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Diagnosis of the Foreign Direct Investment Landscape in India

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ABSTRACT

There is a great flow of funds among countries, money flowing to more attractive destinations than others. Investors prefer to invest in destinations that offer attractive returns and are relatively less risky. FDI gives access to capital that would otherwise be not available, and provides much-needed foreign exchange, and therefore helps to adjust some of the macroeconomic imbalances in developing countries. India is in the growth mode, trying to boost the growth rate, but the resources available are limited; hence India is competing against others to make the investment climate more investor-friendly. This study aims to find out the status of India as an FDI destination, the factors that attract and hinder the inflow of FDI, and how to capitalize on them. This study is based on secondary data and covers a period of six years. The study analysis various determinants of FDI and reveals that India has the potential, decent growth, political stability, organized financial system and acceptable policy that makes it attractive to FDI.

Keywords: FDI, Multinational Corporations, Investor-friendly, Investment Decision
JEL Classifications: F21, F23

1. INTRODUCTION

In today's global world, there is a great flow of investments between countries, investments flowing to destinations relatively more attractive than others. Whether it be individuals, corporates or nations, investors will always prefer to invest in assets that give attractive returns and are relatively less risky. Every asset or corporate, or country has different characteristics that attract different investors differently at different times. Foreign Direct Investment (FDI) is the investment made by a company in the investor country into a foreign host country. It can take the form of acquiring already existing host firms or establishing new companies in the host country, or entering into a joint venture with an existing host firm. The importance of FDI is growing because of the beneficial impact on both the host country's economy and a firm's performance and profitability.

World Economy has seen a rapid rise in foreign direct investment for more than three and half decades. World Investment Report (2018) stated that there had been a decline in global FDI by 23%, i.e. $1.43 trillion. Even with this decline, the FDI to developing economies remained stable at $671 billion in 2017. Asia was the largest recipient of FDI globally, with a total of $476 billion in inflows in 2017 (Singh, 2019). The inflow of FDI gives developing countries access to capital that would otherwise be not available, as Multinational Corporations (MNCs) often have privileged access to capital from the international banking sector. Similarly, FDI provides needed foreign exchange and helps adjust some of the macroeconomic imbalances in developing countries. Many countries in Asia, Africa and the Middle East are in the growth mode, but the resources available for development with them are limited and insufficient; hence all these nations are competing against each other to make the investment climate better and project themselves as the best FDI friendly destination.

India, officially the Republic of India, is a country in South Asia. India is the second-most populous country globally (after China), with an estimated population of 1.36 billion people (in 2019). The country is subdivided into 29 states and 7 Union Territories. With an area of 3,287,263 km, India is the seventh-largest country in the world, about one-third the size of the USA. India is a secular federal republic governed by a democratic parliamentary system. India is the most populous democracy in the world. (Wikipedia, 2019). It is a pluralistic, multilingual and multi-ethnic society. India's population grew from 361 million in 1951-1.36 Billion in 2019. During the same time, its nominal per capita income increased from US$64 annually to US$1,498, and its literacy rate from 16.6% to 74%. From being a comparatively impoverished country in 1951, India has become a fast-growing major economy, a hub for information technology services, with an expanding middle class. India is one of the fastest-growing economies in the world. Moreover, the Prime Minister of India, Mr. Modi, has set the ambitious goal of turning India into a $5-trillion economy by 2025. Reaching that goal would be good for the people of India and the world, but reaching this ambitious goal will require wider participation and wholehearted contributions from all stakeholders, both domestic and international. Table 1 gives the data on FDI inflow into India during the period 2013-2019.

The inflow of FDI during the last 6 years has increased by US$ 22,400 million, from US$ 28,153 million in 2013 to US$ 50,553 million in 2019, an increase of approximately 80%. The net inflow of FDI into India had been growing at 22.84% in 2014 and 27.42% in 2015, and after that, the annual growth rate has drastically declined. This scenario has prompted this study.

The main objectives of this study are to find out the status of India as a destination for FDI; the factors that attract FDI into India and how these can be enhanced; and the factors that hinder the flow of FDI into India and how these can be reduced or removed. The study's findings would help the investors arrive at a better decision regarding FDI into India and similarly help the regulators and other stakeholders formulate appropriate policies and take necessary steps to enhance the FDI attractiveness of India. This paper is organized as follows: Section 2 presents a literature review on FDI. Section 3 states the methodology. Section 4 focuses on analysis and discussions, and Section 5 concludes the paper.

2. LITERATURE REVIEW

Foreign direct investment is widely perceived as a powerful development engine for many receiving (host) countries. FDI can play a key role in improving the capacity of the host country to respond to the opportunities offered by global economic integration, a goal increasingly recognized as one of the key aims of any development strategy. Virtually all countries actively seek to attract FDI because of its expected favourable effect on income generation from capital inflows, advanced technology, management skills and market know-how (Cho, 2003). The motivational factors such as natural resources, market resources, strategic resources, efficiency resources, locational advantages, etc., influenced Multinational Corporates (MNCs) to perform various activities in the host countries. Initially, MNCs search for the customers in host countries and conclude by encompassing productive activities when the foreign market confers higher value to the firm (Bhattacheryay, 2018).

Numerous studies have been conducted in different parts of the world, and the majority of the studies have inspected the effects of determinants of FDI inflow and found that relevant determinants include the size and growth potential of the host market, economic stability, economic growth, infrastructure, human capital, interest rate, per capita income, exchange rate, wage rate, quality of institutions, etc.

The literature review's presentation is sequenced so that the literature relating to market size is presented first, followed by political stability, and then all literature relating to all other factors is arranged chronologically.

