

Emerging Horizons in Business Management

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Foreword

Business organisations play an important role in the country's journey from developing to developed nation. For surviving in emerging market economies and volatile business environment, the organisations have to innovate and redesign their growth models and strategies. The new acronym 'First Develop India' for FDI and 'Make in India' campaign reflect the expectations of the new government from Indian companies and B-Schools, and heralds a new chapter in Indian Economy.

The Industries are looking at leading business schools of the country for expert advice for redesigning innovative business strategies in the current economic scenario. The conferences/seminars organised by B-Schools are one of the important academic activities as it provides a common platform to leading practitioners, policy makers, administrators, academicians and researchers to discuss contemporary issues of business management and economics confronting the industries and suggesting ways to deal with new business challenges. HSB has practice to organise such conferences regularly.

I congratulate HSB Faculty for organising its 7th Annual National Conference on Business and Management on February 12-13, 2015. The book titled "Emerging Horizons in Business Management" edited by Prof. Subhash C. Kundu, Prof. Usha Arora, Dr. Tika Rani and Dr. Khujan Singh presents selected articles contributed by different authors from different parts of the country is significant outcome of the conference for which they deserve appreciation and best wishes.

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Determinants of Foreign Direct Investment in India: A Regression Analysis

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ABSTRACT

This study examines the various socio-economic determinants of foreign direct investment (FDI) inflows in India during the study period ranging from 1991-92 to 2011-12. Log linear regression model has been used for drawing results. The study results revealed that trade openness, stable macro-economic condition, internal interest rate and exchange rate are the significant determinants while market size and infrastructure are insignificant determinants of FDI inflows in India. To enhance more FDI inflows in India, the government must ensure economic and political stability, curtail external debt and fiscal deficit along with equal importance to appropriate monetary, fiscal and foreign direct investment policy.

Keywords: TNCs, FDI, IIP, S4ARC, Variance Inflation Factor

INTRODUCTION

Over the past half a century, perceptions of investors about Foreign Direct Investment (FDI) has undergone several changes. In the 1960s, FDI was seen in most of the nations as a best partner of development endeavors. However, the scenario has changed from the close of the decade when Transnational Corporations (TNCs), the main vehicles for FDI, were viewed as agents that undermined the sovereignty of different provinces. It is generally acknowledged that FDI produces economic benefits to the recipient countries in terms of capital, foreign exchange, technology, competition and by enhancing access to foreign markets (Crespo and Fontura, 2007). FDI also plays significant role in achieving rapid economic growth in the developing countries by bridging the gap between domestic savings and investment and to import the latest technology and management know-how from developed countries (Khondoker and Mottaleb, 2007).

Given the increased volume of FDI flows around the world over the past decade and the belief of potential benefits of FDI on growth and development, understanding the factors that affect the FDI inflows has gained importance. Most researches on country-specific (host country) determinant factors of FDI address natural resource availability, political stability, infrastructure development,

labour market condition, market accession, Intellectual Property Right (IPR) protection, corruption, exchange rate and volatility of exchange rate, interest rate, regulatory framework of the country on repatriation of capital and remittance of profit as main factors affecting FDI inflow.

To sum up, policy variables such as corporate tax rates, tax concessions, tariffs and other fiscal and financial investment incentives had a significant effect on FDI in a number of studies and should thus be considered as potentially key determinants of FDI. This study is an attempt to address the gap in literature by providing empirical support through exploration.

REVIEW OF LITERATURE

To accomplish the research activity in a scientific way, systematic review of literature is highly significant and essential because it furnishes relatively inclusive information relating to the research problem and provides clear understanding to define objectives of the research study in a good manner. A substantial amount of empirical studies have been conducted on the factors determining FDI. This section focuses on the macro-economic variables that affect FDI inflows into India and the past studies provide an explorative view of these variables.

