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RESEARCH METHODOLOGY

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DETERMINANTS OF FOREIGN DIRECT INVESTMENT INFLOWS INTO INDIA: A FACTOR ANALYSIS

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ABSTRACT

The purpose of this paper is to incorporate institutional measures to determine foreign investment inflows into India and use factor analysis to determine the underlying factors that influence FDI into India. It also attempts to examine the influence of institutional factors in determining foreign capital inflows .This study is based on the data collected from World Development Indicators, World Bank. The period of analysis is from 1980 to 2011.This study employs factor analysis to identify the main components of foreign capital inflow into the country. Among the different methods of foreign capital inflow, the FDI channel is considered for the study. Twelve indicators were used to depict India's investment environments. Instead of single variable measurement of the complex aspects of India's investment environments, this study uses factor analysis to provide measures of the country's investment environments. Regression results have found that institutional quality, infrastructure development significantly influence the flow of foreign direct investment into India. However this study did not find significant relationship between size and stability and foreign direct investment.

JEL CLASSIFICATION
F21, F23.

KEYWORDS
FDI, Factor Analysis, Government effectiveness, Institutions, Regression.

INTRODUCTION

Although in the economics and business literature, there is a large body of theory and research to determine the main factors influencing the choice of foreign direct investment (FDI) decisions, most of these studies have been confined to the classical theories of comparative advantage to build models for determining FDI location. It is only very recent that researchers have extended the variables in their models beyond the traditional factor endowments distinguishing hard components or physical factors such as natural resources, energy and infrastructure from soft components (Li and Li, 1999) or "created assets" (Narula and Dunning, 2000) such as, knowledge based assets, economic, legal, political and cultural factors. On the other hand, recognizing the benefits of FDI such as transfer of technology, augmenting domestic savings and investment, increasing competition, increasing exports, foreign exchange earnings, skill development, and other spillover many of the Less Developed Countries (LDC) have carried out institutional reforms with the specific intention of attracting foreign direct investment.

Almost all the countries are interested in finding out the aspects that would make their country an attractive destination for FDI. It is little surprising that emerging markets farewell in recent times in attracting FDI, considering the economic turbulence in the developed world. India's ever-expanding markets, liberalization of trade policies, development in technology and telecommunication, and loosening of diverse foreign investment restrictions, have further collectively made India, the apple of investors' eye, for most productive, profitable, and secure foreign investment. According to a recent survey by the United Nations Conference on Trade and Development (UNCTAD, 2010), India has conspicuously emerged out as the second most popular and preferable destination in the entire world, after China, for highly profitable foreign direct investment. Very few of the existing empirical studies on FDI have incorporated the institutional reforms into their models. Even for empirical studies incorporating institutional measures, their methods have mainly be confined to using single indicators set by theory rather than exploring the data to determine the underlying factors. The main purpose of this paper is to incorporate institutional measures to determine foreign direct investment inflows into India and use factor analysis to determine the underlying factors influencing FDI in India.

REVIEW OF LITERATURE

Vast pool of literature is available on various aspects of FDI inflow. There are some region specific studies, which helps in understanding what are the FDI drivers at a very disaggregate level and has useful implications at policymaking level (Na, 2006). Others talk about development of successful FDI strategies at national level (Musila, 2006). Some simplistic papers look at just the trends of FDI in various countries- what they expect to measure is the general perspectives without exploring in detail what are the implications of these investments on the national growth 4 and other parameters. There are studies pertaining to firm level analysis of the determinants (Pantelidis, 2005), and country level studies (Balasundram, 1998).

