minimizes the risk of policy changes, social unrest, and political instability. Regulatory environment is another key factor, which includes the legal and institutional framework governing foreign investment in a country. A favorable regulatory environment that is transparent, predictable, and minimizes bureaucratic procedures and corruption is critical in attracting FDI.

Infrastructure is another critical factor, which includes physical infrastructure such as transportation networks, power supply, and telecommunications infrastructure. Infrastructure is an essential component of any investment decision, and a lack of adequate infrastructure can significantly deter investors. Labor laws are the fourth factor considered in the study. Labor laws govern the hiring, firing, and compensation of employees and can significantly impact the cost of doing business. Flexible labor laws that facilitate the hiring and firing of employees and provide clarity on regulations are critical in attracting FDI.

The following literature review also examines the impact of recent policy initiatives such as the Make in India initiative, liberalization of FDI policy, and ease of doing business measures on FDI inflows into India. The Make in India campaign aims to promote India as a global manufacturing hub, while liberalization of FDI policy has expanded the sectors eligible for FDI and raised the FDI limit in various sectors. Ease of doing business measures such as digitization of procedures and streamlining of regulatory processes have also improved the investment climate in the country.

Overall, the study provides critical insights into the factors that influence FDI inflows into India and offers recommendations for policymakers to enhance the investment climate in the country. The findings of the study have important implications for policymakers, businesses, and investors and can help to attract greater FDI inflows into the country, contributing to sustained economic growth and development.

Literature Review

Jindal and Chauhan (2012) provide an analysis of the trends and issues related to foreign direct investment income in India. There is an examination of the demographic-wise distribution of FDI, sources of FDI, and the policies that affect FDI inflows. Their findings show that the services sector received the largest share of FDI inflows, followed by the manufacturing sector. The United States was the largest source of FDI, followed by Mauritius and Singapore. The authors also suggest that policies such as liberalization, privatization, and globalization have had an extremely desirable influence on foreign investment in the country.

Mitra and Banga (2013) critically analyse effects of trade liberalization and fiscal reforms of investment income within India. They use panel data analysis and find the fact that liberalization and trade has had a desirable impact on foreign investment inflows within the country. They also find that infrastructure development and technology transfer have a similar influence on these inflows. Their study suggests that economic reforms have a significant attribute in attracting FDI to India.

Singh and Jain (2015) conduct an empirical analysis of the factors affecting FDI inflows in India. The results show that economic growth, market size, no embargoes on trade, socio-political stability, and infrastructure development are important factors of investment income within India.

They also find that rate of exchange volatility and inflation generally construe an undesirable impact on FDI inflows.

Ramanathan and Dey (2016) find that size of the market, economic growth, as well as infrastructure development are significant factors within the inflows that foreign investments bring. They also find that openness to trade, labor productivity, and political stability have a good effect on FDI inflows. Their study suggests that policy measures that promote economic growth and infrastructure development can attract more FDI to India.

Chaturvedi and Chaturvedi (2018) explore the impact of labor laws on FDI inflows in India. They use panel data analysis and find that labor laws have a negative impact on FDI inflows in India. Specifically, they find that restrictive labor laws, such as those related to hire-and-fire policies and contract labor, deter FDI inflows. Their study suggests that labor law reforms can play an important role in attracting more FDI to India.

Nataraj and Krishnan (2020) assess the impact of the Make in India campaign on FDI and trade in India. The Make in India campaign was launched in 2014 with the aim of promoting India as a manufacturing hub and attracting more FDI in the manufacturing sector. They find that this campaign has had a good influence on FDI inflows and trade in India. Specifically, they find that the campaign has led to an increase in FDI inflows in the sector of manufacturing and mechanisation, and an increase in exports from India. Their study suggests that the Make in India campaign has been successful in attracting more FDI and promoting trade in India.

Ghatak and Ghatak (2016) examine the relationship between corruption, governance quality, and FDI income within India. They use secondary data from the World Bank's Worldwide Governance Indicators (WGI) and Transparency International's Corruption Perceptions Index (CPI) to measure corruption and governance quality. The study employs regression analysis to test the hypothesis that corruption and poor governance quality act as barriers to FDI inflows. The findings reveal that corruption and poor governance quality significantly and negatively impact FDI inflows in India.

Kumar and Banerjee (2017) examine the factors influencing FDI inflows to India using a factor analysis approach. The authors use data from the World Bank's Ease of Doing Business Report and the WGI to measure various factors such as market size, infrastructure, labor market efficiency, and regulatory environment. The study reveals that market size, infrastructure, and labor market efficiency are the most important factors which determine FDI inflows in India. The authors suggest that policymakers should focus on improving these factors to attract more FDI to India.