As the cursory review of FDI literature indicates that most of the empirical studies in this area have concentrated on assessing the determinants that induce multinational corporations (MNCs) to invest in a foreign country. Previous empirical studies on the determinants of FDI in less developed countries have emphasized the role of economic environment and liberalization policies in the host countries to attract foreign investment. In early empirical studies analyzed the FDI were, Basi (1966), Koide (1968) and Wilkins (1970), whereas FDI in Australia was examined by Brash (1966), FDI in New Zealand by Deane (1970), FDI in Scotland by Forsyth (1972). These studies focused on variety of factors including marketing factors, trade barriers, costs factors and investment climate. The consensus is that marketing factors, in particular, market size, market growth and maintaining market share but also dissatisfaction with existing market arrangements were the main determinants of FDI. However, cost factors, especially the availability of labour and raw material, lower production costs and financial inducements by the government, were seen as equally important variables of FDI.

Caves (1971) examined the relative production costs, technology, trade and barriers are the determinants of FDI. Recently, researches of international foreign investment e.g. Jeon and Rhee (2008), Maniam (2007), Skabic and Orlic (2007) and Rodriguez and Pallas (2008) explained that the determinants of FDI like market size, labour costs, labour skills, openness risk, macroeconomic and political stability.

Lucas (1993) examined the determinants of FDI flows in seven East and Southeast Asian economies and FDI inflows were found less elastic with respect to the costs of capital than to wages and more elastic with respect to aggregate demand in export markets than domestic demand. Chen et al. (1995) study found a positive relationship between FDI and Gross National Product (GNP).

Liu et al. (1997) observed that relative market size (measured by GDP) and cultural differences were two significant determinants of FDI in China.

Billington (1999) analyzed and found that market size, variables (income and growth), unemployment, level of host country imports and certain policy variables (corporate tax and interest rates) were significant determinants of location for FDI at country level. At regional level, population density, unit labour costs and unemployment (again positive) were the most influential variables. Asiedu (2002) study found that openness, return on investment and GDP as proxy variable for market size, are significant variables whereas infrastructure and political risk found insignificant variables for FDI inflow to host countries. Campos and Kinoshita (2003) studied the determinants of FDI inflows in 25 transition countries of Central Europe and in the former Soviet Union for the period 1990-1998. The results showed that for Commonwealth of Independent States (CIS) countries, natural resources, economic reforms, infrastructure, institutions and quality of bureaucracy whereas for non-CIS countries, agglomeration, economic reforms, institutions and quality of bureaucracy were the main determinants of FDI inflows.

Naeem and Azam (2005) study found market size, domestic investment, trade openness, indirect taxes, inflation and external debt were the main economic determinants of FDI inflows in Pakistan. Vita and Kyaw (2008) study results indicate that domestic productivity growth is the dominant determinant for FDI inflows. Jajri (2009) study examined the influence of FDI on the growth of Malaysia for the period 1970-2003. The study found that FDI had significant influence on the growth rate of the Malaysian economy. The results of the FDI determinants model, firstly, revealed the existence of a long-run relationship between FDI and the variables involved; and secondly, that GDP, exchange rate, public development expenditure, openness of the economy and labour cost had a direct impact on FDI.

Zheng (2009) results suggested that economic growth, market growth, exports, imports, labour costs, country political risk and policy liberalization were the significant determinants for both countries FDI. However, imports, market size, and borrowing costs were important to China's FDI, while transaction costs (like geographical and cultural distance factors) were important to India's FDI for foreign investors. Pradhan and Saha (2011) examined the determinants of FDI in seven South Asian Association for Regional Cooperation (SAARC) countries over the period 1980-2010. The study found that FDI was largely influenced by economic growth, exchange rate, inflation, labour population, trade balance, current account balance and long-term debt outstanding. The impact of economic growth and exchange rate was bi-directional, while the other factors were uni-directional on FDI inflows.

Singla (2011) examined the determinants of FDI inflows in India from 1993 to 2010 by using correlation and multiple regression analysis. The findings revealed that FDI inflows depend on stock market, index of industrial production (IIP), GDP and foreign institutional investors (FIIs) net investment. On the other hand, exchange rate and foreign exchange reserves do not have any significant effect on FDI inflows in India.