Ana Mar (1997) reviews the recent evidence on the scale of FDI to low-income countries over the period 1970-96 and major factors determining foreign companies' decision to invest in a particular country. The study concludes that large market size, low labor costs and high return in natural resources are amongst the major determinants in decision to invest in low income countries. Mucchielli and Soubaya (2000) investigated the determinants of the volume of trade of the French Multinational Corporations (MNCs). The major findings suggest that inward FDI has a positive influence on Foreign trade (including exports and imports), and this positive influence is stronger for exports compared with imports. Kumar (2001) analyzed the reform process of India and attempted to verify whether India's relative attractiveness as a host of FDI has improved over the years. He concluded that the magnitude of FDI inflows into India have displayed impressive growth, but they were very small compared to the country's potential.BurakCamurdan and Ismail Cevis (2009) developed an empirical framework to estimate the economic determinants of FDI inflows by employing a panel data set of 17 developing countries and transition economies for the period of 1989-2006. Seven independent variables were taken for this research namely, the previous period FDI, GDP growth rate, wage, trade rate, inflation rate and economic investment. The empirical results conclude that the previous period FDI is important as an economic determinant. Besides, it is also understood that the main determinants of FDI inflows are Inflation rate, the interest rate and trade (openness) rate. NirupamBajpai and Jeffrey D. Sachs (2006) attempted to identify the issues and problems associated with India's current FDI regimes, and more importantly the other associated factors responsible for India's unattractiveness as an investment location. Despite India offering a large domestic market, rule of law, low labor costs, and a well working democracy, her performance in attracting FDI flows have been far from satisfactory. The conclusion of the study is that a restricted FDI regime, high import tariffs, exit

barriers for firms, stringent labor laws, poor quality infrastructure, centralized decision making processes, and a very limited scale of export processing zones make India an unattractive investment location. Charkraborty and Basu (2002) explore the co-integration relationship between net inflows of FDI, real GDP, unit cost of labor and the proportion of import duties in tax revenue for India with the method developed by Johansen (1990). They find two long-run equilibrium relationships. The first relationship is between net inflow of FDI, real GDP and the proportion of import duties in tax revenue and the second is between real GDP and unit cost of labor. They find unidirectional Granger Causality from real GDP to net inflow of FDI. SapnaHooda (2011) analyzed the impact of FDI on economic growth of Indian economy for the period 1991-92 to 2008-09. She used OLS method for this purpose. The empirical results found that foreign Direct Investment (FDI) is a vital and significant factor influencing the level of growth in Indian economy. She also estimated the determinants of FDI inflows and found that trade GDP, Research and Development GDP, Financial position, exchange rate, Reserves GDP are the important macroeconomic determinants of FDI Inflow. A.T.Kearney, (2011) a global Consulting Firm conducted a foreign investor's Survey between July and October 2011.The survey cites that one quarter of respondents are increasing investment in emerging markets. According to the respondents, size and growth of the consumer markets, sourcing needs for talent and quality issues, need to diversify to improve supply chain resilience and sourcing needs for cost reasons are the most important factors affecting their investment decision. Hussain (2012) attempted to look into common characteristics of poorer regions that have successfully attracted more capital flows. Using panel data for 57 low and lower middle income countries from different regions of the world viz., sub-Saharan Africa, Eastern Europe, Asia and Latin America. He tried to find how much of these characteristics are due good policy. Mottaleb and Kalirajan (2010) established that FDI is helpful for effective technology transfer in their comparative study of developing countries. Girchamo (2012) tried to identify the determinants of FDI inflow in sub Saharan Africa. The study employed panel data Analysis: pooled ordinary least square method, fixed effects and random effects methods. The analyzed data covered a period 1986-2010.The study findings shows that trade openness, GDP, inflation and lag of FDI inflows are the most significant determinant of FDI inflow to sub-Saharan Africa. Kalirajan et al., (2012) concluded that India and China are yet to take full advantage of FDI inflows. Panigrahi and Panda (2012) attempted to find out factors which are significantly related and influence the FDI inflow into China, India and Malaysia during 1991-2010.hey found that GDP. Gross capital Formation and trade are the major factors that influence foreign capital inflow to India and China whereas Gross domestic capital formation is significantly related to FDI inflows into Malaysia. Mottaleb (2007) found that countries with larger GDP and high GDP growth rate and maintain business friendly environment with abundant modern infrastructural facilities can successfully attract FDI.He also found that FDI significantly affect economic growth. Hess (2000) also identified inefficient bureaucracy and lack of transparency among the most important barriers to FDI in Africa. Quality of institutions has also been found to be an important influence of FDI inflows in the economies of East and Central Europe (Bevan et al. 2004). In their study of US foreign direct investment outflow, Globerman and Shapiro (2002) conclude from results of their study that countries that fail to achieve a minimum threshold of effective governance are unlikely to receive any US foreign investment. In a study on foreign investment in China Ng and Tuan (2002) found institutional factors including legal system, government bureaucracy, corruption, and efficiency of government administration to be a major concern shared by foreign investors in the Guangdong province. It was not until the mid 1990's after Douglas North was awarded his Nobel prize in 1993 that research in international business began to address the role of institutions as an important dimension in the determinants of foreign direct investment. Institutions have been defined as formal and informal constraints on political, economic, and social interactions (North, 1990).