Market size is expected to have a positive relationship with FDI. Market-oriented FDI aims to set up enterprises to supply goods and services to the local market. The general implication is that host countries with larger market sizes, faster economic growth and a higher degree of economic development will provide more and better opportunities for these industries to exploit their ownership advantages and, therefore, will attract more market-oriented FDI (OECD, 2000). The study by Resmini (2000), looking into manufacturing FDI, finds that countries in Central and Eastern Europe with larger populations tend to attract more FDI. The studies by Kravis and Lipesey (1982) and Na and Lightfoot (2006) revealed that the market size and market potential have largely attracted FDI inflow. Xaypanya et al. (2015) investigated the significant factors determining foreign direct in Cambodia, Laos, and Vietnam (ASEAN3) and Indonesia, Malaysia, the Philippines, Thailand, and Singapore (ASEAN5) and found that market size and infrastructure facility are significant factors to attract FDI. Dunning (1973) studied econometric models using a statistical analysis of surveys on the determinants of FDI and found that market forces such as market size, growth and per capita income in the host country, and cost factors like labour cost and inflation as factors attracting FDI. Casi and Resmini (2010) inspected the determinants of FDI in the EU region and found that the main determinants are GDP growth rate, labour costs, and market potential. The study by Makki et al. (2004) on the US food processing industry found that market size, per-capita income, and openness significantly affected the US food processing firms' decisions to invest abroad. Thus, large host countries with high growth rates and higher per capita income attract higher foreign direct investment due to greater potential demand.

Table 1: Foreign direct investment in India: net inflows (US$ in million)

	2013	2014	2015	2016	2017	2018	2019
Net inflows	28,153	34,582	44,064	44,481	39,904	42,156	50,553
Increase		6,429	9,482	417	−4,577	2,252	8,397
Y-O-Y Growth		22.84%	27.42%	0.95%	−10.29%	5.64%	19.92%

Source: Compiled from World Bank database

Khachoo and Khan (2012) conducted a study to examine FDI determinants in 32 developing countries from 1982 to 2008 using an econometric model. Their empirical results showed that market size, total reserve, and infrastructure were positively related to FDI inflows.

Political stability and reliability determine the FDI inflows. MNCs prefer a stable government so that their investment is protected. Political instability may be in the form of the government's negative attitude towards MNCs, non-allowance of fund transfer, currency convertibility, war, bureaucracy, and corruption. Political stability can also be measured by the number of changes in democratically elected governments (Gedam, 1996). The study by Root and Ahmed (1979), and Schneider and Frey (1985), looking at aggregate investment flows into developing economies, found that political instability significantly affects FDI inflows.

Tax policies**,** including corporate and personal tax rates, influence inward FDI. Other things being equal, a country with lower tax rates should stand a greater chance of attracting FDI projects than a country with higher rates (Chopra, 2003).

According to Neumayer and Indra (2005), the availability of raw materials provides investors with an added advantage with regard to producing efficiently.

The study by Uwubanmwen and Ajao (2012) shows that trade openness, interest rate, government size, and GDP exerted a positive control on cross-border investments in Nigeria, and a negative relationship was found between FDI and exchange rates.

According to Milner (2013), the presence of a productive labour force is one of the determinants that influence the scope of FDI in a country.

A glance at the literature on the advantages of inflow of FDI shows that the foremost advantage of FDI is increased revenues that can be used for expanding growth opportunities in the investment destination. According to Almutawa et al. (2014), investments by foreigners refer to additional revenue that supports various economic projects of a country. According to Muysken and Samia (2006), unemployment rates are reduced as a result of capital injections and job opportunities from foreign-based companies. FDI also increases the competitive advantage of a country by developing financial and business hubs that boost economic growth. Mina (2007) points out that FDI promotes the economic growth of a nation by stimulating various sectors of the economy, such as manufacturing and tourism.

In brief, the trend in FDI flows differs by region and country. Although FDI has innumerable effects on the economy of host countries, and most countries are trying hard to attract FDI, the inflow of FDI continues to be uneven, with some countries getting the lion's share and others barely getting any.

3. METHODOLOGY

The main objectives of this study are to find out the status of India as a destination for FDI; the factors that attract FDI into India and how these can be enhanced, and the factors that hinder the flow of FDI into India and how these can be reduced or removed. The study is solely based on secondary data collected from local, regional and international agencies like the Government of India, Reserve Bank of India, World Economic Forum, International Monetary Fund, Transparency International, World Bank Group, United Nations and various publications of the statistical departments, governments, and the press. The study covers a period of six years, from 2014 to 2019. The collected data are tabulated and analyzed using appropriate analytical tools.

4. ANALYSIS AND DISCUSSIONS

The Global Competitiveness Report 2019, published by the World Economic Forum, assesses the competitiveness landscape of 141 economies, providing insight into the drivers of their productivity and prosperity. These 141 economies account for 99% of the world's GDP. Until 2018 the competitiveness ranking was based on indicators organized into 12 "pillars": Institutions; Infrastructure; Macroeconomic environment; Health and primary education; Higher education and training; Goods market efficiency; Labour market efficiency; Financial market development; Technological readiness; Market size; Business Sophistication and Innovation.

Globalization and the Fourth Industrial Revolution have created new opportunities but have also brought in disruption and polarization within and between economies and societies. In this context, the World Economic Forum introduced in 2018 the new Global Competitiveness Index 4.0. (GCI 4.0), which provides a detailed map of the factors and attributes that drive productivity, growth and human development in the era of the Fourth Industrial Revolution. The GCI 4.0 is the product of an aggregation of 103 individual indicators derived from a combination of data from international organizations as well as from the world economic forum's executive opinion survey. Indicators are organized into 12 "pillars": Institutions; Infrastructure; ICT adoption; Macroeconomic stability; Health; Skills; Product market; Labour market; Financial system; Market size; Business dynamism; and Innovation capability. Each indicator or "pillar" uses a scale from 0 to 100 to show how close an economy is to the ideal state or "frontier" of competitiveness in that area (Global Competitiveness Report, 2019). The Report series remains the most comprehensive assessment of national competitiveness worldwide. Table 2 presents the year-wise ranking of India by global competitiveness index for the years 2014-2019.