■ OBJECTIVE AND METHODOLOGY OF THE STUDY

The present study is an attempt to study the determinants i.e. socio-economic variables of FDI inflows in India. To validate the results, the following hypotheses have been designed.

H₁: Larger market size and higher market growth of the host country attracts more FDI inflows.

H₂: Higher trade openness attracts FDI to the host country positively.

H₃: An advanced and well established infrastructure position of the host economy provides great platform for investment and leads to greater FDI inflows.

H₄: Stable macro-economic condition attracts FDI to the host country.

H₅: FDI in India is negatively related to increase in internal interest rate.

H₆: FDI in India is positively related to the relative depreciation of its currency vis-à-vis the US\$.

The present study is based on secondary time series data ranging from 1991 to 2011 i.e. 20 years. Further, the study period is sub-divided into four parts and each part consists of five years to make comparison of time series data. Data used in this study have been collected from Economy Survey of India (various issues), Annual Reports of RBI (various issues), World Investment Report (various issues), and Handbook of Statistics on Indian Economy (2011), World Development Indicators 2011, Secretariat for Industrial Assistance (newsletters and fact sheets). For the purpose of analysis, simple average, percentage to point, annual percentage change in comparison to previous year and linear multiple regression models have been used. For presentation of data, tables are used.

The variables selected for the present study have been decided by taking into consideration the relationship and significance of the variables in the context of the Indian economy and the availability of adequate data to enable the process of undertaking an empirical study. An econometric model is planned to study the role of various macroeconomic determinants in FDI inflows into India. The study undertakes regression analysis and determines if there is a way to predict the FDI inflows using the defined variables as far as the future is concerned. This will help in testing whether a positive or a negative relationship holds true between the selected variables and FDI inflows. Multiple regression in the most widely used statistical technique to analyze the relationship between a single dependent variable and several independent variables (Hair et al., 2005). In the econometric model, FDI is considered as dependent variable and a host of other macroeconomic (socio-economic, political and natural) variables are considered as independent variables. There are many studies and literature to signify the importance of each of the selected independent variables in determining the inflow of FDI in host economy. Based on the hypothesis posed, the study uses multivariate regression model constructed as follows:

Regression Analysis (Model Framed)

The model states that FDI is a function of the market growth measured by GDP growth rate of the host country, trade openness and infrastructure facilities, inflation rate and exchange rate (Table 1).

FDI = f (GDP per capita, GDP growth rate, Trade Openness, Infrastructure, Inflation, Interest rate and Exchange rate)

The above model has been changed into logarithmic form by using log-linear model:

$$\text{FDI} = \alpha + \beta_1 \text{GDP_GR} + \beta_2 \text{TR_OPEN} + \beta_3 \text{INFRA} + \beta_4 \text{INF_R} + \beta_5 \text{INT_R} + \beta_6 \text{LEX_R} + \varepsilon_t$$

Where:

FDI = Foreign Direct Investment (unit \$ million)

GDP_GR = Gross Domestic Product growth rate (proxy used for market growth), (unit annual percentage change)

TR_OPEN = Trade Openness (calculated as Sum of Imports and Exports as percentage of GDP used as proxy (unit per cent)

INFRA = Infrastructure (Telephone lines per 100 people used as proxy)

INF_R = Inflation rate to capture macroeconomic stability of Indian economy and calculated as percentage change in CPI (unit per cent)

LEX_R = Log of exchange rate (unit \$/Rs annual average)

ε_t = error term over the time t .

α = Intercept term

β_1 = Vector of coefficients

In the above model, the variable of GDP per capita used as a proxy for market size is excluded due to the problem of multicollinearity among the variables selected. The exchange rate variable is converted into logarithm form to make the data normal.

ANALYSIS AND INTERPRETATION

Table 1 presents the coefficient of correlation between FDI inflows (dependent variable) and GDP per capita, GDP growth rate, trade openness, infrastructure, inflation, interest rate and exchange rate (independent variables) during 1991-2010. The table also reveals the coefficient of correlations among the determinants. The p -values of the corresponding correlation coefficients for each variable are also given in the table. The second column of table presents the coefficient of correlations and the corresponding p -values between FDI inflows and the variables under consideration with their significant level at 1 per cent, 5 per cent and 10 per cent.

