CHAPTER II

LITERATURE REVIEW

2.1 Introduction

It is sturdily substantiated that there is absolute regional disparity in the distribution of FDI inflows within developing economies. This fact is conspicuous with respect to India too. This sort of circumstance challenges the equitable distribution of factors of production all over the country. Chapter I primarily narrated this predicament – the subsistence of firm disparity in the distribution of FDI inflows across India. Consequently, this chapter recapitulates the studies that explored the determinants of FDI as well as the role of FDI in India and across the globe. Since the researcher centers only on FDI inflows, literature on FDI inflows from the perspective of the host economies alone has been considered. The extensive pool of literature available on FDI inflows, thus, can be broadly bifurcated in to 1) studies based on determinants of FDI inflows to host economies and 2) studies based on the influence of FDI on host economies.

2.2 Determinants of FDI Inflows to Host Economies

Enlarging interest in the causality and consequences of FDI has prompted the development of extensive literature in the topic. Thus, scholars commenced to study about the determinants of FDI inflows to host countries since its evolution. The following section deals with the summary of literature on the distribution and determinants of FDI.

Schneider & Frey (1985) studied the economic and political determinants of FDI with cross country data. It was found that the economic determinants of FDI are real per capita GNP and balance of payment deficit of host economies. Bilateral aid coming from

western countries is one of the political determinants of FDI. However, aid coming from communist countries negatively affects FDI. Further, the inflow of FDI is reduced with the subsistence of political instability in the host economy. Cassou (1997) examined the influence of tax policy on FDI inflows occurring between US and other countries using a panel data. It was found that beyond the host and home country corporate tax rates, the host and home country income tax rates are also significant in determining FDI inflows.

Cooke (1997) applied a transaction cost framework to examine the influence of industrial relation on United State's (US) FDI across nine industries and 19 'Organization for Economic Co-operation and Development (OECD) countries'. It was found that US's FDI was negatively influenced by the presence of union penetration, centralized collective bargaining structures, stiff government restrictions on lay off and pervasive contract extension policies. FDI was positively influenced by high levels of education and policies requiring work councils. Noorbakhsh et al. (1999) analysed the relevance of human capital in attracting FDI inflows to developing economies. They found that human capital is statistically significant and most important in determining FDI inflows. Besides, the relevance of human capital in attracting FDI has been increasing over time.

Fazekas (2000) examined the nature and determinants of the regional distribution of foreign investment enterprise employment in Hungary. It was found that FDI is attracted to regions where unemployment is lower due to better educational levels. FDI is attracted by geographical advantages too. Besides, a hike in FDI creates new job opportunities. Garibaldi et al. (2002) showed that while FDI can be well explained by economic fundamentals, financial market infrastructure and property rights indicator explains foreign portfolio investment.

Asiedu (2002) attempted to explore 'whether the factors that attract FDI in developing countries affect FDI to countries in Sub-Saharan Africa (SSA) differently?'. It was revealed that higher return on investment and better condition of infrastructure positively affects the flow of FDI to non-SSA countries. However, those factors did not significantly impact FDI inflows to SSA countries. Nevertheless, trade openness is a factor which promotes FDI equally in SSA and non-SSA countries. Even if, the marginal benefit from increased openness is less for SSA and the situation makes the policy makers remember that policies that have been successful in a non-SSA country wouldn't be successful in an SSA nation.

Shotar (2002) examined various factors which fetched in FDI to Qatar and the attractiveness of the country to foreign investment between 1980 and 2002. The study is relevant as it has done in the period in which the country undertook major norms of privatization, joined WTO and planned to have sustainable economic growth. It was found that FDI is affected by government spending and GDP in the short run. Kandiero & Chitiga (2003) examined the impact of openness to trade on FDI inflows to Africa. Besides the economy-wide openness, they analysed the effect of openness in the sectors of manufactured goods, primary commodities and services. Their empirical work is based on cross-country data from selected African countries during four different periods: 1980-1985, 1985-1990, 1990- 1995 and 1995-2001. They found that FDI to GDP ratio responds well to increased openness in the whole economy and in the service sector in particular.

Blomstrom & Kokko (2003) criticized the activity of many host economies providing investment incentives exclusively for foreign MNCs to influence their investment

decisions and to harvest spillovers from them. The authors made policy makers remember that providing investment incentives exclusively for foreign firms by forgetting the local investors is not an efficient way to raise national welfare in the host economy, and such a deed will lead to the shift of resources from the host economy to the foreign multinationals instead of occurring the opposite. Potential spillover benefits from FDI will be realized only if the local firms are also equipped to absorb foreign technologies and skills. They suggested that there exists necessity of good governance in the area of FDI policy for considering the investment incentive packages as part of the country's overall industrial policy, and make all incentives available on equal terms to all investors, foreign as well as local.