The Global Competitiveness Report 2019 ranks India as the most competitive nation in South Asia and 68th globally, followed by Sri Lanka (84th), Bangladesh (105th), Nepal (108th) and Pakistan (110th). However, the data in Table 2 show the relative ranking of India has declined from rank 39 in the year 2017 to rank 68 in the year 2019, which could be either India is going back in competitiveness,

Table 2: Global competitiveness index: Ranking of India - 2014-2019

Year	2014	2015	2016	2017	2018	2019
Global rank	60	71	55	39	58	68

Source: Compiled from Global competitiveness reports 2014 to 2019 or other countries are enhancing their competitiveness at an accelerated pace and leaping forward which is pushing India back in the relative ranking. This calls for an analysis of various determinants of FDI, beginning with the market size.

4.1. Market Size

Market size, growth in market size and market efficiency are important determinants of FDI. The market size and the growth prospects of the host country's market are important pull factors and are positively related to the level of FDI flows (Dunning, 1993 and Chandalert, 2000). A huge market size allows the attainment of economies of scale, and transaction costs are lower in countries with higher levels of economic development (Caves, 1971; Zhao and Zhu, 2000).

India is the sixth-largest economy in the world. The population of India is more than 1.3 billion, the GDP is US$2,718.73 billion, and GDP per capita income is US$ 2,037.69, according to the International Monetary Fund, World Economic Outlook Database (October 2019). The market size can be measured by the population and the growth of the population of the country. Table 3 gives the population, the growth of population, the population density and the land area of the top 10 countries with the highest population.

The size of the Indian market (based on population) has increased by 36% during the 10-year period from 2000 to 2019. It is projected that the expected population will be 1.65 billion by the year 2050. A larger population means a better domestic market that can consume goods and services provided by investors.

Expanding the domestic market is a priority in relation to improving the investment climate in any country. Moreover, in India, the population density is very high, 460 per sq. km, whereas it is only 153 per sq. km in China. If one looks into the future, it is projected that by 2050 the population of India will be far ahead of that of China. The growing population brings plenty of opportunities for domestic and international investors. This definitely will attract more FDI. Table 4 gives the global ranking for India on market size for the period 2014-2019.

Throughout the period of study, India is positioned high at rank 3. Further analysis reveals that India is currently the world's sixth-largest economy, with an annual GDP growth rate of 7.5%. With this growth rate, India is poised to become the third-largest consumer market behind only the US and China; and consumer spending in India is expected to grow from US$ 1.5 trillion at present to nearly US$ 6 trillion by 2030 (WEF Report, 2019).

It is appropriate to analyze the composition of the market. A market with a growing middle-class is quite attractive for any investor as in future, the market will be getting larger in size with a growing number of potential consumers with adequate purchasing power. Based on global averages, households making an annual income between $7,500 and $60,000 are classified as middle-class consumers. This trend explores how this income class will have the potential to drive the global economy and will also emerge as a significant consumer base. The global middle-class is growing at a slow pace of 0.5% per year in developed regions, such as the United States, Japan, and Europe. In contrast, in developing countries, such as India and China, the y-o-y growth rate is nearly 6%. Globally, the middle-class is expected to grow from 2 billion to nearly 5 billion within two decades, and global spending is expected to grow by $29 trillion. By 2030, more than 65% of the global middle-income class population will be residing in Asia. In the next 20 years, India is expected to add over one billion people to the global middle class. Thus, India could be the world's largest middle-class consumer market, overtaking China and the United States (Frost and Sullivan, 2019). Moreover, the report by the Retailers Association of India (RAI) along with Boston Consulting Group (BCG) titled "Retail 4.0: Winning the 20s" states that the Indian retail market is likely to hit the $1.1-$1.3 trillion mark from $0.7 trillion in 2019, a 9%-11% CAGR growth, driven by multiple structural, socio-demographic and economic drivers fueling consumption. Thus, India is the future, and investors should take steps to invest in India to reap the benefits of the predicted largest market base with the highest purchasing power.

4.2. Economic Growth

Over the past decade, growth in advanced economies has been very weak. Many emerging economies - including Argentina, Brazil, Russia and China - are experiencing some slowdown or stagnation. In least-developed economies, growth remains well below potential and highly volatile. Productivity growth started slowing down well before the financial crisis of 2008. Between 2000 and 2007, total factor productivity (TFP) annual growth averaged just 1% in advanced economies and 2.8% in emerging and developing economies. TFP then plummeted during the crisis. Between 2011 and 2016, TFP grew by 0.3%

Table 3: Top ten countries with the highest population

#	Country	2000 Population	2019 Population	2050 Expected Population	Growth Pop % 2000-2019	Density (P/Km²)	Land Area (Km²)
1	China	1,268,301,605	1,420,062,022	1,301,627,048	11.90	153	9,388,211
2	India	1,006,300,297	1,368,737,513	1,656,553,632	36.00	460	2,973,190
3	United States	282,162,411	329,093,110	398,328,349	16.60	36	9,147,420
4	Indonesia	214,090,575	269,536,482	300,183,166	25.90	149	1,811,570
5	Brazil	174,315,386	212,392,717	232,304,177	21.80	25	8,358,140
6	Pakistan	152,429,036	204,596,442	290,847,790	34.20	281	770,880
7	Nigeria	123,945,463	200,962,417	391,296,754	62.10	221	910,770
8	Bangladesh	128,734,672	168,065,920	193,092,763	30.50	1,253	130,170
9	Russia	147,053,966	143,895,551	129,908,086	−2.20	9	16,376,870
10	Mexico	99,775,434	132,328,035	150,567,503	32.60	66	1,943,950

Source: https://www.internetworldstats.com/stats8.htm. Density and land area: https://www.worldometers.info/world-population/population-by-country/

Table 4: Market size: Global competitiveness index ranking of India – 2014-2019

Year	2014	2015	2016	2017	2018	2019
Global rank	3	3	3	3	3	3
GDP PPP (Billion $)	5,069.20	7,375.90	7,965.20	8,662.30	8,616	9,338

Source: Compiled from Global competitiveness reports 2014-2019

in advanced economies and 1.3% in emerging and developing economies (Obstfeld and Duval, 2018). Corporates do not operate in a vacuum, and they are highly influenced and attracted by the environmental factors and economic growth of the economy in which they do business. Corporates in high growth economies can envisage growth at a higher rate than those in the low growth countries as the environment highly influences the entity. For emerging economies like India, FDI is often referred to as the most effective way to transfer capital and technology from other economies, especially the developed ones. These economies, in return, look at India as an economy with immense growth potential (Thomas, 2016). Table 5 shows the annual percentage growth rate of GDP at market prices based on constant local currency for India during the period 2014-2019.