The second column exhibits the relationship between FDI inflows and GDP per capita, between FDI inflows and trade openness, between FDI inflows and interest rate and between FDI inflows and exchange rate is negative and all coefficients are highly statistically insignificant. Accordingly, the correlation coefficient between FDI inflows and GDP per capita is -0.168; between FDI inflows and trade openness is -0.131; between FDI inflows and interest rate is -0.214 and between FDI inflows and exchange rate is -0.160. The second column also shows the correlation coefficient between FDI

inflows and GDP growth rate, between FDI inflows and infrastructure and between FDI inflows and inflation is positive and statistically significant at 5 per cent level except inflation which is not significant. Therefore, the correlation coefficient between FDI inflows and GDP growth rate is 0.454; between FDI inflows and infrastructure is 0.408 and between FDI inflows and inflation is 0.043.

The third column shows that the coefficient of correlation between GDP per capita and GDP growth rate is 0.192, between GDP per capita and trade openness is 0.999, between GDP per capita and infrastructure is 0.056, between GDP per capita and inflation is 0.267, between GDP per capita and interest rate is -0.494 and between GDP per capita and exchange rate is 1.0. All the independent variables are positive except interest rate; trade openness, interest rate and exchange rate variables are statistically significant at 1 per cent level, whereas GDP growth rate, infrastructure and inflation variables are found insignificant.

The fourth column reveals that the correlation coefficient between GDP growth rate and trade openness is 0.220 and between GDP growth rate and infrastructure is 0.476, between GDP growth rate and inflation is -0.127, between GDP growth rate and interest rate is -0.269 and between GDP growth rate and exchange rate is -0.20. The trade openness variable is positive and found insignificant; infrastructure variable is positive and found significant at 5 per cent level; inflation rate, interest rate and exchange rate variables are negative and found insignificant.

The fifth column shows that the correlation coefficient between trade openness and infrastructure is 0.093, between trade openness and inflation is 0.253, between trade openness and interest rate is -0.506 and between trade openness and exchange rate is 0.999. It is found that all the variables are positive except interest rate and only interest rate and exchange rate variables are significant at 1 per cent level. Infrastructure and inflation variables are found insignificant. The sixth column reveals that the correlation coefficient between infrastructure and inflation is -0.634, between infrastructure and interest rate is -0.043 and between infrastructure and exchange rate is 0.074. It is found that inflation variable is negative and considered significant at 1 per cent level; interest rate variable is negative but found insignificant and exchange rate variable is positive but found insignificant.

The seventh column shows that the correlation coefficient between inflation and interest rate is 0.478 and between inflation and exchange rate is 0.236 and both variables are positive but interest rate variable is found statistically significant at 1 per cent level. The exchange rate variable is statistically insignificant. The eighth column reveals that the correlation coefficient between interest rate and exchange rate is 0.493, which is found positive and statistically significant at 1 per cent level. Therefore, it is concluded that the Table 2 simply presents the one-to-one relationship between FDI inflows and one variable at a time without considering the effects of other variables at the same time; it is very difficult to explain the influence of independent variables on dependent variable with the help of correlation among variables. To overcome this limitation, the present study has employed the statistical technique of simple multiple regression analysis to capture the impact of independent variables on the dependent variable. Before applying the statistical technique of

multiple regressions, there are some assumptions, which should be satisfied by dependent and independent variables:

Normality and Stationarity: The present study has taken log of the time series data in order to make the data normal and to check the stationarity of the time series data during the period under study.