Banga (2003) examined the impact of government policies and investment agreements on FDI inflows to developed and developing countries including India. In the study, the author has undertaken estimation at two levels. First, using data for 15 developing countries of South, East and South East Asia for the period from 1980-81 to 1999-2000 and second is for ten developing countries from 1986-1987 to 1996-1997. The author's results based on random effect model showed that provision of fiscal incentives is not significantly affecting the inflow of aggregate FDI. Instead, with the removal of restrictions, FDI begins to flow. Another thing worth noting is that FDI flows from both developing and developed countries to particular host regions are based on different selective policies. Lessening of restrictions attract FDI from developed countries to host regions while provision of fiscal incentives and low tariff rates are in play behind the flow of FDI from developing countries to the host regions. Moreover, Bilateral

Investment Treaties (BITs) with the host economies and developed economies have significant effect on the FDI inflows to developing countries.

Janicki &Wunnava (2004) examined the bilateral FDI between the members of the European Union and eight Central and East European Candidate (CEEC) economies in transition which awaited accession into the European Union (EU). Using cross-sectional data, it was revealed that size of the host economy, host country risk, labour costs in host country, and openness to trade are the key determinants of FDI inflows to CEECs.

Quere et al.(2005) evaluated the role of quality of institutions on FDI. They used the data of a set of 52 countries for analysis. Their results indicated that public efficiency (tax systems, easiness to form a company, lack of corruption, transparency, contract law, security of property rights, efficiency of justice and prudential standard etc.) is a major determinant of inward FDI to developing countries. Busse & Hefeker (2005) examined the linkages between political risk, institutions and foreign direct investment inflows for a sample of 83 developing countries between 1984 and 2003. They found that factors like government stability, the absence of internal conflict and ethnic tensions, basic democratic rights and ensuring law and order are highly significant determinants of foreign investment inflows.

Asiedu (2005) examined the impact of factors such as natural resources, market size, government policies, political instability and the quality of the host country's institutions on FDI to Africa by using a panel data set of 22 countries over the period, 1984 to 2000. It was found that factors such as large local markets, natural resource endowments, good infrastructure, low inflation, efficient legal system and a good investment framework attracted FDI while corruption and political instability discouraged the inflow of FDI.

te Velde & Bezemer (2006) reviewed the association between regional integration and FDI inflows in developing countries. The authors estimated a model for the real stock of US and United Kingdom (UK) FDI in developing countries between 1980 and 2000. The authors found that the membership of a host economy in any regional integration as such, is not positively and significantly influences the FDI inflows to that particular host country. Instead, if a country with sufficient level of trade and investment provisions, is a member of any regional integration, is in a better position to attract more FDI inflows. Additionally, countries that have bigger economies or are geologically closer to larger countries within the regional grouping can anticipate a larger increase in foreign direct investment as a result of joining a regional trade agreement than those of countries that have smaller economies or are located on the periphery.

Xing (2006) argued that China's exchange rate policy played a critical role in its FDI boom. The empirical results revealed that the real exchange rate between the Chinese-Yuan and Japanese-Yen is one of the significant variables determining Japanese direct investment in China. The devaluation of the Yuan helped to significantly raise the inflows of direct investment from Japan.

Udo & Obiora (2006) analysed the determinants of FDI in the West African Monetary Zone (WAMZ) and investigated the cause and effect relationship between FDI and growth. They used a simultaneous-equation method on a panel of WAMZ countries over the period of 1980 to 2002 and found no evidence of a two way causal relationship between FDI flows and economic growth. However, determinants of FDI to WAMZ include high per capita income, better infrastructure and political stability.

Sahoo (2006) conducted a study on the trends, policy, impact and determinants of FDI in South Asia. The study showed an increasing trend of FDI in to South Asian countries. However, little share of FDI is going to other countries in South Asia except India. In India and Pakistan, FDI is more oriented on domestic market, while in Sri Lanka and Bangladesh, it focuses on export-oriented industries. The major determinants of FDI flows to South Asia were found as market size, growth of labour force, infrastructure index and trade openness. Mottaleb (2007) examined the determinants of FDI inflows to developing countries. A panel data set consisting of 60 low income and lower-middle income countries was employed in the study. Data has been estimated using random effect regression. It was concluded that large GDP, high growth rate of GDP, business friendly environment and modern communication facilities encourage FDI inflows to developing countries.

