

FINANCIAL MARKETS AND ECONOMIC DEVELOPMENT

Editors

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A Study 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 coefficients of labour quality, political stability and foreign exchange reserves are negative, while the coefficients of log of labour quantity, natural resources, log of research and development, money growth are positive. All the regression coefficients are statistically significant except the variable of labour quality. To sum up, the results show that all the variables except labour quality are found important variables in attracting the FDI inflows in India in the post-reform period. Labour quantity, natural resources, political stability, research & development, money growth and foreign exchange reserve has significantly contributed in explaining the inflow of FDI. While labour quantity, natural resources, research and development and money growth positively influenced the FDI, whereas foreign exchange reserves affect the FDI inflows negatively. However, labour quality is not important variable in explaining FDI inflows in India.

Keywords: TNCs, FDI, SARC, 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 endeavours. 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).

Most researches on country-specific (host country) determinant factors of FDI addresses 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.

In early empirical studies analyzed the FDI were, Basi (1966), Kolde (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. Cayes (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 Orlie (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, Chang and Zhang (1995) study found a positive relationship between FDI

and Gross National Product (GNP). Liu and Park (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) 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.

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: Lower labour costs in the host country attract more FDI inflows.

H₂: Higher labour skills in the host country pull FDI to the country.

H₃: Abundance of natural resources in the host country pulls FDI inflows.

H₄: Political stability of the host country pulls FDI inflows.

H₅: Higher research and development capability of host country attracts FDI inflows.

H₆: FDI in India is positively related to increase in money growth.

H₇: FDI in India is positively related to increase in foreign exchange reserves.

The present study is based on secondary time series data ranging from 1991 to 2011, i.e. 20 years. 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, linear multiple regression models is 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, Black, Babin, Anderson and Tatham, 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 regression analysis states that FDI is a function of the labour quantity, labour quality, natural resources, political stability, research and development, money growth and foreign exchange reserves (Table 1).

$FDI = f(\text{Labour Quantity, Labour Quality, Natural Resources, Political Stability, Research and Development, Money Growth and Foreign Exchange Reserves})$

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

$$FDI = \alpha + \beta_1 LL_QUAN + \beta_2 L_QUAL + \beta_3 NAR + \beta_4 PS \\ + \beta_5 LR_D + \beta_6 M_G + \beta_7 LFEXR + \epsilon_t$$

Where,

FDI	= Foreign Direct Investment (unit \$ million)
LL_QUAN	= Log of Labour Quantity (Population growth used as proxy) (unit annual percent change)
L_QUAL	= Labour Quality (Industrial Value added percentage of GDP used as proxy) (unit per cent)
NAR	= Natural Resources (Production of crude oil and Petroleum products used as proxy) (unit million tonnes)
PS	= Political Stability (military expenditure as percentage of GDP used as proxy) (per cent)
LR_D	= Log of Research and Development (Patents application filed used as proxy) (unit in number)
M_G	= Money Growth (the quasi money growth taken as proxy) (unit is annual percent change)
LFEXR	= Log of Foreign Exchange Reserves (foreign exchange reserves as percentage of GDP used) (unit per cent)
ϵ_t	= error term over the time t
α	= Intercept term
β_1	= Vector of coefficients

Labour Quantity and Labour Quality

From the potential investors' perspective, lower cost of labour is a critical consideration for making investment in host country. Lower cost of labour enhances FDI inflows. The studies of Zhao and Zhu (2000) and Skablic and Orlic (2007) found a negative correlation between labour cost and FDI inflows. The labour quantity, proxied by population growth rate is found to have positive but statistically insignificant effect on FDI inflow in host countries (Haitu, 2010). The present study used population growth (unit as annual percent change) and Industrial value added (unit as percentage of GDP) as proxy variables to measure the labour quantity and labour quality. Thus, both labour quantity and labour quality are positively correlated with FDI inflows.

Natural Resources

Natural resources are main considerations in FDI decisions. The studies conducted by (Asiedu, 2002; Haitu, 2010) found positive and significant influence of abundance of natural resources in host countries on FDI inflows. The study employed the production of crude oil and petroleum products (unit as million tonnes) as a proxy variable for natural resources. The study considers a positive influence of abundance of natural resources in host country on FDI inflows.