Using factor analysis Rutihinda (2005) explored factors influencing the choice of foreign direct investment in less developed countries. Results show significant relationships between foreign direct investment and institutional quality, infrastructure development, market size, availability of natural resources, and quality of human capital. However, the study found no significant relationship between foreign direct investment inflows and economic stability.(Rutihinda 2005).A number of studies reached broad consensus about the importance of institutional variable and location of FDI. The studies by Wernick (2009), Biglaiser (2009), Daniele et.al (2009) can be cited as examples.Ali (2009), after reexamining the effect of corruption on FDI inflows over a period 1984-2004, concluded that the country's quality of institutions is more important than the level of corruption in encouraging FDI inflows into the country. Bissoon (2011) found that the quality of some institutions in the host country has an enormous impact on inward FDI.

IMPORTANCE OF THE STUDY

FDI inflows can affect host country economic growth in several ways. , it has been argued that MNEs have firm-specific advantages allowing them to operate profitably in foreign countries. Examples of firm-specific advantages include superior technology, scale economies and management. It is possible to link the idea of firm-specific advantages to the concept of knowledge capital. Knowledge capital is a broad concept consisting of intangible assets such as brand name, human capital, patents, trademarks and technology. Knowledge-capital is important for MNEs based on the fact that MNEs tend to have large R&D expenditures, a large share of technical workers and produce technically advanced products. It is primarily MNE possession of knowledge-capital that is important for providing firm-specific advantages allowing MNEs to operate profitably in multiple economies. The technology spillovers provide externalities which should have a positive effect on economic growth in the host country. Besides of knowledge-capital, FDI can also generate an inflow of physical and human capital to the host country. As the size of the host country physical capital stock increases the productive capacity of the host country also increases. Unfortunately the growth enhancing effect of an ever growing stock of physical capital is not endless. Even though additional capital can have important effects on economies with a low capital-labour ratio, diminishing returns imply that accumulation of physical capital cannot function as a permanent source of long-run growth. The growth enhancing ability of FDI is affected by the chosen mode of FDI. It is argued that the effects of FDI inflows on variables such as technology spillovers and physical capital are expected to differ between Greenfield and Brownfield FDI. Greenfield FDI implies that the MNE constructs new facilities of production, distribution or research in the host country. The result is an increase in the host country stock of physical capital that can be substantial, especially for capital scarce developing economies. In the case of Brownfield investment, the MNE acquires already existing facilities in the host country. Brownfield FDI should therefore only result in a limited increase in the stock of physical capital since there is a change in ownership rather than an inflow of new capital. Greenfield and Brownfield FDI should affect host country growth differently since Greenfield FDI results in a larger inflow of physical capital. While brownfield FDI results in a small inflow of physical capital, Brownfield FDI in the form of a merger or joint venture could maximize the potential for technology spillovers. Such an important growth engine FDI may be impeded by the local institutional rigidity. Therefore it very important to understand and study the relationship between growth, FDI inflow and institutional environment.

