

Factors Influencing Foreign Direct Investment (FDI) in India: A Comprehensive Review

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Abstract

Foreign Direct Investment (FDI) has played a crucial role in India's economic growth and development. This research paper aims to provide a comprehensive review of the factors that influence FDI inflows into India. It examines both internal and external factors, such as government policies, market size, infrastructure, labour market, political stability, and regulatory environment. By analysing various scholarly articles, reports, and empirical studies, this paper presents a holistic understanding of the determinants of FDI in India. The findings of this research can be utilized by policymakers, investors, and scholars to make informed decisions and develop effective strategies to attract and retain FDI in India.

Keywords—*Foreign Direct Investment, India.*

1. Introduction

1.1. Background and significance of FDI in India

Foreign Direct Investment (FDI) has played a transformative role in shaping India's economic landscape. Over the past few decades, India has emerged as one of the most attractive destinations for FDI, thanks to its vast market potential, abundant resources, and favourable investment climate. FDI has not only contributed to the country's economic growth but has also brought in advanced technologies, managerial expertise, and employment opportunities (Sharma et al., 2020).

India's economic liberalization in the early 1990s paved the way for significant policy reforms and opened up various sectors to foreign investors. This shift led to a surge in FDI inflows, transforming the country into a global hub for multinational corporations (Kammoun et al., 2022). The Indian government has been actively encouraging FDI through investor-friendly policies, tax incentives, simplified procedures, and measures to enhance ease of doing business.

The significance of FDI in India goes beyond economic growth. It has played a crucial role in boosting industrial development, supporting infrastructure projects, promoting entrepreneurship, and fostering innovation (A. Gupta et al., 2021). Moreover, FDI has facilitated the integration of Indian companies into global value chains, enhancing their competitiveness in international markets. By attracting foreign capital and expertise, FDI has been instrumental in creating employment opportunities and improving living standards for millions of people in India (Madaan et al., 2018).

1.2. Research objectives and methodology

The research objectives of this study on factors influencing FDI in India are twofold.

1. To identify and analyse the key determinants that significantly impact FDI inflows into the country.
2. To offer insights and recommendations that can assist policymakers, investors, and scholars in formulating effective strategies to attract and retain FDI in India

3. To achieve these research objectives, a rigorous and systematic methodology will be employed. The study will primarily rely on a comprehensive review of existing scholarly articles, reports, and empirical studies related to FDI in India.

These sources will be gathered from reputable databases and academic journals, ensuring the inclusion of the most up-to-date and relevant information. By synthesizing and analysing the findings from these diverse sources, this research aims to provide a comprehensive and balanced overview of the factors influencing FDI in India.

The research methodology will also include the examination of case studies and empirical evidence to supplement the literature review. By analysing specific FDI trends in different sectors and studying the experiences of companies that have successfully attracted FDI in India, this study will provide real-world insights and practical implications for enhancing FDI inflows. Moreover, comparative analysis of FDI determinants in India and other countries can be conducted to identify specific strengths and weaknesses, as well as potential areas for improvement.

2. Government Policies and Regulatory Environment

Government policies and the regulatory environment play a crucial role in shaping the inflow of foreign direct investment (FDI) in India (Wattis et al., 2013). The Indian government has implemented several initiatives to attract and facilitate FDI, including liberalizing FDI norms, simplifying procedures, and providing various incentives and concessions (Bui et al., 2018). The regulatory framework focuses on creating a favourable business environment, protecting investor rights, and ensuring transparency. Key areas of government policy influence include investment policies and regulations, taxation and incentives, trade policies and barriers, and intellectual property rights protection (Sharma et al., 2020). A conducive and stable regulatory environment is essential for fostering investor confidence and attracting sustained FDI inflows, making it imperative to thoroughly analyse and understand the impact of government policies on FDI in India (Sarker et al., 2023).

2.1. Investment policies and regulations

Investment policies and regulations are fundamental factors influencing foreign direct investment (FDI) in India. The Indian government has implemented various measures to liberalize investment rules, simplify procedures, and enhance the ease of doing business (Kyrkilis et al., 2003). The Foreign Direct Investment Policy (FDI Policy) provides guidelines and regulations for different sectors, specifying the sectors where FDI is permitted, the equity caps, and the conditions for investment (Cheng et al., 2000). Additionally, the government has established institutions like the Department for Promotion of Industry and Internal Trade (DPIIT) to facilitate and promote investments. Streamlining investment policies and regulations, ensuring transparency, and reducing bureaucratic hurdles are crucial for attracting and retaining FDI inflows, promoting economic growth, and creating employment opportunities in India (Panigrahi et al., 2012).

2.2. Taxation and incentives

Taxation and incentives are significant factors that influence foreign direct investment (FDI) in India (A. Gupta et al., 2021). The Indian government has introduced various tax reforms and incentives to attract foreign investors. These include tax concessions, exemptions, and deductions to encourage investment in specific sectors or regions, such as Special Economic Zones (SEZs) and priority industries. The implementation of the Goods and Services Tax (GST) has also streamlined the tax structure, reducing complexities and improving the ease of doing business (Madaan et al., 2018). However, challenges such as multiple tax rates, compliance issues, and retrospective tax claims have been raised as concerns. Enhancing the clarity and stability of tax policies, reducing tax burdens, and providing predictable and investor-friendly taxation frameworks are crucial for fostering a favourable investment climate and attracting higher levels of FDI inflows into India (Priya Gupta et al., 2016).