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	Labour Quantity	LL_QUAN	Population growth	Percentage	+	Handbook of Statistics on Indian economy, 2011
3	Labour Quality	L_QUAL	Industrial value added	Percentage	+	World Development Indicators, 2011
4	Natural Resources	NR	Production of crude oil and Petroleum products	Million Tonnes	+	Handbook of Statistics on Indian economy, 2011
5	Political Stability	PS	Military Expenditure (percentage of GDP)	Percentage	+	World Development Indicators, 2011
6	Research & Development	LRD	The Patent application number	Number	+	World Development Indicators, 2011
7	Money Growth	MG	The Quasi money growth	Percentage	+	World Development Indicators, 2011
8	Foreign Exchange Reserve	LFEXR	Foreign exchange reserve as a percentage of GDP	Percentage	+	Handbook of Statistics on Indian Economy, 2011

Source: Survey

Political Stability

The effect of political stability on the FDI inflow is ambiguous. The study on Ghana (Kyeremboah-Coleman and Agyire-Tettey, 2008) showed that political stability is a statistically significant determinant affecting the inflow of FDI. The present study used military expenditure (percentage of GDP) as a proxy variable for political stability in the Indian economy. Thus, its expected relationship with FDI inflows.

Research and Development

This variable is indirect representation of the scientific progress of a country. The foreign investors like to make use of the scientific progress and the technology available in a particular country that is not available in its own country and therefore in attracting FDI inflows (Singhania and Gupta, 2011). A lot of research has mentioned the role of advancement in technology; patents held and research orientation as a great force to pull FDI in a country. The present study substitutes the patent application number (units of the data in number) from India as a proxy variable for research and development and expected sign is positive.

Money Growth

Money growth in an economy simply suggests the growth in the money availability, and the opportunities and growth of the financial system. Usually, increase in financial systems with stability helps attracting FDI inflows as it increases the confidence of the foreign investors on the country's financial structure (Singhania and Gupta, 2011). The study of (Ali and Guo, 2005; Chowdhury and Mavrotas, 2006) found a moderately strong relationship between money growth and FDI inflow. In this study, the quasi money growth is taken as proxy for the money growth. The units are annual per cent change with expected positive sign.

Foreign Exchange Reserves

The study of (Singla, 2011) found that foreign exchange reserves do not appear to have any significant effect on FDI inflows in India. In this study, foreign exchange reserve as a percentage of GDP is used to measure the influence on FDI inflow and expected sign is positive.

ANALYSIS AND INTERPRETATION

Table 1 reveals the variables (dependent and independent), definitions of variables, unit of measurement, expected sign and sources of variables. Table 2 depicts the coefficient of correlation between FDI inflows (dependent variable) and labour quantity, labour quality, natural resources, political stability, research and development, money growth and foreign exchange reserve (independent variables) during the period under study. The table also presents coefficient correlations among the determinants. The p -values of the corresponding correlation coefficients

for each variable are also given in the table. The second column presents the coefficient of correlations and the corresponding p -values between FDI inflows and the variables under consideration with their significance level at 1 per cent, 5 per cent and 10 per cent.

Table 2: Pair-wise Correlation Matrix of the Dependent and Independent Variables
Dependent Variable: FDI Inflows

Independent Variables	FDI	Labour Quantity	Labour Quality	Natural Resources	Political Stability	R & D	Money Growth	Foreign Exchange Reserve
FDI	1.000							
Labour Quantity	-.639*** (.001)	1.000						
Labour Quality	.551*** (.005)	-.450** (.020)	1.000					
Natural Resources	.709*** (.000)	-.219 (.170)	.326* (.074)	1.000				
Political Stability	-.599*** (.002)	-.088 (.352)	-.636*** (.001)	-.594*** (.002)	1.000			
R & D	.060 (.398)	-.496*** (.011)	.312* (.085)	-.412** (.032)	.375** (.047)	1.000		
Money Growth	.490*** (.012)	-.183 (.214)	.382** (.044)	.233 (.154)	-.462** (.017)	-.027 (.454)	1.000	
Foreign Exchange Reserve	.237 (.150)	.356* (.056)	.191 (.204)	.782*** (.000)	-.549*** (.005)	-.564*** (.004)	.161 (.243)	1.000

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

The second column reveals the relationship between FDI inflows and labour quantity and between FDI inflows and political stability is found negative and all coefficients are highly statistically significant at 1 per cent level except the research and development and foreign exchange reserve variables. The second column also shows that the correlation coefficient between FDI inflows and labour quality is 0.551, between FDI inflows and natural resources is 0.709, between FDI inflows and research & development is 0.060, between FDI inflows and money growth is 0.490 and between FDI inflows and foreign exchange reserve is 0.237, which are found positive and significant at 1 per cent level. The variables of labour quality, natural resources and money growth are statistically significant at 1 per cent level except the variables research & development and foreign exchange reserves, which are not significant.