STATEMENT OF THE PROBLEM

There has been a growing interest in the determinants of FDI in developing countries, as FDI is considered one of the most stable components of capital flows to developing countries and can also be vehicle for technological progress through the use and dissemination of improved production techniques. Apart from regular determinants of FDI , the instititutions also matter for FDI.Weak institutions seems to be an impediment for FDI.An insecure environment deters foreign firms to invest abroad because of lack of property rigtsenforcement.Red tape can be strategically reduced by corruption centralization through informal self enforcing implicit contracts that cannot be enforced legally. The multinational enterprises trade the improvement of institutional environment for a reduction in competition by the government. Improvements in bureaucratic behavior can benefit the country through an increase in consumer surplus.

OBJECTIVES

The present study has the following objectives. It aims
1. To identify the factors those influence the FDI inflow into the country during the period under study.
2. To examine the inter relationship between institutional environment and FDI inflow into India.

HYPOTHESIS

The following are the theoretical hypotheses on the basis of which the variables were selected.

SIZE OF THE MARKET

Larger market means larger potential for local sales, because local sales are more profitable than export sales especially in a large country where economies of large scale operation can be reaped. Moreover large economies provide diverse resource as a result of which local sourcing becomes more flexible. The market size hypothesis states that multinational firms are attracted to a larger market in order to utilizeresources efficiently and exploit economies of scale. Higher the GDP better is the nation's economic health. It also implies large size markets. Therefore better are the prospects for higher profits. Hence we expect:

H1: less developed country with larger market size will attract greater FDI inflow.

MACROECONOMIC STABILITY

Economic stability reduces the risk for foreign enterprises and the cost of doing business in the country. This variable shows the strength of the economy and provides a degree of certainty being able to operate profitably. Monetary and fiscal policies determine economic stability. Interest rates, inflation rates and the tax rates influence the investment rates. The effect of interest rate on MNC s investment are likely to be smaller than on local investment because MNCs have access to larger capital sources.

A high rate of inflation is a sign of macro-economic instability. It implies the instability of Government to balance the budget and that Central Bank to restrict money supply. Hence it is hypothesized that the inflation rate and FDI inflow are inversely related. Low inflation rate and stable exchange rates are expected to have positive impact on Disinflation rate based on consumer price index is taken as a proxy for macroeconomic stability. It is expected to have an inverse relationship with foreign investment inflow. We can therefore expect:

H2: less developed countries with greater macroeconomic stability will attract greater FDI inflows.

INFRASTRUCTURE

The availability of well developed infrastructure will reduce the cost of doing business for foreign investors and enable them to maximize the rate of return on investment (Morriset 2001). It is common practice to measure infrastructure by the number of telephone lines per 1000 people. Recently most of the communications are carried on with internet and mobiles. In this study the communication growth is measured by number of mobile phone connections the country has. The development roads and other forms of transport growth are proxied by Gross Fixed Capital Formation (GFCF).The communication growth and transport growth is expected to have a positive impact of the inflow of foreign capital. This variable is positively correlated with FDI.We therefore expect:

H3: Developing countries with relatively well developed infrastructure will attract greater FDI inflow.

TRADE LIBERALIZATION

The degree to which a country orient itself with global economy is another factor which will make it attractive destination for export based FDI.Restrictive trade administration is detrimental for its own interest.Liberalisation of trade and FDI regimes are assumed to have positive influence on the inflow of FDI since they facilitate a freer trade and investment in conjunction with repatriation of dividend and profits to home countries .India has been following the policy of liberalization since 1992.It is therefore expected:

H4: Countries with greater liberalization drive will attract greater FDI inflow.