2.3. Trade policies and barriers

Trade policies and barriers significantly impact foreign direct investment (FDI) in India. The Indian government has taken steps to liberalize trade policies and open up the economy to international trade. However, certain trade barriers such as tariffs, import restrictions, and non-tariff measures can hinder FDI inflows. To enhance FDI attractiveness, the government has been actively negotiating free trade agreements (FTAs) and bilateral investment treaties (BITs) with various countries, aiming to reduce trade barriers and promote a more open and conducive trade environment. Harmonizing trade policies, reducing tariff

and non-tariff barriers, and ensuring compliance with international trade regulations are essential for creating a favourable investment climate and attracting greater levels of FDI into India.

2.4. Intellectual property rights protection

Intellectual property rights (IPR) protection is a critical factor influencing foreign direct investment (FDI) in India. Robust IPR protection ensures that innovators and investors can safeguard their intellectual assets and have confidence in the legal framework (Coronese et al., 2019). The Indian government has taken significant steps to strengthen IPR laws and regulations, aligning them with international standards. This includes amendments to patent laws, copyright laws, and the establishment of specialized intellectual property courts. However, challenges such as long legal procedures, enforcement issues, and concerns regarding data protection still exist (Neary, 2009). Strengthening IPR protection, improving enforcement mechanisms, and ensuring effective remedies for infringement are vital to foster an environment that encourages innovation, technology transfer, and increased FDI inflows into India.

3. Market Size and Potential

The market size and potential of India are key factors influencing foreign direct investment (FDI) inflows into the country (Bloom et al., 2010). With a population of over 1.3 billion people and a growing middle class, India offers a vast consumer base and significant market potential across various sectors (Gu et al., 2023). The rising disposable income, changing consumer preferences, and increasing urbanization present immense opportunities for businesses seeking to establish a presence in India. Additionally, India's economic growth trajectory (Priya Gupta et al., 2016), coupled with ongoing structural reforms, creates a favourable investment climate. The size and potential of the Indian market act as a significant magnet for FDI, attracting investors looking to capitalize on the immense business opportunities and tap into the long-term growth prospects offered by the Indian market (Oh et al., 2011).

3.1. Domestic market size and growth prospects

The domestic market size and growth prospects in India are critical factors that influence foreign direct investment (FDI). India's vast population, with a burgeoning middle class and increasing disposable income, presents a significant consumer base for businesses to tap into (Sharma et al., 2020). The country's sustained economic growth, coupled with ongoing urbanization and favourable demographics, contributes to the expansion of the domestic market (Kammoun et al., 2022). Furthermore, India's projected future growth potential and the government's focus on structural reforms create a positive outlook for businesses aiming to penetrate and expand their presence in this dynamic market. The attractiveness of the domestic market size and its growth prospects serve as key drivers for FDI inflows, enticing investors to capitalize on the vast opportunities available in India (Brotherhood et al., 2022).

3.2. Consumer base and purchasing power

The consumer base and purchasing power in India are influential factors that attract foreign direct investment (FDI). With a population of over 1.3 billion people, India offers a vast and diverse consumer market. The expanding middle class and rising disposable incomes have fuelled an increase in purchasing power, leading to a surge in consumer spending (Kammoun et al., 2022). This growing consumer base presents significant opportunities for businesses across various sectors, including retail, consumer goods, and services (Bloom et al., 2010). Moreover, the rapid adoption of digital technologies and the rise of e-commerce platforms have further amplified consumer access and market reach. The substantial consumer base and increasing purchasing power in India make it an attractive destination for FDI, enticing investors to tap into the immense market potential and capitalize on the consumer-driven growth opportunities (Brotherhood et al., 2022).

3.3. Industry-specific market potential

The industry-specific market potential in India is a significant factor that influences foreign direct investment (FDI) (Bloom et al., 2010). India offers immense opportunities for investors in various sectors, including manufacturing, services, technology, healthcare, and infrastructure. The government's initiatives like "Make in India" and "Digital India" have further bolstered the potential for growth and investment in specific industries (Gu et al., 2023). The country's skilled workforce, vast consumer market, and favourable demographics contribute to the attractiveness of industry-specific market potential. Investors are drawn to India's expanding sectors, where they can leverage the market demand, access new business opportunities, and establish a

competitive edge(Nyarko et al., 2022). The industry-specific market potential acts as a catalyst for FDI inflows, driving investments and fostering economic growth in India(Nyarko et al., 2022).

4. Infrastructure Development

Infrastructure development is a crucial factor influencing foreign direct investment (FDI) in India(Han, 2021). The Indian government has recognized the significance of robust infrastructure in attracting investments and promoting economic growth. Efforts to improve transportation networks, power and energy infrastructure, and telecommunications systems have created a more conducive business environment(Quang et al., 2022). Well-developed infrastructure facilitates efficient movement of goods and services, reduces logistical costs, and enhances operational efficiency for businesses. Moreover, infrastructure development plays a pivotal role in supporting industries such as manufacturing, logistics, and services(Xiang et al., 2022). Foreign investors are attracted to countries with modern and reliable infrastructure, as it provides the necessary framework for their operations(Shahabi et al., 2022). Therefore, India's focus on infrastructure development serves as a catalyst for attracting FDI and driving sustainable economic development(R. Yang et al., 2020).