Table 5: Economic growth of India - 2014-2019

Year	2014	2015	2016	2017	2018	2019	Average
Growth rate (%)	7.41	8	8.26	6.80	6.53	4.04	6.84
Global Rank	13	8	8	22	22	66	

Source: Compiled from TheGlobalEconomy.com, reports 2014-2019

The global average growth rate for 2019 was 2.83%. In 2019 India was at a low rank of 66 with a growth rate of 4.04%. During the last 6 years, India has been growing at an annual average rate of 6.84%, one of the highest in the world. However, from 2017 the growth rate has slightly decreased compared to the previous years. Moreover, global growth is currently slowing amid sluggish investment and weakening trade. Like many countries, India's economy is also facing challenges, with consumption softening and investment slowing, which calls for immediate action from all stakeholders to bring back the economy on the track to high growth for a better future. Of course, the policymakers of India are taking steps necessary to accelerate the growth rate, but more is required to jump-start the economy, as it has to grow at a higher rate to cater to the expanding domestic market. The positive note for India is the "Global Mega Trends to 2030" forecast report (Frost and Sullivan, 2019), which forecasts that after 2020, economic growth in BRICS nations (India, one among them) will pick up the pace, and the consolidated economy is expected to grow at a CAGR of 7.9% between 2018 and 2030; between 2021 and 2030, growth will be at its highest at 8.2%.

4.3. Infrastructure

Infrastructure is a major determinant of FDI. Excellent infrastructure plays a major role in the productivity and profitability of Multinational Corporations (MNCs), thus, their decision about FDI location. Table 6 gives the global ranking of India for the period 2014-2019 based on road connectivity, quality of road infrastructure, railroad density, the efficiency of train services, airport connectivity, the efficiency of air transport services, liner shipping connectivity, the efficiency of seaport services,

Table 6: Infrastructure: Global competitiveness index ranking of India - 2014-2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	87	81	68	66	63	70

Source: Compiled from Global competitiveness reports 2014-2019

utility infrastructure, electricity access, electricity supply quality, exposure to unsafe drinking water and reliability of water supply.

The infrastructure sector is a crucial driver of the Indian economy. The sector is highly responsible for propelling India's overall development, and the Government is continuously investing in infrastructure projects and is keen on initiating policies encouraging the private sector players to heavily invest in infrastructure projects that would ensure the time-bound creation of world-class infrastructure in the country. In spite of all this, the infrastructure still seems to be insufficient for a large country like India. In 2019 India was ranked 70 in the Global competitiveness report, whereas in 2018, the rank was higher at 63, which shows that even though India's infrastructure is developing at a high rate, other nations have grown at a higher rate and thus India got pushed to a lower rank. Let us glance into the Logistics Performance Index to get a clearer picture.

4.4. Logistics Performance Index

Logistics is the backbone of trade, and good logistics can reduce trade costs and make countries compete globally. Getting logistics right means improving infrastructure, skills, customs and regulations, policies and governance at the right proportion. The Logistics Performance Index (LPI) is an interactive benchmarking tool created to help countries identify the challenges and opportunities they face in their performance on trade logistics and what they can do to improve their performance. The Logistics Performance Index is reported by the World Bank once every 2 years. The LPI is based on a worldwide survey of operators who provide feedback on the logistics "friendliness" of the countries they operate and those they trade with. The LPI is an indicator of logistics sector performance, combining qualitative and quantitative data on six core performance components. The six core components are: (1) The efficiency of customs and border clearance, (2) The quality of trade and transport infrastructure, (3) The ease of arranging competitively priced shipments, (4) The competence and quality of logistics services, (5) The ability to track and trace consignments, and (6) The frequency with which shipments reach consignees within scheduled or expected delivery times. Table 7 gives the ranking of India from 2014 to 2018.

India's ranking in the World Bank's logistics performance index (LPI) jumped from 54 in 2014 to 35 in 2016, whereas in 2018, it decreased to 44 globally among 160 countries based on six different parameters. This calls the policymakers to strengthen

Table 7: Logistics performance index: Ranking of India - 2014-2018

Year	LPI Global Rank	Parameter-wise global ranks					
		Customs	Infrastructure	International shipments	Logistics competence	Tracking and tracing	Timeliness
2014	54	65	58	44	52	57	51
2016	35	38	36	39	32	33	42
2018	44	40	52	44	42	38	52

Source: Logistics Performance Index, 2014-2018, the World Bank

the logistic sector, as other nations are developing this sector faster and India is losing its competitive edge. However, the position of India among the emerging markets is quite appreciable as it is ranked second in the 2019 Agility Emerging Markets Logistics Index.

The Government is also working on improving energy infrastructure in the country, and investment opportunities worth US$ 300 billion will be available in the sector in the coming 10 years. The infrastructure sector has become the biggest focus area of the Government of India. Under Union Budget 2019-20, the Government has given a massive push to the infrastructure sector by allocating US$ 63.20 billion for the sector. Allocated US$ 5.36 billion to the development of post and telecommunications departments; US$ 9.25 billion to the Indian Railways; US$11.51 billion towards road transport and highway; US$ 540.53 billion to increase the capacity of the Green Energy Corridor Project along with wind and solar power projects, and US$ 1.16 billion to boost telecom infrastructure.