Dutta & Roy (2008) delineated financial development as a determinant of FDI inflows to an economy. However, the contribution of financial development can be based on the political situation of the recipient nation. It was found that higher political stability in the host economy will assist financial institutions to reap the benefits of FDI more effectively. Using a panel of 97 countries, they showed that the impact of financial development on FDI inflows becomes negative beyond a threshold level of financial development in the host country.

Wyk & Lal (2008) investigated the explanatory power of institutional and macro economic variables in determining FDI inflows to developing countries. It was found that levels of economic freedom facilitated inward FDI flow while increasing political risk dampened investment. Explanatory variables like market size, growth of GDP, lower

current account balance, appreciation of host country's currency, and lower inflation rate etc. also stimulated FDI inflows. Chidlow & Young (2008) examined the regional determinants of FDI inflows in Poland. By using a multinomial logit model incorporating the investor's specific characteristics, it was found that knowledge-seeking factors along with market and agglomeration factors, drove FDI to the Mazowieckie region (including Warsaw[1]). Simultaneously, efficiency and geographical factors encouraged FDI to other regions in Poland.

Wahid et al. (2009) investigated the factors attracting FDI to host economies on the basis of a sample of 20 African countries over the period 1990-2005. The abundance of natural resources recorded to have a positive and significant effect on FDI inflows. Factors such as openness of the economy, size of the domestic market and stock of human capital also played a positive role in attracting FDI inflows. Political instability and labour cost played negative role in fetching FDI inflows.

Bellak & Leibrecht (2009) used 56 bilateral country relationships combining seven home countries from the EU and the US, and eight Central and East European host Countries (CEECs) of foreign direct investment (FDI) from 1995-2003 in a panel gravity-model setting to estimate the role of taxation as a determinant of FDI. The results showed that tax-lowering strategies of CEEC governments have an important impact on foreign firm's location decisions.

Mottaleb & Kalirajan (2010) identified the factors influencing FDI inflows to developing countries by using a panel data set of 68 low-income and lower-middle income developing countries. It was found that countries with larger GDP and high GDP growth

[1]Capital of Poland

rate, higher proportion of international trade and with more business friendly environment are more successful in attracting FDI.

Walsh & Yu (2010) distinguished between FDI inflows to primary, secondary and tertiary sectors to analyse what factors bring FDI to those sectors in an economy. The study also focused on determining whether macro-economic and cross-country factors also play a role in cross-country differences in FDI inflows. Annual FDI data from 1985 to 2008 for 27 advanced and emerging market economies including India was used. It was found that FDI inflows in primary sector in particular economies have no strong linkages to either macroeconomic stability, level of development, or institutional quality. Decisions about FDI in mining and petroleum sectors are affected by the location of such resources, i.e. on the basis of the extent of transferability of both labour and equipment. FDI inflows in the secondary and tertiary sectors provide linkages to the macro economy of host countries. Even if FDI in both secondary and tertiary sector benefit from agglomeration or clustering effects, FDI in services is much more affected by macroeconomic conditions than FDI in manufacturing. Moreover, weaker real effective exchange rate fetches more FDI in the manufacturing sector of host economy; it reduces the FDI in tertiary sector. Tertiary FDI is higher in rapidly growing economies and those which are more open. More flexible labour markets and deeper financial markets attract more secondary FDI, while better infrastructure and a more independent judiciary attract more tertiary FDI.

Dhakal et al. (2010) examined the exchange rate uncertainty on FDI in East Asian countries such as China, Indonesia, Malaysia, the Philippines, South Korea, and Thailand using panel data. These countries continued to receive substantial volume of FDI

irrespective of their exchange rate volatilities. It was found that exchange rate volatility has a favorable effect on foreign direct investment in the sample countries. Khachoo & Khan (2012) attempted on identifying the factors determining FDI inflows to 32 developing countries using panel data from 1982 to 2008. Fully Modified Ordinary Least Squares (FMOLS) test was used for estimation. It was found that market size, total reserves, infrastructure and labour costs are the main determinants of FDI inflows to developing economies.

Lautier & Moreaub (2012) investigated the impact of domestic investment on FDI to developing countries. Cross country data from 68 countries over the period of 1984 to 2004 has been employed. The results showed that domestic investment has a strong influence on FDI inflows to the host-economy. Hussain & Kimuli (2012) explored the factors influenced FDI flows to developing countries with a panel data set of 57 low and lower-middle income countries during 2000 to 2009. Instrumental variable technique and also controlled country specific and time specific fixed effects were used. Market size was found as the most substantive determinant of FDI inflow to developing economies. Besides, stable macro-economic environment, integration with the global economy, availability of skilled labour force and developed financial sector etc. also found as stimulating FDI inflows to developing countries.