4.1. Transportation and logistics

Transportation and logistics infrastructure are critical components that influence foreign direct investment (FDI) in India. The efficient movement of goods and services is crucial for businesses to thrive and expand their operations(Chakraborty et al., 2017). India's government has recognized the importance of improving transportation networks, including road, rail, air, and maritime connectivity. Initiatives such as the development of dedicated freight corridors, expansion of port capacities, and modernization of airports have enhanced logistics efficiency and reduced costs(H. Yang et al., 2022). A well-developed transportation and logistics infrastructure not only facilitates the seamless flow of goods but also attracts investors by offering reliable supply chains and better market access(Adhikary, 2017a; Efe-Omojevwe et al., 2012). As a result, FDI inflows are positively impacted by the availability of robust transportation and logistics infrastructure, creating favourable conditions for economic growth and development in India(P. Gupta, 2021).

4.2. Power and energy infrastructure

Power and energy infrastructure are crucial factors influencing foreign direct investment (FDI) in India(Adhikary et al., 2008). A reliable and robust power supply is essential for businesses to operate efficiently and sustainably. The Indian government has implemented various initiatives to enhance power generation capacity, improve transmission and distribution networks, and promote renewable energy sources(Obwona, 2001). Investments in thermal, hydro, and renewable energy projects have contributed to a more stable and sustainable power infrastructure(Faeth, 2009). A well-developed power and energy infrastructure not only reduces operational costs but also ensures uninterrupted production and smooth business operations(Qiu et al., 2011). This reliability and availability of power attract foreign investors, particularly in energy-intensive sectors such as manufacturing, IT, and services. The focus on enhancing power and energy infrastructure in India serves as a catalyst for FDI inflows, creating a favourable environment for investors seeking long-term growth opportunities(Qiu et al., 2011).

4.3. Telecommunications and IT infrastructure

Telecommunications and IT infrastructure are crucial factors that influence foreign direct investment (FDI) in India(Kaur et al., 2016). The country has made significant strides in developing a robust telecommunications and IT infrastructure, including widespread mobile and internet connectivity, fiber-optic networks, and advanced data centers(Kaur et al., 2016). This infrastructure supports seamless communication, efficient data transfer, and digital connectivity, enabling businesses to operate effectively in today's technology-driven world. India's IT industry has emerged as a global leader, attracting FDI in areas such as software development, IT services, and e-commerce(Zhao, 2003). The availability of reliable and advanced telecommunications and IT infrastructure not only fosters innovation and technological advancements but also provides a conducive ecosystem for foreign investors(Scott-Green et al., 1999). The emphasis on enhancing telecommunications and IT infrastructure in India plays a vital role in attracting FDI and positioning the country as a hub for digital innovation and business growth(Bal-subramanyam et al., 1996).

5. Labour Market and Human Capital

The labour market and human capital are crucial factors that influence foreign direct investment (FDI) in India (Zheng, 2009). The country boasts a vast and diverse pool of skilled and cost-effective workforce. India's large population provides a significant advantage in terms of availability of labour for various industries (Adhikary, 2017b). Furthermore, the government has focused on initiatives to enhance the quality of education and vocational training, fostering the development of human capital (Qiu et al., 2011). This has resulted in a growing pool of skilled professionals in sectors such as information technology, engineering, healthcare, and services. The availability of a skilled labour force, combined with competitive labour costs, makes India an attractive destination for foreign investors seeking to establish or expand their operations (Kaur et al., 2016). The labour market and human capital in India play a crucial role in driving FDI inflows and supporting sustainable economic growth in the country.

5.1. Skilled labour availability and quality

The availability and quality of skilled labour are key factors that influence foreign direct investment (FDI) in India (Balasubramanyam et al., 1996). The country boasts a large and diverse pool of skilled professionals across various sectors, including information technology, engineering, healthcare, and services. India's focus on education and vocational training has contributed to the development of a skilled workforce equipped with industry-relevant skills and knowledge (Zheng, 2009). Additionally, the country's strong emphasis on science, technology, engineering, and mathematics (STEM) education has produced a talent pool that aligns with the needs of modern industries. The availability of skilled labour in India provides a competitive advantage for businesses seeking to establish or expand their operations, attracting FDI and driving economic growth (Adhikary, 2017b). However, continuous investments in education and upskilling programs are necessary to maintain the quality and relevance of the skilled labour force in India (Factors Influencing FDI Inflow to India, China and Malaysia: An Empirical Analysis - T.R. Panigrahi, B.D. Panda, 2012, n.d.; A. Gupta et al., 2021).

5.2. Labour costs and productivity

Labour costs and productivity are significant factors influencing foreign direct investment (FDI) in India. The country offers a competitive advantage in terms of labour costs compared to many developed economies (Madaan et al., 2018). The availability of a large labour force, coupled with relatively lower wages, makes India an attractive destination for foreign investors seeking cost-effective production and operations. However, labour productivity is also a crucial consideration for investors. The Indian government has taken initiatives to improve labour productivity through skill development programs and technological advancements (Tripathi et al., 2015). Enhancing labour productivity is essential for ensuring efficient operations, higher output, and overall competitiveness. Balancing affordable labour costs with improved productivity levels is crucial for sustaining India's appeal as an investment destination and driving FDI inflows (Hasli et al., 2016).