India is expected to become the third-largest construction market globally by 2022. India has a requirement of investment worth US$ 777.73 billion in infrastructure by 2022 to have sustainable development in the country (India Industry Report, 2019). Thus, tremendous opportunities await the investors, and India is already witnessing significant interest from international investors in the infrastructure space. The private sector is emerging as a key player across various infrastructure segments, ranging from roads and communications to power and airports. In order to boost the construction of buildings in the country, the Government of India has decided to come up with a single-window clearance facility to accord speedy approval to construction projects. Hence, investment in this sector is highly recommended and will benefit the investors, the country, and global trade.

4.5. Productive Labor Market

The vibrant diversified labour force in India attracts foreign direct investments. When international investors look for an investment destination, considerations about the skilled nature of the labour force are a matter of priority that determines their scope of success in a country (Brakman et al., 2008). Table 8 gives the data for the labour force, which comprises people with ages 15 and older who supply labour for the production of goods and services during the period of study. It includes people who are currently employed and people who are unemployed but seeking work as well as first-time job seekers.

In 2019 the labour force in India was 494.73 million, just behind China which has the highest labour force of 789.61 million people. Throughout the period of study, India had been retaining the second position just behind China. However, one important trend is that the number in China is gradually declining, whereas the labour force in India is steadily growing and becoming larger year after year. Moreover, India is the world's youngest major country, with 65% of the population under 35. Now let us look at the labour market efficiency. Table 9 gives the ranking for India on labour market efficiency from 2014 to 2019 based on cooperation in labour-employer relations, the flexibility of wage determination, hiring and firing practices, redundancy costs, active labour market policies, workers' rights, ease of hiring foreign labour, internal labour mobility, the effect of taxation on incentives to work, pay and productivity, reliance on professional management, and the ratio of women in the labour force.

Table 8: Labour force in India - 2014-2019

Year	2014	2015	2016	2017	2018	2019
Labour force (million)	473.31	477.30	481.19	484.54	487.63	494.73
Global rank	2	2	2	2	2	2

Source: Compiled from TheGlobalEconomy.com reports 2014-2019

Table 9: Labour market efficiency: Global competitiveness index ranking of India -2014-2019

Year	2014	2015	2016	2017	2018	2019
Global rank	112	103	84	75	75	103

Source: Compiled from Global competitiveness reports 2014-2019

An efficient labour market, easy availability of skilled labour, the ready availability of training facilities and the capacity to attract and retain the right talent from within the country and other parts of the globe are the most important factors that attract international investors. But India is ranked 103 out of 141 nations, which calls for immediate and drastic improvement in this sector if India has to improve its FDI attractiveness. To improve this, India may have to look into its education and training system and ensure that the students graduating out of their higher education institutions have the knowledge and skills matching their peers graduating out of globally high-ranked universities and that the training institutions in India are providing training that is globally the best. As far the investors are concerned, they can be assured of the ready supply of skilled workforce; the only thing they have to do is select the most suitable candidate and give them the right orientation, then you will prefer them to anyone else.

4.6. Political Risk

MNCs usually assess political risk before investing in any country. There are many forms of political risks, but the extreme form is the possibility that the host country will take over a subsidiary. However, this form of political risk is an extreme case and not very common in today's global world. The more common forms of political risk include the negative attitude of the host government to MNCs, blockage of fund transfer, currency inconvertibility, war, bureaucracy, and corruption. Credendo Group provides business and economic data for 200 countries. It has classified country risk under different indicators like political risk short term, political risk medium/long term, special transactions risk, transfer risk, expropriation risk and political violence risk; under each of these indicators, countries are classified into seven categories: from 1 (low risk) to 7 (high risk).

4.6.1. Short-term political risk

The short-term political risk measures the likelihood of a risk caused by political and assimilated events connected to cross-border transactions with a risk horizon of up to 1 year. The aim is to assess the capacity of a country to honour its short-term payment obligations. The model closely follows any deterioration or improvement in the situation of the debtor countries. The average short-term political risk measure value for India during the period of study is 2 for each year from 2014 to 2019. This indicates that short term political risk is very low for India.

4.6.2. Political risk medium/long term

The medium/long-term political risk measures the likelihood of a risk caused by political and assimilated events connected to cross-border transactions with a risk horizon beyond 1 year. It combines an assessment of the economic and financial situation, an assessment of the political situation and a payment experience analysis for each country**.** The average medium/long-term political risk measure value for India during the period of study is 3 for each year from 2014 to 2019. This indicates that medium/long-term political risk is low for India.

4.6.3. Special transactions risk

The risk related to (special) cash transactions is short-term and medium/long-term political risks related to credit transactions. The average value for India during the period of study is 2 for each year from 2014 to 2019. This indicates that special transactions risk is very low for India.

4.6.4. Transfer risk

The currency inconvertibility and transfer restriction risk refer to the inability to convert and transfer out of the host country any funds related to the investment. The average value for India during the period of study is 3 for each year from 2014 to 2019. This indicates that currency inconvertibility and transfer restriction risk is low for India.

4.6.5. Expropriation risk

The risk of expropriation encompasses all discriminatory measures taken by a host government which deprive the investor of his investment without any adequate compensation; and also includes events of embargo, change of (legal) regime and denial of justice, and the probability of a negative change in attitude towards foreign investments. The average value for India during the period of study is 3 for each year from 2014 to 2019. This indicates that expropriation risk is low in India.

4.6.6. Political violence risk

Political violence includes all violent act(s) undertaken with a political objective; and includes: terrorism (political, religious and ideological objectives) and political violence damage (damage to material assets as a result of political violence); business interruption as a result of political violence damage. In order to assess the political violence risk, the index looks at the actual levels of internal violence and external conflict with a country and the conflict potential that arises from (lingering) internal and external tensions, frustration and dissatisfaction. The average value for India during the period of study is 4, with a minimum of 3 index points in 2014 and a maximum of 4 index points in 2017. This indicates that the political violence risk is low for India. Table 10 gives the consolidated ranking for the period 2014-2019.