The third column shows the coefficient of correlation between labour quantity and labour quality is -0.450, between labour quantity and natural resources is -0.219, between labour

quantity and political stability is -0.088, between labour quantity and research & development is -0.496, between labour quantity and money growth is -0.183 and between labour quantity and foreign exchange reserves is 0.356. All the independent variables are negative except foreign exchange reserve. The coefficient of labour quantity and labour quality is statistically significant at 5 per cent level. The coefficient of labour quantity and research & development is statistically significant at 1 per cent level and the coefficient of labour quantity and foreign exchange reserve is statistically significant at 10 per cent level. The coefficient of labour quantity and natural resources, coefficient of labour quantity and political stability and the coefficient of labour quantity and money growth is found statistically insignificant.

The fourth column of table reveals the correlation coefficient between labour quality and natural resources is 0.326 and between labour quality and political stability is -0.636, between labour quality and research & development is 0.312, between labour quality and money growth is 0.382 and between labour quality and foreign exchange reserve is 0.191. All the independent variables are positive except political stability which is negative. Both the coefficient of labour quality and natural resources and the coefficient of labour quality and research & development are statistically significant at 10 per cent level. The coefficient of labour quality and political stability is statistically significant at 1 per cent level, whereas the coefficient of labour quality and money growth is statistically significant at 5 per cent level. However, the coefficient of labour quality and foreign exchange reserve is found insignificant.

The fifth column of table shows the correlation coefficient between natural resources and political stability is -0.594, between natural resources and research & development is -0.412, which are negative but statistically significant at 1 per cent level and 5 per cent level respectively. The coefficient of correlation between natural resources and money growth is 0.233, which is positive and found statistically insignificant. The coefficient of correlation between natural resources and foreign exchange reserve is 0.782, which is found positive and statistically significant at 1 per cent level.

The sixth column of table reveals the correlation coefficient between political stability and research & development is 0.375, which is positive and found statistically significant at 5 per cent level. The coefficient of correlation between political stability and money growth is -0.462 which is negative and found statistically significant at 5 per cent level. The coefficient of correlation between political stability and foreign exchange reserve is -0.549 which is also negative and found statistically significant at 1 per cent level.

The seventh column shows the correlation coefficient between research & development and money growth is -0.027 and between research & development and foreign exchange reserve is -0.564. Both the variables are negative and money growth is insignificant, whereas foreign exchange reserve is significant at 1 per cent level. The eighth column represents the correlation coefficient between money growth and foreign exchange reserve is 0.161, which is positive and found statistically insignificant.

Therefore, it is concluded that the table 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 regression, there are some assumptions that should be satisfied by our 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 has checked 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 VIF statistics. The model can be checked and evaluated by using F-statistics. The F-statistics should be significant enough to reject the null hypothesis.

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 to remove the multicollinearity problem, the present study has taken logarithm of labour quantity, research and development and foreign exchange reserve variables (e.g. time series labour quantity is now Log labour quantity (LL_QUAN), research and development is (LRD) and foreign exchange reserve is (LFEXR) 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 Inflating 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 and also the 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 0.955 and 0.930 respectively. The F-statistics value is 0.000, which is statistically significant at 1 per cent level revealing the significance of the fitness

of the regression analysis. The Durbin-Watson statistics is 1.863 of the regression equation, which is very close to 2 revealing the problem of auto-correlation has been fairly solved. The value of Adjusted (R^2) is 0.930, which shows that 93 per cent variations in dependent variable (FDI inflow) are explained by independent variables (labour quantity, labour quality, natural resources, political stability, research & development, money growth and foreign exchange reserve) incorporated in the regression model. The remaining 7 per cent variation in dependent variable is explained by some other independent variables which have not been included in the regression model.