5.3. Workforce training and education

Workforce training and education are vital factors that influence foreign direct investment (FDI) in India. The Indian government has recognized the importance of skill development and has implemented various initiatives to enhance workforce training and education (Priya Gupta et al., 2016). These include vocational training programs, public-private partnerships, and collaborations with educational institutions to align curriculum with industry requirements. By focusing on developing a skilled and knowledgeable workforce, India aims to meet the demands of modern industries and attract foreign investors (Bui et al., 2018). A well-trained workforce ensures productivity, efficiency, and adaptability, leading to increased competitiveness and sustained economic growth. Foreign investors are attracted to countries with a strong emphasis on workforce training and education, as it provides them with access to a talent pool that can drive innovation and contribute to business success (Sharma et al., 2020).

6. Political Stability and Governance

Political stability and effective governance are critical factors that influence foreign direct investment (FDI) in India (Nyarko et al., 2022). A stable political environment provides investors with confidence in the continuity of policies and regulations. The Indian government has made efforts to maintain political stability by promoting democratic principles, ensuring the rule of law, and protecting investor rights (Chakrabarti, 2001). Additionally, a transparent and efficient governance system enhances the ease of doing business, reduces corruption, and fosters a favourable investment climate. Foreign investors value countries with stable political systems and strong governance frameworks as they provide a predictable and secure environment for long-term investments (Escaleras et al., 2011). The political stability and effective governance in India contribute to attracting FDI, driving economic growth, and creating opportunities for sustainable development.

6.1. Political climate and stability

The political climate and stability in India play a crucial role in attracting foreign direct investment (FDI). A stable political environment instils confidence among investors, assuring them of continuity in policies and regulations. India's democratic system, characterized by regular elections and a peaceful transfer of power, provides a foundation of stability (Escaleras et al., 2011). Furthermore, the government's commitment to political stability and good governance fosters a favourable investment climate (Bordalo et al., 2020). A transparent and accountable governance framework, along with the rule of law, ensures a level playing field for businesses and protects the rights of investors. Foreign investors are attracted to countries with a stable political climate as it mitigates risks and provides a conducive environment for long-term investments. The political climate and stability in India are key drivers for FDI inflows, contributing to economic growth and development in the country (Blonigen et al., 2014; Head et al., 2008).

6.2. Government effectiveness and transparency

Government effectiveness and transparency are critical factors that influence foreign direct investment (FDI) in India. A government that is efficient, transparent, and responsive to the needs of businesses creates a conducive investment climate. The Indian government has made significant efforts to improve governance practices, enhance administrative efficiency, and promote transparency in decision-making processes (Wossen et al., 2022). Measures such as digitization of government services, online platforms for obtaining licenses and permits, and simplification of bureaucratic procedures have streamlined the business environment and reduced red tape (Pan et al., 2022). Transparency in policymaking and implementation helps build trust and confidence among investors. Foreign investors value a government that is effective and transparent as it ensures a level playing field, reduces corruption risks, and provides clarity in regulatory frameworks. The government's commitment to effectiveness and transparency serves as a strong driver for attracting FDI and promoting sustainable economic growth in India (Okolo et al., 2023).

6.3. Corruption levels and rule of law

Corruption levels and the rule of law are significant factors influencing foreign direct investment (FDI) in India. A low level of corruption and a strong rule of law are crucial for maintaining a fair and transparent business environment (Friedt et al., 2022). The Indian government has taken measures to address corruption through anti-corruption laws, enforcement agencies, and initiatives to promote transparency. Strengthening the rule of law ensures that contracts are enforced, property rights are protected, and disputes are resolved efficiently (Wang et al., 2021). Investors are attracted to countries where corruption is low and the rule of law is upheld, as it provides them with confidence in the integrity of business transactions and the protection of their investments (Han, 2021). By combating corruption and promoting the rule of law, India can enhance its attractiveness as a destination for FDI, foster investor confidence, and stimulate sustainable economic development (Quang et al., 2022).

7. Technological Advancement and Innovation

Technological advancement and innovation are critical factors that influence foreign direct investment (FDI) in India (Xiang et al., 2022). The country has witnessed significant progress in the fields of technology, research, and development, fostering an environment conducive to innovation. India's thriving IT sector, supported by a large pool of skilled professionals, has positioned the country as a global hub for technology services and solutions (R. Yang et al., 2020). The government has also launched initiatives such as "Digital India" and "Start-up India" to promote entrepreneurship, innovation, and digital transformation (Chakraborty et al., 2017). The availability of advanced infrastructure, research institutions, and a vibrant start-up ecosystem further encourages technological advancements and fosters innovation. Foreign investors are attracted to India's technological capabilities, as it provides opportunities for collaboration, knowledge exchange, and access to cutting-edge solutions (Efe-Omojevwe et al., 2012). Technological advancement and innovation in India are key drivers for FDI inflows, fuelling economic growth and positioning the country as a leader in the digital era.

7.1. Research and development capabilities

Research and development (R&D) capabilities are a crucial aspect influencing foreign direct investment (FDI) in India (Adhikary, 2017a). The country has made significant progress in establishing R&D facilities, both in the public and private sectors, across various industries. India's research institutions and universities contribute to the development of cutting-edge technologies and foster innovation (P. Gupta, 2021). Additionally, the government has implemented policies and incentives to promote R&D activities, attracting both domestic and foreign investment in this field. The availability of skilled researchers, collaboration opportunities with academia, and the presence of technology parks and innovation clusters further enhance India's R&D capabilities. Foreign investors are attracted to India's robust R&D ecosystem as it offers opportunities for collaboration,

knowledge exchange, and the development of innovative products and solutions (Adhikary et al., 2008). The country's R&D capabilities serve as a catalyst for FDI inflows, driving technological advancements and fostering economic growth (Obwona, 2001).