Table 10: Country risk: Credendo group index ranking of India - 2014-2019

Year	2014	2015	2016	2017	2018	2019
Short-term political risk	2	2	2	2	2	2
Political risk medium/ long term	3	3	3	3	3	3
Special transactions risk	2	2	2	2	2	2
Transfer risk	3	3	3	3	3	3
Expropriation risk	3	3	3	3	3	3
Political violence risk	3	3	3	4	4	4

Source: Compiled from Credendo Group index reports 2014-2019

Hence, international investors can be sure that they will get a warm welcome in India. Their funds will not be blocked, and they will enjoy easy convertibility and fewer bureaucracy bottlenecks. Now let us go deeper into the level of corruption in India.

4.6.7. Corruption

Corruption distorts competition and investment and hinders free and fair trade. The study by Mauro (1995) found that corruption lowers investment and, thereby, economic growth. Tanzi and Davoodi's (1997) study shows that corruption increases public investment while reducing productivity. Regarding foreign direct investment, studies have shown that there exist economic consequences of corruption; the study by Smarzynska and Wei (2001) revealed that foreign investors' choice of entry mode might be affected by the extent of corruption in a host country. Corruption makes dealing with government officials, for example, to obtain local licenses and permits, less transparent and costlier, particularly for foreign investors. In this case, having a local partner lowers the transaction cost, such as the cost of securing local permits. At the same time, sharing ownership may lead to technology leakage. Both costs of local permits and losses from technology leakage are positively related to the extent of corruption in a host country.

When the corruption level is sufficiently high, no investment will take place. India is the least corrupt country in South Asia and offers a business-friendly environment with an effective and efficient public administration. Transparency International (TI) has published the Corruption Perceptions Index (CPI) since 1995, annually ranking countries by their perceived levels of corruption, as determined by expert assessments and opinion surveys. The CPI generally defines corruption as "the misuse of public power for private benefit." Table 11 displays the ranks assigned to India during the last six years.

Table 11: Corruption: Global ranking of India - 2014-2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	85	76	79	81	78	80

Source: Compiled from the corruption perceptions index 2014-2019 by transparency international

The ranking by the Corruption Perceptions Index shows that the nation has to improve a lot in containing and controlling corruption; the data in the table do not confirm much improvement year by year in reducing corruption. Hope the steps taken by the current government see positive results in the near future.

4.7. Interest Rates

High interest rates tend to slow the growth of an economy and reduce the demand for the MNC's products, thus negatively impacting the flow of FDI. High loan interests translate into the cost burden of a company and have been evidenced by the companies that decide to halt operations and move to other regions with low interest rates. From an investor's perspective, low interest rates are better compared to high rates because returns are high when the interest charges are low. The government of India is introducing the reduction of interest on loans to create an ideal environment for both domestic and international investments. Destinations with such incentives will attract more investors than destinations with high interest rates.

The lending rate is the bank rate that usually meets the private sector's short- and medium-term financing needs. This rate is normally differentiated according to borrowers' creditworthiness and financing objectives. Table 12 gives the lending interest rates in India during the period 2014-2019.

Table 12: Lending interest rates in India - 2014-2019

	2014	2015	2016	2017	2018	2019
Interest rate (%)	10.25	10.01	9.67	9.51	9.45	9.47
Global rank	50	49	52	51	45	46

Source: Compiled from TheGlobalEconomy.com reports 2014-2019

The global average lending interest rate for 2019 was 11.07%. The lending rate in India is lower than the global average. It is decreasing year after year, which is a good sign as the lenders can avail of loans at a lower cost, as the cost of capital impacts the corporate decisions and return on investment measuring parameters.

4.7.1. Developed financial system

The presence of financial institutions with sufficient liquidity and transparency to grant quick loans at competitive rates is an important determinant. The investors, market participants, and analysts have generally been very comfortable with the Indian banking system, which consists of 20 public sector banks, 22 private sector banks, 44 foreign banks, 56 regional rural banks, 1,542 urban cooperative banks and 94,384 rural cooperative banks, in addition to cooperative credit institutions. As of March 31, 2019, the total number of ATMs in India increased to 221,703 and is expected to increase further (Indian Banking Industry Report, 2019). As per the Reserve Bank of India (RBI), India's banking sector is sufficiently capitalized and well-regulated. The financial and economic conditions in the country are far superior to any other country in the world. Credit, market and liquidity risk studies suggest that Indian banks are generally resilient and have withstood the global downturn well (India Brand Equity Foundation, 2019).

Liquidity is the essential lubricant of the economic engine. All else follows – cash for investment, growth funding, corporate borrowing, right down to mortgage and rent payments and supermarket bills. Halt liquidity, and you halt the economy. The Reserve Bank of India, the supportive regulator, always appears to spot the early warning signs and act promptly to protect all-important liquidity in the Indian financial infrastructure. Liquidity in the banking system has surged to a record Rs.2.3 trillion, which is equivalent to US$ 32.5 billion (RBI data, 2019).

Table 13 gives the ranking for the Financial System of India from 2014 to 2019 based on the availability of domestic credit to the private sector, financing of SMEs, venture capital availability, market capitalization, insurance premium, soundness of banks, non-performing loans as a percentage of loan portfolio value, credit gap and banks' regulatory capital ratio.