Table 3: Regression Results

Dependent Variable: FDI Inflows				
Independent Variables	Standardized Coefficients (Beta)	t-value	significant	VIF statistics
LL QUAN	.391**	2.178	.048	9.271
L QUAL	-.042	-.326	.750	4.831
NR	1.607***	6.908	.000	5.547
PS	-.422***	-3.177	.007	5.074
LRD	.419***	3.474	.004	4.176
MG	.185**	2.683	.019	1.369
LFEXR	-1.177***	-5.010	.000	5.847
R-square = .955; Adjusted R^2 = .930; F-Statistics = .000; Durbin-Watson Statistics = 1.863				

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

The present study has used population growth (unit as annual percent change) and Industrial value added (unit as percentage of GDP) as proxy variables to measure the labour quantity and labour quality. The coefficient of labour quantity is 0.391, which is positive and found statistically significant at 5 per cent level, whereas the coefficient of labour quality is -0.042, which is negative and also found insignificant. It is found that labour quantity is a critical consideration for FDI inflows in India, while labour quality is not a significant variable of FDI inflows in India. The result corroborates the null hypothesis (H_1) of lower labour costs attract more FDI inflows in India and null hypothesis is accepted, which implies that 1 per cent decrease in labour costs results about 0.391 per cent increase in FDI inflows in India. On the contrary, the result of labour quality rejects the null hypothesis (H_2) and concludes that skilled labour force in India does not influence FDI inflows.

Abundance of natural resources is another accepted variable of FDI inflows. Richness of natural resources is a main reason for FDI inflows to host country. Natural resources, production of crude oil and petroleum products used as proxy, are positive and statistically significant at 1 per cent level. The regression coefficient of natural resources is 1.607 which means that 1 per cent depletion of natural resources leads to 1.607 per cent increase in FDI inflows in

India. The result supports the null hypothesis (H_1) that abundance of natural resources pulls FDI in India and hypothesis is accepted.

The foreign investors consider political stability as one factor before ever mobilizing their resources to any country. The present study used military expenditure (percentage of GDP) as a proxy variable for political stability in the Indian economy. The regression coefficient of political stability is -0.422, which is negative but found significant at 1 per cent level, which suggests that a more favourable and stable political environment leads to more FDI inflows, i.e. 1 per cent increase in political stability leads to 0.422 per cent increase in FDI inflows in India. Apparently, a country's political stability has a large influence over its business climate and the improvement of such feature increases the local presence of foreign MNCs, since the political stability is a very relevant feature for long-term projects. The result supports the null hypothesis (H_1) and therefore, concludes that the stability of political regimes in India is an important variable of FDI inflows in India.

The study substitutes the patent application number (units of the data in number) from India as a proxy variable for research and development (technological capability) and expected sign is positive. The regression coefficient of research and development is 0.419, which is positive and found statistically significant at 1 per cent level. It means that 1 per cent improvement in research and development activity or technological capability leads to 0.419 per cent increase in FDI inflows in India. The result confirms the expected positive sign and accepts the null hypothesis (H_1), therefore, it is found that higher research and development capability of India attracts foreign investors to invest in the country.

The regression coefficient of the money growth is 0.185, which is positive and found statistically significant at 5 per cent level, which means that 1 per cent increase in money growth leads to 0.185 per cent increase in FDI inflows in India. The null hypothesis (H_0) is accepted and therefore, the result concludes that money growth is an important variable to FDI inflows in India. The regression coefficient of foreign exchange reserve is -1.177, which is contrary to expected positive sign but statistically significant at 1 per cent level. The result supports the established hypothesis (H_1) and concludes that 1 per cent increase in foreign exchange reserve leads to 1.177 per cent increase in FDI inflows in India.

CONCLUSION AND SUGGESTIONS

The determinants which were 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 labour quality, political stability and foreign exchange reserves are negative, while the coefficients of log of labour quantity, natural resources, log of research and development, money growth are positive. All the regression coefficients are statistically significant except the variable of labour quality. To sum up, the results show that all the variables except labour quality are found important variables in attracting the FDI inflows in

India in the post-reform period. Labour quantity, natural resources, political stability, research & development, money growth and foreign exchange reserve has significantly contributed in explaining the inflow of FDI. While labour quantity, natural resources, research and development and money growth positively influenced the FDI, whereas foreign exchange reserves affect the FDI inflows negatively. However, labour quality is not important variable in explaining FDI inflows in India.

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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