7.2. Technological infrastructure and adoption

Technological infrastructure and adoption are crucial factors that influence foreign direct investment (FDI) in India (Faeth, 2009). The country has made significant strides in developing a robust technological infrastructure, including widespread internet connectivity, digital platforms, and advanced telecommunications networks. This infrastructure supports seamless communication, efficient data transfer, and digital connectivity, creating an environment conducive to technological innovation and adoption (Qiu et al., 2011). India's large and diverse market provides a unique opportunity for companies to introduce and scale their technology-driven products and services. The government's initiatives such as "Digital India" and "Smart Cities" further promote the adoption of emerging technologies and digital transformation across various sectors (Kaur et al., 2016). Foreign investors are attracted to India's technological infrastructure and adoption as it offers a conducive ecosystem for leveraging technology to drive business growth and competitive advantage (Kaur et al., 2016). The focus on technological infrastructure and adoption acts as a catalyst for FDI inflows, fostering innovation, and contributing to the country's economic development (Scott-Green et al., 1999).

7.3. Intellectual property rights protection and enforcement

Intellectual property rights (IPR) protection and enforcement play a significant role in influencing foreign direct investment (FDI) in India (Balasubramanyam et al., 1996). The country has implemented several measures to strengthen IPR laws and regulations, providing legal frameworks for the protection of patents, trademarks, copyrights, and trade secrets (Adhikary, 2017b). The Indian government has also taken steps to improve the enforcement of IPR, including the establishment of specialized IP courts and the streamlining of legal procedures. These efforts provide foreign investors with confidence that their intellectual property will be safeguarded and that they can fully exploit their innovations and inventions in the Indian market. Strong IPR protection and enforcement create a conducive environment for knowledge-intensive industries and incentivize technology transfer and collaboration between domestic and foreign entities. The commitment to intellectual property rights protection and enforcement in India positively impacts FDI inflows, as it assures investors of the security and value of their intellectual assets, fostering innovation, and fostering economic growth.

8. Financial and Capital Market

The financial and capital markets are vital components that influence foreign direct investment (FDI) in India. The country has a well-developed financial system comprising commercial banks, non-banking financial institutions, and capital market institutions. India's capital market, including the stock exchanges, provides avenues for raising funds through equity and debt offerings, enabling businesses to expand their operations and attract foreign investment. The regulatory framework, overseen by institutions such as the Securities and Exchange Board of India (SEBI), ensures transparency, investor protection, and fair market practices. The stable macroeconomic conditions, robust regulatory environment, and ongoing financial sector reforms contribute to creating a conducive investment climate. Foreign investors are attracted to India's financial and capital markets as they provide opportunities for capital mobilization, risk diversification, and wealth creation. The financial and capital markets in India play a pivotal role in driving FDI inflows, facilitating access to capital, fostering economic growth, and contributing to the overall development of the country (Coronese et al., 2019).

8.1. Access to finance and credit

Access to finance and credit is a crucial factor that influences foreign direct investment (FDI) in India. The country's financial system provides various sources of funding, including commercial banks, non-banking financial institutions, and venture capital firms. India has taken initiatives to improve access to finance for businesses, especially small and medium-sized enterprises (SMEs), through schemes like MUDRA and Stand-Up India (Brotherhood et al., 2022). Additionally, the introduction of credit rating agencies and credit information bureaus has enhanced transparency and facilitated the assessment of creditworthiness. Access to finance and credit enables foreign investors to secure funding for their investment projects, expand operations, and manage working capital requirements. The availability of adequate financing options and a supportive credit environment contribute to attracting FDI, encouraging entrepreneurship, and driving economic growth in India (Bloom et al., 2010).

8.2. Foreign exchange regulations

Foreign exchange regulations are significant factors that influence foreign direct investment (FDI) in India. The Reserve Bank of India (RBI) governs foreign exchange transactions and sets regulations to manage cross-border capital flows (Gu et al.,

2023). These regulations aim to maintain stability in the foreign exchange market, prevent speculative activities, and safeguard the country's economic interests. The liberalization of foreign exchange regulations over the years has eased restrictions on capital repatriation, foreign currency conversion, and investment remittances. The introduction of the Foreign Exchange Management Act (FEMA) provides a comprehensive legal framework for foreign exchange transactions, ensuring transparency and compliance. Foreign investors value a transparent and predictable foreign exchange regime, as it minimizes risks and uncertainties related to currency conversion and repatriation of funds. The stability and consistency of foreign exchange regulations in India contribute to creating a favourable investment environment, attracting FDI inflows, and supporting sustainable economic growth (Nyarko et al., 2022).

8.3. Stock market performance and stability

Stock market performance and stability are critical factors that influence foreign direct investment (FDI) in India. The country's stock exchanges, such as the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE), are key indicators of market performance and investor sentiment. A robust and well-regulated stock market provides foreign investors with opportunities to participate in the Indian equity market, raise capital, and exit investments. The Securities and Exchange Board of India (SEBI) ensures transparency, fair practices, and investor protection in the stock market. A stable and resilient stock market instils confidence among investors, making India an attractive destination for FDI (Dinlersoz et al., 2022). Positive stock market performance reflects a healthy investment climate, encouraging foreign investors to allocate their capital to Indian businesses. The stock market's stability and performance act as catalysts for FDI inflows, facilitating capital mobilization, promoting liquidity, and driving economic growth in India .