Table 13: Financial system: Global competitiveness index ranking of India - 2014-2019

Year	2014	2015	2016	2017	2018	2019
Global rank	51	53	38	42	35	40

Source: Compiled from global competitiveness reports 2014-2019

India was ranked 35 in 2018, and it dropped to 40 in 2019, but it looks quite good at this rank but has to do more to strengthen the financial system. The government is seriously considering strengthening the financial sector of India as a measure to it the government has unveiled a mega plan to merge ten public sector banks into four to create fewer and stronger global-sized banks as it focuses on boosting economic growth. After the mergers, the country will have 12 public sector banks. Earlier, by virtue of the merger, the State Bank of India (SBI) got into the hall of fame by making an entry into the list of 50 banks in the world. The merger has helped SBI take its customer count to 370 million and add vast network branches and ATMs that went up to 24,000 and 59,000, respectively. The government has also announced a capital infusion worth more than US$17.5 billion into public sector banks in 2019.

In spite of the reforms, the financial sector faces a number of challenges, like huge non-performing loans, the heavy involvement of the public sector as state-owned banks account for nearly 70% of assets in the nation's banking sector and so on. Realizing the ambitious goal of turning India into a $5-trillion economy by 2025 requires a strong and stable financial sector with substantial progress on financial reforms. Allowing more private sector participation in the financial system, making it easier for funds to flow into capital markets, and properly regulating systemically important NBFCs are all ways for the financial sector to evolve in a direction that can position India for fast, broad-based growth. A modernized technology-driven financial system is essential to delivering it.

India has made impressive progress in building a financial sector that fits its unique development needs in recent decades. However, in a world where payments can be sent with a click of a button from the most basic cell phone, it is crucial that countries have financial sectors that ensure stability while offering deep, well-regulated markets and being agile enough to respond to rapid innovation in the industry. Thus the Indian financial sector offers plenty of investment opportunities that can be availed by both domestic and international investors, who can make the Indian financial sector stronger and investor-friendly.

4.8. Tax Rates and Clarity of Taxation Policies

Lower tax will give corporates and individuals more after-tax income that could enhance the wealth of the corporates and individuals could use to buy more goods and services or save. Investors prefer lower-tax locations to locate or relocate their businesses.

4.8.1. Corporate tax

Table 14 gives the corporate tax rates for India, China, the USA and a few selected countries from south Asia and the averages.

Table 14: Corporate tax rates (in %) for select countries - 2014-2019

	2014	2015	2016	2017	2018	2019
Afghanistan	20	20	20	20	20	20
Bangladesh	27.5	25	25	25	25	25
India	33.99	34.61	34.61	34.61	35	30
Pakistan	34	33	32	31	30	30
Sri Lanka	28	28	15	28	28	28
China	25	25	25	25	25	25
United States	40	40	40	40	27	27
Asia average	22	21.98	21.41	21.08	21.21	21.09
Global average	23.88	23.77	23.62	24.06	24.02	23.79

Source: Compiled from KPMG data

The corporate tax rates are quite high in India. During the period of study, the corporate tax rate in India is higher than all other South Asian countries and China, and it is also higher than the Asian and the global average. The policymakers will have to reduce the tax rates drastically to make India friendlier to the corporates operating in India and to attract MNCs from around the globe to invest in India. Of course, recently, the Government have started to reduce the tax rates, but more has to be done to make India more competitive.

4.8.2. Income tax

Table 15 gives the individual income tax rates for India, China, the USA and a few selected countries from south Asia and the averages.

Table 15: Income tax rates (in %) for select countries - 2014-2019

	2014	2015	2016	2017	2018	2019
Afghanistan	20	20	20	20	20	20
Bangladesh	30	30	30	30	30	30
India	33.99	33.99	35.54	35.54	35.88	35.88
Pakistan	20	20	20	20	20	20
Sri Lanka	24	24	15	16	24	24
China	45	45	45	45	45	45
United States	39.6	39.6	39.6	39.6	37	37
Asia average	27.2	27.09	27.35	27.65	27.67	27.99
Global average	31.08	30.8	30.97	31.41	31.39	31.23

Source: Compiled from KPMG data

The individual income tax rates are pretty high in India; all the years during the period of study, the individual income tax rates in India are higher than all other South Asian countries; it is also higher than the Asian and the global average. But it is lesser than both the USA and China. The policymakers will have to give a proper thought as have to reducing it without heavily impacting the revenue of the nation. Lower income tax reduces the cost of running a business because the prospective employee looks at the after-tax annual pay package offered at the time of salary negotiations. The country will have to carry out reforms in the taxation policy to attract a highly talented and skilled workforce needed for the domestic and MNCs operating in the country.

4.9. Availability/Easiness to Import Raw Materials

Availability of raw materials means that international investors can do business in the country without having concerns about the supply of production materials. In India, there is a wide range of raw materials that can be used for manufacturing processes, and this has motivated many investors abroad to invest in the country. The import-export policy is quite friendly and liberal, which permits manufacturers to import those raw materials that are not readily available in the country. But, the government will have to still improve the policies to attract more FDI into the country.

4.10. Technology Adoption and Innovation

Technology is an important consideration made by foreign investors because it determines the scope of operational efficiency. From an investment perspective, the lack of efficient technology systems implies that operations would be slow and costly, and, thus, there will be a need to choose destinations with a higher level of technology. Table 16 gives the ranking for India on ICT adoption from 2014 to 2019 based on mobile-cellular telephone subscriptions, mobile-broadband subscriptions, fixed broadband internet subscriptions, fibre internet subscriptions and internet users.

Table 16: ICT adoption: Global competitiveness index ranking of India - 2014-2019

Year	2014	2015	2016	2017	2018	2019
Global Rank	121	120	110	107	117	120

Source: Compiled from global competitiveness reports 2014-2019

In ICT adoption, India is ranked quite low; hence, it is suggested that the policymakers take initiatives to encourage ICT adoption. Table 17 gives the ranking for India on innovation friendliness from 2014 to 2019 based on diversity of the workforce, state of cluster development, international co-invention, multi-stakeholder collaboration, scientific publications, patent applications, R&D expenditures, prominence of research institutions, buyer sophistication and applications made for trademark.