FINANCIAL DEPTH

Even though FDI is supposed to bring capital to the host country, financial innovation and financial engineering are required for their subsequent operations. A developed security and money market adds to the attractiveness of the country. In this study the ratio of M2 to GDP has been used to capture the financial depth .A rising M2/GDP reflect problems in economic and financial structures, such as excessively high savings and less developed direct financing. It further means that financial risks are overly concentrated in the banking sector. Such a financial situation may be less attractive for foreign investors. There it is expected:

H5: Countries with greater financial depth will attract greater FDI inflow.

DEGREE OF GLOBAL INTEGRATION

After the emergence of WTO nations have become highly integrated with one another. Such global integration paves way for free movement of resources between the countries. . It also expands the market horizon internationally. Higher the degree of integration more confident the foreign investors are in investing in that country. In this study the ratio of tariff on imports is used as a proxy to measure the degree of global integration. Hence it is expected:

H6: Country with greater degree of Global integration will attract greater FDI inflow.

RESEARCH METHODOLOGY

This study is based on the data collected from World Development Indicators, World Bank. The period of study is from 1980 to 2011.This study employs factor analysis to identify main components of foreign capital inflow in to the country. Among the different ways of foreign capital inflow, the FDI inflow is considered in this study. The dependent variable foreign direct investment was measured using the ratio of FDI to GDP. 12 indicators were used to depict India's Investment environments. They included Gross domestic Product(GDP), GDP growth rate, Electric Consumption, Gross fixed capital Formation, Financial depth(ratio of M2 to GDP), literacy, Mobile, Inflation, Government Policy, Control of corruption, Government Effectiveness, Rule of law. For institutional variables the average values for the period 1996 to 2002 were used. Data measuring institutional environment was measured using data provided by the World Bank website on Governance indicators. First the principal components were identified by using factor analysis. Then the factors thus identified were regressed to FDI inflow by incorporating institutional variables. Intuitional variables were measured by the average value of World Bank data in these variables.

ANALYSIS

The dependent variable foreign direct investment was measured using the ratio of FDI to GDP.Prior to running factor analysis the variables were subjected to univariate statistical analysis. Results of the descriptive statistics are shown in Table.1. The correlation matrix which is presented in Table .2 shows that no variable is having values greater than 0.9. Further majority of the significance values are greater than 0.05. So it can be inferred that no singularity in the data. It may be noticed that determinant value is greater than the required minimum ie., 0.00001.The Bartlett sphericity test and Kaiser- Meyer- Olkin tests of sampling adequacy was done. Bartlett measure tests null hypothesis that the original correlation matrix is an identity matrix..The Bartlett's test of sphericity is significant 53.148 and hence the null hypothesis that intercorrelation matrix involving these seven variables is an identity matrix is rejected. Thus from the perspective of Bartlett's test, factor analysis is feasible. As Bartlett's test is almost always significant , a more discriminating index of factor analyzability is Kaiser-Meyer- Olkin .For this data set it is 0.641,which is large enough .So the KMO also supports factor analysis.

The method of principal component analysis was used to obtain estimates of initial factor extraction. A factor solution emerged from principal component analysis with Eigen values greater than one. (See Table: 5).The two factors explained nearly 62 per cent of the total variance. All variables except Government policy have high communalities showing robust solution. This is shown in Table: 4. the two factors were then rotated using varimax method. Results of the rotated factor loadings are as shown in Table .7.