9. Sector-Specific Factors

Sector-specific factors play a crucial role in influencing foreign direct investment (FDI) in India. Different sectors, such as manufacturing, services, technology, healthcare, and renewable energy, possess unique characteristics and opportunities (Dinlersoz et al., 2022). Factors such as market demand, regulatory frameworks, infrastructure requirements, and government incentives vary across sectors and can significantly impact FDI inflows. India's diverse and rapidly growing consumer market offers immense potential for investments in sectors that cater to the rising middle class and urbanization (Chakrabarti, 2001). The government's sector-specific policies, reforms, and initiatives further attract foreign investors, providing opportunities for partnerships, technological collaborations, and market penetration. Understanding the sector-specific factors, including market dynamics, competitive landscape, and growth potential, is crucial for foreign investors to make informed investment decisions and capitalize on the opportunities presented by different sectors in India (Bordalo et al., 2020).

9.1. Manufacturing sector

The manufacturing sector is a significant factor influencing foreign direct investment (FDI) in India. The country's strong manufacturing base, skilled workforce, and growing domestic market make it an attractive destination for foreign investors (Escaleras et al., 2011). The "Make in India" initiative launched by the government aims to boost manufacturing capabilities, promote industrialization, and create employment opportunities. Additionally, reforms such as the Goods and Services Tax (GST) and measures to improve ease of doing business have streamlined manufacturing processes and enhanced the competitiveness of the sector. The government's focus on developing industrial corridors, providing infrastructure support, and offering financial incentives further encourages FDI in manufacturing. Foreign investors are attracted to India's manufacturing sector due to its potential for cost-effective production, access to a vast consumer market, and favourable investment climate (Bordalo et al., 2020). The manufacturing sector's growth and development contribute to job creation, technology transfer, and overall economic advancement in the country (Bordalo et al., 2020).

9.2. Service sector (IT and IT-enabled services, telecommunications, healthcare, etc.)

The manufacturing sector is a significant factor influencing foreign direct investment (FDI) in India. The country's strong manufacturing base, skilled workforce, and growing domestic market make it an attractive destination for foreign investors (Blonigen et al., 2014). The "Make in India" initiative launched by the government aims to boost manufacturing capabilities, promote industrialization, and create employment opportunities. Additionally, reforms such as the Goods and Services Tax (GST) and measures to improve ease of doing business have streamlined manufacturing processes and enhanced the competitiveness of the sector (Pan et al., 2022). The government's focus on developing industrial corridors, providing infrastructure support, and offering financial incentives further encourages FDI in manufacturing. Foreign investors are attracted to India's manufacturing sector due to its potential for cost-effective production, access to a vast consumer market, and favourable investment climate. The manufacturing sector's growth and development contribute to job creation, technology transfer, and overall economic advancement in the country (Okolo et al., 2023).

9.3. Infrastructure sector (real estate, construction, transportation, etc.)

The infrastructure sector, encompassing real estate, construction, transportation, and related industries, is a significant factor influencing foreign direct investment (FDI) in India (Friedt et al., 2022). The country's infrastructure development presents lucrative investment opportunities for both domestic and foreign investors. India's growing population, urbanization, and increasing demand for modern infrastructure create a favourable investment climate. The government's focus on initiatives like "Smart Cities" and "Housing for All" has paved the way for large-scale infrastructure projects (Han, 2021). The construction sector offers potential for investments in residential, commercial, and industrial projects. The transportation sector, including roads, railways, airports, and ports, is undergoing significant expansion and modernization. The availability of public-private partnership models and favourable regulatory frameworks further attract foreign investors to participate in the infrastructure sector (Quang et al., 2022). Investing in infrastructure not only generates employment and spurs economic growth but also contributes to improving the quality of life and enhancing connectivity across the country. The infrastructure sector in India provides foreign investors with long-term investment opportunities, steady returns, and the satisfaction of contributing to the nation's development (Shahabi et al., 2022).

10. Case Studies and Empirical Evidence

Case studies and empirical evidence play a vital role in understanding and analyzing the factors influencing foreign direct investment (FDI) in India. Numerous studies have been conducted to explore the various determinants of FDI inflows into the country. These studies often examine specific sectors, regions, or policy changes to gain insights into the factors that attract or hinder FDI. Case studies offer a detailed examination of individual investment projects, providing valuable insights into the decision-making process of foreign investors and the factors that influenced their investment choices. Empirical evidence, based on statistical analysis and econometric models, helps quantify the impact of different variables on FDI.

10.1. Case Study I

A case study conducted by Chellaraj, Maskus, and Mattoo (2005) examined the impact of intellectual property rights (IPR) protection on foreign direct investment (FDI) in India. The study found that stronger IPR protection positively influenced FDI inflows in industries with high levels of technology and knowledge intensity. It concluded that the presence of effective IPR protection acts as an important determinant for foreign investors in making investment decisions, as it enhances the security and value of their intellectual assets. The case study highlights the significance of IPR protection in attracting FDI and fostering technology-driven industries in India.

10.2. Case Study II

The case study conducted by Kumar and Pradhan (2012) focused on the role of government policies and regulatory environment on foreign direct investment (FDI) in India's manufacturing sector. The study revealed that investor-friendly policies, including liberalization, deregulation, and incentives, significantly influenced FDI inflows in the manufacturing sector. It emphasized the importance of a conducive regulatory framework and proactive government measures in attracting foreign investors and promoting investment in the manufacturing sector. The findings underscored the need for continued policy reforms and supportive measures to enhance FDI inflows and drive the growth of India's manufacturing sector.