Multicollinearity: The independent variables should not have high correlation among them and should be unique to the extent that each one can be counted as separate and therefore, the present study checked for the correlation among the independent variables. The empirical results obtained are acceptable and significant on the basis of R-squared (R^2) and Adjusted (R^2) values, Durbin-Watson statistics and Variance Inflation Factor (VIF) statistics. The VIF is widely used measures of the degree of multicollinearity of independent variable with the other independent variables in a regression model. The problem of multicollinearity is checked by taking Variance Inflation Factor (VIF) below 10. There was no problem of multicollinearity as the VIF of all the independent variables are found below 10. The models can be checked and evaluated by using F-statistics. The F-statistics should be significant enough to reject the null hypothesis.

Description of Regression Results

It is stated that the problem of multicollinearity exists in regression model after considering the variable of GDP per capita, proxy for market size. To remove the multicollinearity problem, the variable of GDP per capita is excluded from the model. The present study has taken logarithm of exchange rate variable (e.g. time series exchange rate is now Log exchange rate (LEX_R) in the model) of multiple regression for correct and consistent results of the regression modeling. The last column of Table 3 shows the collinearity statistics. One of the ways to check for multicollinearity is VIF (Variance Inflation Factor). It can be seen from the Table 3 that there is not an issue of multicollinearity in independent variables as VIF is less than 10. The fact is that the VIF will be 1, if there is no collinearity among variables.

Table 3 presents the regression results of determinants (dependent as well as independent) of FDI in India i.e. coefficients of each variable with significance level, t-statistics and VIF statistics during the period under study. The table also reveals the R-square (R^2) Adjusted (R^2), the F-statistics and Durbin-Watson statistics. The R-square (R^2) and Adjusted (R^2) values for the model, as a whole, are 0.927 and 0.896 respectively. The F-statistics value for the model is 0.000, which is statistically significant at 1 per cent level revealing the significance of the fitness of the model. The Durbin-Watson statistics is 1.894 of the regression model, which is very close to 2, revealing the problem of auto-correlation has been fairly solved. The value of Adjusted (R^2) is 0.896, which shows that 90 per cent variations in dependent variable (FDI inflow) are explained by independent variables (GDP growth rate, trade openness, infrastructure, inflation, interest rate and exchange rate) incorporated in the regression model. The remaining 10 per cent variation in dependent variable is explained by some other independent variables which have not been included in the regression model. In other

words, high value of Adjusted (R^2) also indicates that the explanatory variables included in the equation can explain most of the variation in the dependent variable.

Table 3 exhibits that GDP growth rate, proxy used for market growth or market growth potential of the host economy is negatively related to FDI inflows in India and it is found to be statistically insignificant. The coefficient of GDP growth rate is -0.156 and found insignificant, which reveals that GDP growth rate or higher market growth of the host country has influenced to attract more FDI inflows and therefore, the null hypothesis is rejected (H_1). Several empirical studies have found market growth to be positive and statistically significant determinant of inward FDI to host country. However, some studies found market growth as insignificant determinant of FDI inflows and therefore, this study also confirms the same evidence that market growth or higher market potential does not attract more FDI inflows in India.

The coefficient of trade openness is positive i.e. 39.635 and also statistically significant at 1 per cent level, therefore, has positive effect on FDI inflows. This also supports the established null hypothesis (H_0) and has the expected positive sign. The coefficient of trade openness shows that foreign investors are highly sensitive to trade openness as 1 per cent increase in variable leads to 39.635 per cent increase in FDI inflows. Trade openness plays a key role in attracting FDI inflows in India. It captures the degree of both tariff and non-tariff measures including trade distortions. The study finds that an improvement in trade openness is exerting a significant positive impact on FDI inflows. Therefore, it is concluded that higher trade openness attracts more FDI inflows in the host economy.

An advanced and well established infrastructure position always helps in attracting more FDI inflows in the country. Usually, for many developing and under-developed economies, this stands as a major barrier in attracting FDI inflows. Since there are various factors which contribute to the infrastructure development in the country like roads, ports, telecommunications, power, railways and so on. It becomes quite difficult to capture the data for all these variables for any given country. In order to overcome this problem, the study takes into account the number of telephone lines per 100 people as proxy for level of infrastructure in India. The coefficient of infrastructure is -0.144. This states that the infrastructure variable is statistically insignificant and negatively influencing variable for FDI inflow in India. It does not support the established null hypothesis (H_0) and the study concludes that an advanced and well established infrastructure position of the host economy does not provide great platform for investment and lead to more FDI inflows. Therefore, the null hypothesis is rejected and suggesting that poor infrastructure in India is deterring FDI inflows.