Table 17: Innovation capacity: Global competitiveness index ranking of India - 2014-2019

Year	2014	2015	2016	2017	2018	2019
Global rank	49	42	29	29	31	35

Source: Compiled from global competitiveness reports 2014-2019

In terms of innovation friendliness, India has a relatively better rank of 35 in 2019, but it is observed to be decreasing in the ranking from 2016 onwards; it could be because other countries are making their nations more innovation-friendly through different innovation-friendly policies, training and investments. Now let us look at the ranking of by Global Innovation Index (GII), co-published by Cornell University, INSEAD, and the World Intellectual Property Organization (WIPO, an agency of the United Nations). The Index is a ranking of the innovation capabilities and results of world economies. It measures innovation based on criteria that include institutions, human capital and research, infrastructure, credit, investment, linkages; the creation, absorption and diffusion of knowledge; and creative outputs. Table 18 gives the ranking of India in the global innovation index from 2014 to 2019.

Table 18: Global innovation index: India's ranking - 2014-2019

Year	2014	2015	2016	2017	2018	2019
GII	76	81	66	60	57	52
Innovation inputs	93	100	72	66	63	61
Innovation outputs	65	69	59	58	57	51

Source: Compiled from the global innovation index 2014-2019

Over the last six years, India has improved its ranking in innovation outputs, reaching the position 51 in 2019, up from 65 in 2014 and 69 in 2015. Similarly, innovation inputs also improved to rank 61, up from 93 in 2014 and 100 in 2015. India performs better in Innovation Outputs than Inputs. The above data shows that India requires more investments and more friendly policies to enhance technology adoption and innovations. This is a huge opportunity for both domestic and international investors to invest and reap high returns and, at the same time, make India a better place to live and do business.

4.11. Ease of Doing Business

The World Bank Group's Doing Business report tracks nations' regulatory and bureaucratic systems by conducting detailed annual surveys to provide an objective basis for understanding and improving the regulatory environment for businesses worldwide. Doing Business report captures several important dimensions of the regulatory environment as it applies to local firms. It provides quantitative indicators on regulation for starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investors, paying taxes, trading across borders, enforcing contracts and resolving insolvency. These reports provide data on the ease of doing business, rank each location, and recommend reforms to improve performance in each of the indicator areas.

Doing Business Report ranks economies based on their ease of doing business. A high ease of doing business ranking means the regulatory environment is more conducive to the starting and operation of a local firm. The rankings are determined by sorting the aggregate distance to frontier scores on ten topics, each consisting of several indicators, giving equal weight to each topic. Table 19 gives the ranking for India from 2015 to 2020.

Table 19: Ease of doing business: India's ranking - 2015-2020

Year	2015	2016	2017	2018	2019	2020
Global rank	142	130	130	100	77	63

Source: Compiled from the doing business report 2015-2020, World Bank Group

For the 3rd year in a row, India is in the top ten in terms of improvements. Doing Business data for the past six years shows that the position of India has improved a lot from 142nd position in 2015 to 63rd position in 2020; it is easier than it was a year ago to file for a new business, get a construction permit and trade goods across the border. Still, more has to be done to make India more investment-friendly and attractive to FDIs.

4.12. Government Initiatives in Making India Investment Friendly

FDI is a critical driver of economic growth and is a major source of non-debt financial resources for the economic development of India. Foreign companies invest in India to take advantage of relatively lower wages, special investment privileges such as tax exemptions, etc. For India, it is also means of achieving technical know-how and generating employment. Indian government's favourable policy regime and robust business environment have ensured that foreign capital keeps flowing into the country. The government has taken many initiatives in recent years, such as relaxing FDI norms across sectors such as defence, PSU oil refineries, telecom, power exchanges, and stock exchanges, among others. A few of the recent initiatives and announcements are listed here:

- In August 2019, the government permitted 100% FDI under the automatic route in coal mining for open sale.
- In Union Budget 2019-20, the government of India proposed opening of FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with all stakeholders.
- 100% FDI is permitted for insurance intermediaries.
- In December 2018, the Government of India revised FDI rules related to e-commerce. As per the rules, 100% FDI is allowed in the marketplace-based model of e-commerce.
- In February 2019, the Government of India released the Draft National E-Commerce Policy, which encourages FDI in the marketplace model of e-commerce. The FDI policy for the e-commerce sector has been developed to ensure a level playing field for all participants.
- In September 2018, the Government of India released the National Digital Communications Policy, 2018, which envisages increasing FDI inflows in the telecommunications sector to US$ 100 billion by 2022.
- In January 2018, the Government of India allowed foreign airlines to invest in Air India up to 49% with government approval.
- No government approval will be required for FDI up to the extent of 100% in Real Estate Broking Services.
- The Government of India is in talks with stakeholders to further ease foreign direct investment (FDI) in defence under the automatic route to 51% from the current 49% to boost the Make in India initiative and generate employment.

Moreover, the current global economic outlook is precarious due to the U.S.-China trade war and the Novel Coronavirus Covid-19. India is the best attractive option for manufacturers fleeing China.

5. CONCLUSION

Over the years, India is emerging as an attractive hub for business people from all corners of the world and a magnet for foreign direct investment. With its quality investment climate and diverse and enormous investment opportunities, India continues to attract FDI.

A number of global business indexes and global ranking agencies have recognized the advantages offered by India and have duly ranked India as an attractive FDI destination. The parameters making India an attractive destination are the enormous market, expanding infrastructure, low political risk, decreasing level of corruption, young growing labour force with diversified skills, competitive labour cost, well-organized financial system, technological readiness and innovation, friendly import-export policies, recently lowered corporate taxes, reform-friendly government and a currency, that is not very volatile. These factors, combined with the current ambitious leadership that leads the country with proper vision and long-term strategic plans, make India an attractive destination for Foreign Direct Investment.

The limitation of this study is that the impact of current Novel Coronavirus Covid-19 is not factored into the study, as it is still an ongoing pandemic; hence the investors are requested to factor in that while making the investment decisions.

Exchange Rate: INR 1 = US$ 0.0134 as on April 30, 2020.

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