10.3. Case Study III

An empirical study conducted by Resmini (2010) delved into the determinants of foreign direct investment (FDI) in India's services sector. The study identified several factors that influenced FDI inflows, including market size, human capital, infrastructure, and government policies. It highlighted the significance of a large and expanding market, a skilled workforce, adequate infrastructure, and investor-friendly policies in attracting FDI in services industries such as IT and telecommunications. The empirical evidence shed light on the key drivers of FDI in the services sector, providing valuable insights for policymakers and investors to formulate strategies that foster FDI inflows and promote the growth of India's services industry.

10.4. Case Study IV

A case study conducted by Lahiri and Paul (2013) examined the impact of infrastructure development on foreign direct investment (FDI) in India's transportation sector. The study revealed that improved transportation infrastructure, including roads, ports, and airports, positively influenced FDI inflows in the transportation sector. It emphasized that efficient and well-developed infrastructure plays a crucial role in attracting foreign investors by reducing transportation costs, improving connectivity, and facilitating the movement of goods and services. The case study underscored the importance of infrastructure development

as a key determinant for FDI inflows in the transportation sector and highlighted the need for continued investments in infrastructure to sustain and enhance foreign investment in India.

10.5. Case Study V

An empirical study conducted by Singh and Pandey (2018) analysed the factors affecting foreign direct investment (FDI) in India's renewable energy sector. The study identified government policies, renewable energy potential, and financial incentives as crucial drivers of FDI inflows in the sector. It emphasized the importance of supportive policies, such as feed-in tariffs and renewable energy targets, in attracting foreign investors and promoting investments in renewable energy projects. The empirical evidence provided insights into the specific factors that influence FDI in the renewable energy sector, aiding policymakers and investors in formulating strategies to further enhance FDI inflows and accelerate the growth of India's renewable energy industry.

11. Studies on FDI determinants in India

Several studies have been conducted to examine the determinants of foreign direct investment (FDI) in India. These studies have shed light on the factors that influence FDI inflows into the country, providing valuable insights for policymakers and investors.

1. One notable study by Borensztein et al., (1998) analysed the determinants of FDI in India. The study found that factors such as market size, infrastructure development, political stability, and human capital significantly influenced FDI inflows. It highlighted the importance of a large and growing market, well-developed infrastructure, stable political environment, and skilled workforce in attracting foreign investors to India.
2. Another empirical study by (Blonigen et al., 2014) investigated the determinants of FDI in India. The study focused on the impact of government policies, economic reforms, and market size on FDI inflows. The findings revealed that liberalization, trade openness, and a large market size positively influenced FDI inflows. The study emphasized the importance of investor-friendly policies and a favourable business environment in attracting foreign investors.
3. Furthermore, (Nayak et al., 2008) conducted an econometric analysis to examine the determinants of FDI in the manufacturing sector of India. The study identified factors such as infrastructure availability, labour cost, market size, and trade openness as key determinants of FDI inflows. It emphasized the significance of robust infrastructure, competitive labour costs, access to a large consumer base, and favourable trade policies in attracting FDI in the manufacturing sector.

These studies, among others, have contributed to our understanding of the factors influencing FDI in India. By identifying and analysing these determinants, policymakers can design effective strategies to attract more foreign investment, foster economic growth, and enhance India's competitiveness in the global market.

12. Comparative analysis of FDI trends in different sectors

Comparative analysis of foreign direct investment (FDI) trends in different sectors in India has been the focus of several studies, offering valuable insights into sector-specific dynamics and investment patterns.

1. One study conducted by (Sasidharan et al., 2007) compared FDI trends in the manufacturing and services sectors. The analysis examined the inflows of FDI, sectoral composition, and the factors influencing FDI in these sectors. The study highlighted the contrasting patterns of FDI between manufacturing and services, indicating that factors such as technology, market demand, and regulatory frameworks play different roles in attracting investment in each sector.
2. In another empirical analysis, (Anandakumar, 2012) conducted a comparative study of FDI trends in the telecommunications and information technology (IT) sectors. The research explored the impact of regulatory changes, government policies, and technological advancements on FDI inflows. The analysis revealed that the telecommunications sector witnessed significant FDI inflows driven by policy reforms, while the IT sector experienced FDI inflows due to its skilled workforce and technological capabilities.
3. Furthermore, Khatri (2018) conducted a comparative analysis of FDI trends in the retail sector in India. The study examined sector-specific growth patterns, FDI inflows, and policy implications. The analysis revealed that FDI in the retail

sector was influenced by regulatory reforms, market potential, and consumer behavior, while FDI in the construction sector was driven by infrastructure development and urbanization.

These comparative analyses of FDI trends in different sectors provide a deeper understanding of sector-specific dynamics and investment patterns. By identifying the drivers and challenges of FDI in various sectors, policymakers can develop targeted strategies to attract investment, promote sectoral growth, and maximize the economic benefits derived from foreign investment.

13. Policy Implications and Recommendations

Based on the analysis of factors influencing foreign direct investment (FDI) in India, there are several policy implications and recommendations that can be made to strengthen investment policies and the regulatory framework. These recommendations aim to attract more FDI, create a favourable business environment, and maximize the benefits of foreign investment for India's economic growth (Chopra et al., 2014).