In the Factor Rotation the variables are listed in order of size of their factor loadings. The interpretability of factors can be improved through rotation. Rotation maximizes the loading of each variable on one of the extracted factors while minimizing the loading on all other factors. Rotation works through changing the absolute values of the variable while keeping their differential values constant. Since the researcher expects the factors to be independent, the varimax rotation is chosen. The Table .5 showing Total Variance Explained lists Eigen values associated with each linear component (factor) before extraction, after extraction and after rotation. Before extraction, the analysis has identified 7 linear components within the dataset. The Eigen values associated with each factor represents the variance explained by that particular linear component. So, factor 1 explains 42.899 % of total variance. All factors with Eigen values greater than one were extracted. The analysis gave two factors. The Eigen values associated with these factors are again shown in the column labeled ,'Extraction Sums of Squared Loadings 'In the final part of the table ,the Eigen values of the factors after rotation are displayed. Rotation has the effect of optimizing the factor structure and

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one consequence for these data is that relative improvement of the two factors is equalized. Before rotation, factor 1 accounted for more variance (42.899), however, after rotation, it accounts for only 33.258% of the variance, similarly the second factor accounted for 18.608% and after rotation it increased to 28.250%.Kaiser rule of retaining factors with Eigen Values larger than 1.00 was used in this analysis as a default. The first two principal components are with Eigen values 3.003 and 1.303 were retained. Table .4.shows that the Principal Component Communalities range from 0.108 to 0.898 .Thus most of the variance of these variables was accounted for by this two dimensional factor solution. The variables that load heavily on factor 1 are Mobile (0.913) and M2/GDP (0.842). The first is the proxy for communication infrastructural growth and the second is the proxy for financial depth of the country. Therefore the researcher labels them as economic overhead factors. In this study, the rotated component matrix elements with value less than 0.5 are not considered. On that criterion the variables that loaded heavily in factor 2 are GDP growth, INFLA and GFCF. The GDP growth rate reflects the size of the market and GFCF (0.735) which again signify the growth process of the nation. Inflation rate (INFLA) measures the macroeconomic stability. Hence the researcher label these variables as "Size of the market and Stability" India's emerging trend in growth and development become an attraction to foreign investors.

The method of Principal Component analysis was used to obtain estimates of factor extraction. A two factor solution emerged from principal component analysis with Eigen values greater than one. Table .5 gives the details. The two factors explained nearly 62 per cent of total variance. All variables except government policy have high communalities showing robust solution. The two factors were then rotated using varimax method. Results of the rotated factor loadings are shown in Table.6.The first factor loaded with variables mobile, M2GDP and tariff on imports. Based on these loadings the first factors measured infrastructure. The factor had loadings GDP growth, gross fixed capital formation, and inflation. It measures size and stability.

In order to determine the factors influencing the choice of FDI location for India, the factor measures infrastructure, size of the market were subject to linear regression analysis,

FDI = f (INF.MARKETSIZE, INS).

That is, foreign direct investment is influenced by existing infrastructure (INF) Size of the market (MARKET SIZE) and quality of existing institutions (INS). To distinguish the impact of each element of the institutional environment, three other regression were run with the control variables and each of three components of the institutional environment separately, That is

FDI =f (INF, MARKET, RL)   …..   eq.1
FDI= f (INF, MARKET. GE)   …..   eq.2
FDI = f (INF, MARKET, CC)   ….   eq.3

Where RL, GE, CC refers to rule of law. Government effectiveness and control of corruption. This was necessary due to the fact that the institutional variables are highly correlated with each other. Using them in one equation would cause multicollinearityproblems,

RESULTS AND DISCUSSION

Regression results of three models are shown in Table.7.Results of the first model show that infrastructural development has a significant positive relationship with FDI inflows. However size of the market does not have significant relationship with FDI inflows. This suggests that, provided India   has a well-developed infrastructure and rule of Law, foreign firms are likely to invest regardless of market.

The second model also found significant positive relationship between Government Effectiveness and infrastructural development. This again suggests that institution of Government Effectiveness helps in attracting FDI into India. The third model found significant positive relationship between control of corruption and infrastructural development. This also suggests that control of corruption coupled with infrastructural development is more significant in attracting FDI. In this study the size of the market is not displaying significant relationship suggesting that the FDI firms may use India as an export base. Size of the market, although it was statistically insignificant, its sign was in line with a priori expectations i.e., bigger the size of the market larger is the FDI flows.