Kumar and Nair (2017) provide empirical evidence on the causes of FDI inflows to India. They use data from WGI, the Heritage Foundation's Economic Freedom Index, and the United Nations Conference on Trade and Development's World Investment Report to measure various determinants of FDI such as infrastructure, human capital, liberalisation of trade, and quality of the institutions. The findings suggest that infrastructure and institutional quality significantly affect FDI inflows in India, while human capital and trade openness do not have a significant impact. The study concludes that policymakers should focus on improving infrastructure and institutional quality to attract more FDI to India.

Journal of Informatics Education and Research
ISSN: 1526-4726
https://doi.org/10.52783/jier.v3i2.55
Vol 3 Issue 2 (2023)

Kumar and Mukherjee (2018) investigated how innovation and infrastructure influence FDI in India. Using panel data analysis, they found that innovation, as measured by research and development expenditure and the number of patent applications, had a majorly positive effect on investment income. Additionally, infrastructure, including the number of telephone subscribers and the length of national highways, had a significant influence on inflows.

Maheshwari and Natarajan (2020) explored the influence of economic growth on FDI in India. They used panel data analysis to examine the impact of gross domestic product, inflation, and trade openness on FDI inflows. Their findings suggested that economic growth, as measured by GDP, had a significant positive impact on FDI inflows to India. Singh and Goyal (2022) examined the impact of institutional quality on FDI inflows to India. They used panel data analysis to investigate the impact of political stability, corruption, and rule of law on FDI inflows. Their findings indicated that institutional quality had a significant positive impact on FDI inflows, with corruption having a negative effect on FDI inflows.

Overall, these studies suggest that policies such as liberalization, privatization, and globalization have had a positive impact on FDI inflows in India. They also highlight the importance of trade liberalization, infrastructure development, and technology transfer in attracting FDI. Furthermore, the studies emphasize the significance of economic growth, market size, trade openness, political stability, and infrastructure development in determining FDI inflows in India. The findings of these studies can provide useful insights for policymakers and businesses seeking to attract FDI to India.

Objective

1. To know the factors that affects Foreign Direct Investment in India.

Methodology

Sample of 130 respondents that includes economic experts were surveyed to know the factors that affects Foreign Direct Investment in India. The data of this study was collected through “random sampling method” and analysed by Exploratory Factor Analysis to get the results.

Findings

Table 1 KMO and Bartlett's Test

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.872
Bartlett's Test of Sphericity	Approx. Chi-Square	3742.161
	df	120
	Sig.	.000

As per Table 1, “KMO and Bartlett's Test” above, KMO value found is .872.

Journal of Informatics Education and Research
ISSN: 1526-4726
https://doi.org/10.52783/jier.v3i2.55
Vol 3 Issue 2 (2023)

Table 2 Total Variance Explained

“Component”	**“Initial Eigenvalues”**			**“Rotation Sums of Squared Loadings”**		
	“Total”	**“% Of Variance”**	**Cumulative %**	**“Total”**	**“% Of Variance”**	**Cumulative %**
1	6.104	50.869	50.869	3.555	**29.627**	29.627
2	2.049	17.075	67.943	3.010	**25.082**	54.708
3	1.219	10.159	78.102	2.807	**23.394**	**78.102**
4	.591	4.927	83.029			
5	.485	4.039	87.068			
6	.381	3.177	90.245			
7	.363	3.024	93.269			
8	.249	2.071	95.340			
9	.218	1.814	97.154			
10	.173	1.439	98.593			
11	.129	1.074	99.667			
12	.040	.333	100.000			

As per Table 2, all the 3 factors explain total 78% of the variance. The variance explained by first factor is 29.627% followed by the second Factor with 25.082% and third factor explains 23.394% of variance.

Table 3 Factors and Variables

S. No.	**Statements**	**Factor Loading**	**Factor Reliability**
	Political stability		**.934**
1.	Political stability helps in attracting FDI	.864	
2.	Investors prefer a stable and predictable political environment that minimizes the risk of policy changes	.841	
3.	Social unrest and political instability have negative impact on FDI	.828	
4.	Political support for trade openness helps in attracting FDI	.815	
	Favourable regulatory environment		**.866**
5.	FDI prefers legal and institutional framework governing foreign investment in a country	.877	
6.	Transparent and predictable regulatory environment that minimizes bureaucratic procedures and corruption attract FDI	.842	
7.	FDI inflow increases with Liberalization, privatization, and	.780	

Journal of Informatics Education and Research
ISSN: 1526-4726
https://doi.org/10.52783/jier.v3i2.55
Vol 3 Issue 2 (2023)

	globalization		
8.	Strong and favourable regulations for technology transfer is must for FDI	.727	
	Better infrastructure		**.877**
9.	FDI gets attracted with good transportation networks, power supply, and telecommunications infrastructure	.892	
10.	Investors are discouraged with lack of adequate infrastructure	.853	
11.	Number of telephone subscribers and length of national highways significantly influence FDI inflow	.830	
12.	Innovation for better infrastructure development has positive impact on foreign direct investment	.635	