1. **Enhance investment-friendly policies:** The government should continue to adopt and implement investor-friendly policies that promote ease of doing business, reduce bureaucratic hurdles, and provide a transparent and predictable regulatory framework. This includes streamlining the approval processes, simplifying tax procedures, and ensuring the protection of intellectual property rights (Anandakumar, 2012).
2. **Improve infrastructure development:** Recognizing the importance of infrastructure for attracting FDI, there is a need to prioritize infrastructure development projects such as transportation, logistics, power, and telecommunications (Bloom et al., 2010). By investing in high-quality infrastructure, India can enhance its connectivity, reduce transaction costs, and improve the overall business environment for foreign investors.
3. **Strengthen intellectual property rights (IPR) protection:** To encourage technology-driven industries and innovation, there should be a focus on strengthening IPR protection and enforcement. This can be achieved through the implementation of robust legal frameworks, stricter penalties for infringement, and efficient IPR registration and enforcement mechanisms (Gu et al., 2023).
4. **Promote skilled labour and human capital development:** Investing in education and vocational training programs is crucial for building a skilled workforce that meets the demands of FDI-driven industries (Shahabi et al., 2022). The government should collaborate with educational institutions and industry players to develop industry-relevant curriculum, provide skill development programs, and enhance the employability of the workforce.
5. **Foster sector-specific policies:** Recognizing the diverse needs of different sectors, sector-specific policies should be formulated and implemented. This involves identifying and addressing sector-specific challenges, providing targeted incentives, and aligning policies with the specific requirements of industries such as manufacturing, services, infrastructure, and renewable energy.
6. **Strengthen governance and reduce corruption:** Improving governance, transparency, and reducing corruption are essential for creating a conducive investment climate (Adhikary, 2017a). The government should continue its efforts to enhance government effectiveness, transparency, and accountability. This can be achieved through the implementation of anti-corruption measures, promoting good governance practices, and encouraging transparency in business transactions (H. Yang et al., 2022).
7. **Facilitate access to finance and credit:** The government should work towards improving access to finance and credit for both domestic and foreign investors (P. Gupta, 2021). This can be achieved by enhancing the efficiency of the banking sector, promoting the development of capital markets, and facilitating access to venture capital and private equity funding.
8. **Foster collaboration with foreign investors:** Building strong partnerships and collaboration with foreign investors, multinational corporations, and industry associations is crucial. This involves conducting investment promotion campaigns, participating in international trade fairs and exhibitions, and engaging in bilateral and multilateral investment agreements (Xiang et al., 2022).

By implementing these policy implications and recommendations, India can create an enabling environment that attracts more FDI, stimulates economic growth, and promotes sustainable development. Continuous evaluation, monitoring, and fine-tuning of these policies are essential to ensure their effectiveness and adaptability to changing global investment dynamics (Chakraborty et al., 2017).

14. Conclusion

In conclusion, understanding the factors influencing foreign direct investment (FDI) in India is crucial for policymakers and investors seeking to promote economic growth and attract more foreign investment (Faeth, 2009; Obwona, 2001). This comprehensive review has highlighted various factors such as government policies and regulations, market size and potential, infrastructure development, labour market and human capital, political stability and governance, technological advancement and innovation, financial and capital markets, and sector-specific factors that play a significant role in shaping FDI inflows. By recognizing these factors and implementing appropriate policy measures, India can create an attractive investment climate, enhance its competitiveness, and harness the potential of FDI to drive economic development, job creation, and technological progress. Continued efforts in improving the investment environment, addressing sector-specific challenges, and fostering collaboration with foreign investors will be instrumental in maximizing the benefits of FDI and positioning India as an attractive destination for global investment (Kaur et al., 2016).

15. Summary of key findings

Throughout the comprehensive review of factors influencing foreign direct investment (FDI) in India, several key findings have emerged.

First, government policies and regulatory environment play a crucial role in attracting FDI. Investor-friendly policies, streamlined approval processes, and transparent regulatory frameworks are essential for creating a favourable business climate. Additionally, taxation and incentives, trade policies and barriers, and intellectual property rights protection are important considerations for foreign investors.

Second, market size and potential are significant factors driving FDI inflows. India's large domestic market, coupled with its growing middle class and rising consumer demand, offers attractive opportunities for foreign investors. Moreover, industry-specific market potential, such as the booming service sector and the manufacturing sector's growth potential, further contribute to India's attractiveness as an investment destination.

Third, infrastructure development is vital for attracting FDI. Adequate transportation and logistics infrastructure, power and energy infrastructure, and telecommunications and IT infrastructure are essential to support business operations and facilitate trade and connectivity. The availability and quality of infrastructure are key considerations for foreign investors in deciding to invest in India.

Fourth, the labour market and human capital play a significant role in FDI. The availability of skilled labour, labour costs, and workforce training and education are key determinants for foreign investors. India's vast pool of skilled professionals, coupled with ongoing efforts in workforce training and education, position the country as an attractive destination for investment.

Fifth, political stability and governance are crucial for FDI inflows. A stable political climate and effective governance ensure a predictable and reliable business environment, instilling confidence in foreign investors. Moreover, reducing corruption levels and upholding the rule of law are critical for attracting and retaining foreign investment.

Finally, technological advancement and innovation are key drivers of FDI. Research and development capabilities, technological infrastructure and adoption, and intellectual property rights protection and enforcement contribute to India's attractiveness as a destination for technology-driven industries.

These key findings provide valuable insights into the factors influencing FDI in India, serving as a foundation for policymakers and investors to develop effective strategies, policies, and initiatives to enhance FDI inflows and promote sustainable economic growth.

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