FINDINGS

The study finds that infrastructure growth in india is most vital component of factors that makes India relatively more attractive for foreign firms. As against the popular belief, it was found that size of the market is not a crucial one for FDI inflow into India. Macroeconomic stability is also important for getting increased inflow of foreign capital. The Government effectiveness will be a great force to bring more FDI capital into the country.

RECOMMENDATION AND SUGGESTIONS

This study, on the basis of the outcome of the empirical analysis, recommends that more rapid improvements in terms of power generation and distribution , means of transport, communication growth and financial innovation and engineering should be given continuous attention to attract more FDI inflows. Further it is recommended that government effectiveness, elimination of corruption   and rule of law would go a long way in making India much more sought after destination for FDI.

CONCLUSION

Instead of single variable measurement of the complex aspects of India's investment environments, this study uses factor analysis to provide measures of the country's investment environments. Regression analysis results have found that institutional quality, infrastructure development significantly influence the flow of foreign direct investment into India. However this study did not find the variable market size to emerge significantly. This suggests foreign firms may enter India without bothering too much about the size of the market because they can export from India, thanks to the liberalization drive of the country. The policy implication is India should continue to concentrate its   efforts in building qualitative institutions along with infrastructure development   in order to have much more impressive growth of FDI into India.

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TABLE

TABLE 1: DESCRIPTIVE STATISTICS

Variable	Mean	Standard Deviation	Analysis
GDP growth	6.6136	2.262	22
Inflation	7.0714	2.831	22
GFCF	8.7273	7.032	22
Mobile	12.6608	20.495	22
Tariff on imports	25.2312	6.012	22
M2GDP	1.0319	0.902	22

Source: Computed

TABLE 2: CORRELATION MATRIX

Variable	GDP growth	INFLA	GFCF	Mobile	Tariff on imports	M2GDP	GP
GDP growth	1.000	- 0.364	0.391	0.311	- 0.615	0.061	0.061
INFLA		1.000	- 0.235	0.043	0.333	- 0.108	-0.108
GFCF			1.000	0.022	- 0.444	.023	0.023
Mobile				1.000	-0.682	0.132	0.132
Tariff on imports					1.000	- 0.125	0.125
M2GDP						1.000	0.238
GP							1.000

Determinant: 0.051

Source: Computed

TABLE 3: KMO AND BARTLETT 'S TEST

Kaiser- Meyer-Olkin Measure of Sampling Adequacy	0.641
Bartlett's Spericity Approximate Chi-Square	53.148
Degrees of freedom	21
Significance	0.000

Source: computed.

TABLE.4.COMMUNALITIES

	Initial	**Extraction**
GDP growth	1.00	0.616
Inflation	1.00	0.541
GFCF	1.00	0.543
Mobile	1.00	0.834
Tariff on imports	1.00	0.898
M2GDP	1.00	0.765
Government Policy	1.00	0.108

Extraction Method: Principal Component Analysis.

Source: Computed.

TABLE 3: TOTAL VARIANCE EXPLAINED

Components	Initial Eigen Values			Extraction sums of squared loadings			Rotation sums of squared loadings		
	Total	% of Variation	Cumulative %	Total	% of Variation	Cumulative %	Total	% of Variation	Cumulative %
1	3.003	42.899	42.899	3.003	42.899	42.899	2.328	33.258	33.258
2	1.303	18.608	61.508	1.303	61.508	61.508	1.977	28.250	61.250
3	0.994	14.200	75.708						
4	0.738	10.538	86.245						
5	0.600	8.565	94.811						
6	0.240	3.435	98.245						
7	0.123	1.755	100						