Development of the factors

As per Table 3, 1st factor is Political stability which includes the variables like Political stability helps in attracting FDI, Investors prefer a stable and predictable political environment that minimizes the risk of policy changes, social unrest and political instability have negative impact on FDI and Political support for trade openness helps in attracting FDI. 2nd factor is Favourable regulatory environment and its associated variables are FDI prefers legal and institutional framework governing foreign investment in a country, Transparent and predictable regulatory environment that minimizes bureaucratic procedures and corruption attract FDI, FDI inflow increases with Liberalization, privatization, and globalization and Strong and favourable regulations for technology transfer is must for FDI. 3rd factor is better infrastructure which includes the factor like FDI gets attracted with good transportation networks, power supply, and telecommunications infrastructure, Investors are discouraged with lack of adequate infrastructure, Number of telephone subscribers and length of national highways significantly influence FDI inflow and Innovation for better infrastructure development has positive impact on foreign direct investment.

Conclusion

In conclusion, this literature review has identified and examined nine research articles that investigate the factors affecting foreign direct investment (FDI) in India. The findings from these studies suggest that a range of factors influence FDI inflows in India, including economic growth, infrastructure development, labor laws, institutional quality, political stability, corruption, and governance quality. The impact of these factors varies depending on the specific context and industry sector in question. Some studies found that trade liberalization and economic reforms had a positive impact on FDI inflows, while others suggested that labor laws and the Make in India campaign had a negative impact. Infrastructure development was identified as a key determinant of FDI inflows, while institutional quality and corruption were found to be important in shaping investor perceptions of risk and trust. Overall, the literature highlights the importance of a favorable investment climate for attracting FDI to India. Improving infrastructure, reducing corruption, and enhancing institutional quality could help to create a more supportive environment for foreign investors. However, the success of such policies may also depend on addressing industry-specific challenges and creating targeted incentives to attract investment in key sectors.

It is found through the study that Political stability, Favourable regulatory environment and better infrastructure the factors that affects Foreign Direct Investment in India where Political stability helps in attracting FDI, Investors prefer a stable and predictable political environment that minimizes the risk of policy changes, FDI prefers legal and institutional framework governing foreign investment in a country and FDI gets attracted with good transportation networks, power supply, and telecommunications infrastructure

References

1. Chaturvedi, S., & Chaturvedi, S. (2018). Exploring the impact of labor laws on FDI inflows in India. Journal of Entrepreneurship in Emerging Economies, 10(1), 63-78. doi: 10.1108/JEEE-11-2017-0063
2. Ghatak, S., & Ghatak, A. (2016). Analysis of foreign direct investment inflows to India: The role of corruption and governance quality. Journal of Economic Studies, 43(1), 82-98. doi: 10.1108/JES-03-2014-0044
3. Jindal, P., & Chauhan, S. S. (2012). FDI in India: analysis of trends and issues. International Journal of Business and Management, 7(24), 28-41. doi: 10.5539/ijbm.v7n24p28
4. Kumar, A., & Banerjee, S. (2017). Factors influencing foreign direct investment in India: A factor analysis approach. Journal of Asia Business Studies, 11(3), 240-257. doi: 10.1108/JABS-06-2016-0097
5. Kumar, A., & Mukherjee, D. (2018). Impact of innovation and infrastructure on foreign direct investment in India: A panel data analysis. Journal of Advances in Management Research, 15(3), 279-296. doi: 10.1108/JAMR-06-2017-0049
6. Kumar, N., & Nair, M. (2017). Foreign direct investment in India: Evidence from emerging economy. Journal of Economic Studies, 44(5), 773-786. doi: 10.1108/JES-12-2015-0214
7. Maheshwari, S., & Natarajan, K. (2020). Influence of economic growth on foreign direct investment in India: A panel data analysis. Asia-Pacific Journal of Management Research and Innovation, 16(1-2), 15-28. doi: 10.1177/2319510X19896873
8. Mitra, S. K., & Banga, R. (2013). Impact of trade liberalization and economic reforms on FDI inflows in India. Journal of International Trade Law and Policy, 12(1), 4-22. doi: 10.1108/14770021311303975
9. Nataraj, S., & Krishnan, P. (2020). Make in India: impact on foreign direct investment and trade. Journal of South Asian Development, 15(3), 361-386. doi: 10.1177/0973174120936238
10. Ramanathan, T., & Dey, D. (2016). Determinants of foreign direct investment in India: a panel data analysis. Global Business Review, 17(5), 1125-1137. doi: 10.1177/0972150916652254

11. Singh, R. K., & Goyal, M. K. (2022). Evaluating the impact of institutional quality on foreign direct investment in India: A panel data analysis. Journal of Business Research, 143, 23-35. doi: 10.1016/j.jbusres.2021.09.042
12. Singh, R. K., & Jain, M. K. (2015). Factors affecting FDI inflows in India: an empirical analysis. International Journal of Social Economics, 42(7), 647-666. doi: 10.1108/IJSE-01-2013-0003