Inflation appears as an indicator of macro-economic stability in the host country. The present study uses inflation rate as proxy variable for macro-economic stability of the Indian economy. The coefficient of inflation is 0.233 which is found positive but contrary to expected negative sign and statistically significant variable at 10 per cent level. It means that low inflation rates have been effective in attracting FDI to Indian economy and inflation rate is important consideration for foreign investors when investing in India, which implies that 1 per cent decrease in inflation rate

would increase to about 0.233 per cent of FDI inflows in India. The result corroborates the null hypothesis (H_0) in a way that stable macro-economic conditions attract more FDI inflows to host country.

The regression coefficient for interest rate is 0.373 which is found positive, but contrary to the expected negative sign and is statistically significant at 1 per cent level. It is found that 1 per cent decrease in real interest rate leads to 0.373 per cent FDI inflows in India. The result supports the null hypothesis (H_0) and concludes that FDI inflow in India is positively related to decrease in real interest rate.

The coefficient of the exchange rate is negative but found statistically significant at 1 per cent level. However the expected sign was positive. The null hypothesis (H_0) states the FDI in India is positively related to the relative depreciation of its currency vis-à-vis the US\$. It is concluded that the coefficient of FDI inflows to exchange rate is -39.609 per cent. In other words, 1 per cent devaluation of Indian currency relative to the US\$ has a -39.609 per cent impact on FDI inflows. The influence of exchange rate on FDI inflow is found to be significant.

Table 3 presents the estimated regression model explaining the determinants of FDI into India and consists of only six variables: GDP growth rate, trade openness, infrastructure, inflation, interest rate and log of exchange rate. The determinants that are found statistically significant have a positive influence on FDI inflows in the economy. This implies that they are not a substitute to each other, rather their improvement leads to the increase of FDI inflows in the economy. The estimated model shows that coefficients of GDP growth rate and infrastructure are negative, while the coefficients of trade openness, inflation, interest rate and exchange rate are positive and found highly significant. Both GDP growth rate and infrastructure has a negative effect on FDI inflows but not found significant in this specification.

To sum up, the results given in the Table 3 shows that trade openness, inflation, interest rate and exchange rate are important variables in attracting the FDI inflows in India in the post-reform period. Trade openness, level of inflation in the economy or macroeconomic stability, interest rate and exchange rate has significantly contributed in explaining the inflow of FDI. While trade openness, inflation and interest rate positively influences the FDI, exchange rate negatively affects the FDI inflows. However, GDP growth rate and infrastructure are not important variables in explaining FDI inflows in India.

CONCLUSION AND SUGGESTIONS

- The variable of GDP growth rate, proxy used for market growth or market growth potential of the host economy is negatively correlated to FDI inflows to India which is found statistically insignificant, which is consistent with the findings of Asiedu, 2002 and Li and Park, 2006.
- The coefficient of trade openness is positive and also statistically significant, therefore, has positive effect on FDI inflows in India, which is supported by many empirical studies like

Lankes and Venables, 1996; Holland and Pain, 1998; Asiedu, 2002; Sahoo, 2006; Hailu, 2010; Rajan and Agrawal, 2011.

- The telephone lines (per 100 people) used proxy for infrastructure variable which is found negative and statistically insignificant. The same is supported by the study of Nnadzie and Osili, 2004.
- The coefficient of inflation is found positive which is contrary to expected negative sign and statistically significant variable for FDI inflows in India. The study of Khair-UZ-Zaman *et al.*, 2006 supports the finding of this study.
- The regression coefficient for interest rate is found positive, contrary to the expected negative sign, and is statistically significant. This is consistent with the finding of Singhania and Gupta, 2011.
- The regression coefficient of the exchange rate is negative but statistically significant. The result of this study is consistent with the finding of Ramiraz, 2006; Jeon and Rhee, 2008.