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization

FIGURE 1

Scree Plot
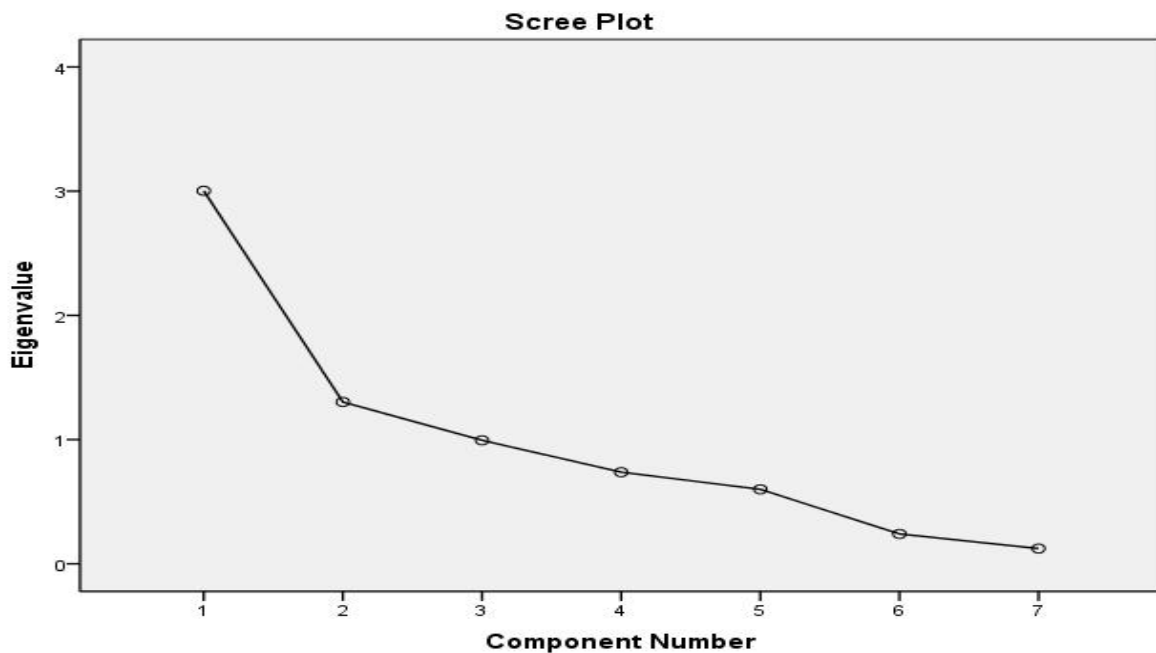
TABLE 6: COMPONENT MATRIX

	Component	
	1	2
GDP growth	0.689	-0.377
INFLA	-0.419	0.604
GFCF	0.509	-0.533
Mobile	0.700	0.587
Tariff	-0.947	-0.045
M2GDP	0.804	0.345
Government Policy	0.250	0.213

Extraction Method: Principal Component Analysis.

Source: Computed.

TABLE 7: ROTATED COMPONENT MATRIX

	Component	
	1	2
GDP growth		0.726
INFLA		- 0.733
GFCF		0.735
Mobile	0.913	
Tariff	-0.764	
M2GDP	0.842	
Government Policy		

Extraction Method: Principal Component Analysis.

Source: Computed.

TABLE 8: REGESSION RESULTS OF FDI AND INDIA'S INVESTMENT ENVIRONMENT MEASURES

	Model 1	Model 2	Model 3
Constant	1.947	-3.404	-0.828
Size of the Market	0.219 (0.239)	0.014 (0.651)	0.020 (1.122)
Infrastructure	0.750 (6.684)***	0.048 (12.716)***	0.039 (13.720)***
Rule of Law	3.506 (2.143)*	-	-
Government Effectiveness	-	7.762 (2.720)	-
Control of corruption	-	-	3.321 (4.957)**
R²	0.856	0.872	0.914
Adjusted R²	0.841	0.858	0.904
F-value	55.576	63.434	98.608
Durbin Watson	1.539	1.987	2.023

*** Significant at 1% level   ** significant at 5 % level

Source: Computed.

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