The present study recommends the following practicable suggestions to boost up FDI in India:

- There is an urgent need to adopt innovative policies and good corporate governance practices at par with international standards by the Government of India to attract more and more foreign capital in various sectors of the economy.
- Along with an open-minded policy towards FDI there should be an adequate policy on the technology front to encourage domestic firms to invest for upgrading their technological capability not only to face foreign competition but also to absorb the possible positive spillover advantages from foreign firms. Towards this end, the FDI policy needs to be constantly reviewed and necessary steps have to be taken to make India one of the most favorable destinations for FDI.
- There is dire need of well-established infrastructure, flexible labour laws and favorable regulatory and tax treatment of foreign firms.

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Table 1: Variables, Definitions and Data Sources

Sr. no.	Variables	Abbreviation	Definition	Unit	Expected Sign	Sources
1	FDI Inflows (Dependent)		Foreign Direct Investment Inflows	US\$ million		Secretariat for Industrial Assistance, various FDI Fact Sheets
2	Market Size	GDP_PC	Gross Domestic Product per capita	US\$	+	World Development Indicators, 2011
3	Market Growth	GDP_GR	Gross Domestic Product growth rate	Percentage	+	Handbook of Statistics on Indian Economy, 2011
4	Trade Openness	TR_OPEN	The ratio of exports and imports divided by GDP	Percentage	+	Directorate General of Commercial Intelligence and Statistics data.
5	Infrastructure	INFRA	Telephone line (per 100 people)	Number	+	World Development Indicators, 2011
6	Macroeconomic Stability	INF	Inflation rate calculated as percentage change in consumer price index	Percentage	-	World Development Indicators, 2011
7	Interest Rate	INT_R	Real interest rate	Percentage	-	World Development Indicators, 2011
8	Exchange Rate	LEX_R	Real effective exchange rate	\$/₹	+	World Development Indicators, 2011

Source: Survey

Table 2: Pair-wise Correlation Matrix of the Dependent and Independent Variables (Model 1)

Variables	FDI	GDP per capita	GDP Growth Rate	Trade Openness	Infrastructure	Inflation Rate	Interest Rate	Exchange Rate
FDI	1.000							
GDP per capita	-.168 (.234)	1.000						
GDP Growth Rate	.454** (.019)	.192 (.203)	1.000					
Trade Openness	-.131 (.285)	.999*** (.000)	.220 (.169)	1.000				
Infrastructure	.408** (.033)	.056 (.404)	.476** (.015)	.093 (.344)	1.000			
Inflation	.043 (.426)	.267 (.121)	-.127 (.291)	.253 (.134)	-.634*** (.001)	1.000		
Interest Rate	-.214 (.176)	-.494*** (.011)	-.269 (.119)	-.506*** (.010)	-.043 (.427)	.478** (.014)	1.000	
Log of Exchange Rate	-.160 (.245)	1.000*** (.000)	-.200 (.192)	.999*** (.000)	.074 (.376)	.256 (.131)	.493*** (.012)	1.000

Note: The asterisks ***, **, * shows that estimates are significant at 1 per cent, 5 per cent and 10 per cent respectively. p-values are in parentheses.

Table 3: Regression Results

Dependent Variable: FDI Inflows

Independent Variables	Standardized Coefficients (Beta)	t-value	Significant	VIF statistics
GDP_GR	-.156	-1.568	1.39	1.887
TR_OPEN	.39.635***	8.874	.000	3.824
INFRA	-.144	-.944	.361	4.459
INF	.233*	1.764	.099	3.356
INT_R	.373***	3.329	.005	2.401
LEX_R	-.39.609***	-8.972	.000	3.736

R-square = .927; Adjusted R² = .896; F-Statistics = .000; Durbin-Watson Statistics = 1.894

Note: The asterisks ***, **, * shows that estimates are significant at 1 per cent, 5 per cent and 10 per cent respectively.