Liargovas & Skandalis (2012) examined the relevance of trade openness as a determinant of FDI inflows, using a sample of 36 developing economies [from Latin America, Asia, Africa, CIS (Commonwealth of Independent States) and Eastern Europe] for the period 1990–2008. The panel regression analysis revealed that in the long run, trade openness contributed positively to the inflow of FDI. Cleeve et al. (2015) examined the role of

human capital on FDI inflows to countries in sub-Saharan Africa by using panel data set for the period 1980 to 2012. They intended principally to assess whether the quality of labour subsisting in the host economy explains FDI inflows. It was found that human capital has a significant influence on FDI inflows.

O'Meara (2015) identified the main determinants of FDI on a cross-country basis. It was found that traditional variables like size and scale of economic activity in the host country are more prominent in explaining FDI inflows instead of the variables like economic freedom, tax incentives, human capital etc.

Hanafy (2015) analysed the determinants of inward FDI in Egypt by employing a panel dataset of 26 Egyptian governorates for the period from 1992 to 2008. The results showed that domestic private investment, well-functioning free zones, and labour abundance affected the advent of FDI inflows. Ablov (2015) examined the determinants of inward FDI to firms in Poland in a sectoral framework over a period of 10 years from 2003-12. It was revealed that the determinants of FDI inflows to Polish firms are economic potential of the region in which the firm operates, the road and rail road density of this particular region and the location of a firm: closer to European Union (EU) or non-EU countries and closer to seaside or to the capital city of Poland – Warsaw.

Ibrahim & Abdel-Gadir (2015) investigated the motives and determinants of FDI in Oman during 1980 to 2013. Co-integration and Vector Error Correction Model (VECM) approach were used to find out the short and long-run dynamics of FDI determinants. It was disclosed that FDI flows to Oman are positively influenced by market size and natural resources, and negatively by inflation rate and degree of openness. Prashar (2015) explored out the factors determined inflow of FDI to both India and China between 1980

and 2013 using linear regression analysis. It was found that for both India and China, market size is the common factor attracting FDI inflows. For China, particularly, its low wage rate fetches in foreign investors and for India, its novel policy reforms plays the key role in attracting FDI.

Yong et al.(2016) examined the determinants of FDI in the three regions of China (Eastern, Central and Western) using spatial panel analysis (period: 1994 to 2008). The empirical results revealed that the determinants of FDI were different among the three regions based on the motives of the investors and policy bias. It was found that the motive for FDI in the eastern region is mainly efficiency seeking while that to the central and western regions is market seeking. Dellis et al. (2017) investigated the role of economic structures as determinants of FDI inflows to advanced economies. It was found that quality of host country's economic structure and FDI inflows are empirically related. The results are found robust to various economic specifications and are confirmed when restricting the sample to euro area countries only.

Asongu et al. (2018) attempted on finding out the determinants of FDI inflows in fast growing BRICS (Brazil, Russia, India, China and South Africa) and MINT (Mexico, Indonesia, Nigeria and Turkey) countries using panel data analysis. Firstly, a pooled time series cross-sectional analysis using data from 2001 to 2011 was done to estimate and model the determinants of FDI for three samples: BRICS only, MINT only and BRICS and MINT combined. Then, a fixed effect model for the combination of BRICS and MINT was employed. Thus, it was found that market size, availability of infrastructure and trade openness play important role in attracting FDI to both BRICS and MINT.

However, they identified only an insignificant role of institutional quality and natural resources on FDI inflows.

Sabir et al. (2019) examined the influence of quality of institutions on FDI inflows by employing panel data consisting of low, lower-middle, upper-middle and high-income countries. The period of study is 1996 to 2016 and the analysis were made using system Generalized Method of Moments (GMM). The results showed that institutional quality is a factor which has positive impact on FDI in all group of countries. The extent of corruption, effectiveness of government, political stability, quality of regulatory framework, rule of law and voice and accountability for FDI inflows are greater in developed countries than in developing countries. Nevertheless, GDP per capita, agriculture value-added as a percentage of GDP, and inflation influence FDI inflows negatively in developed countries, while GDP per capita, trade openness, agriculture value-added as a percentage of GDP, and infrastructure have positive and statistically significant impact on FDI inflows in developing countries. Trade openness as a percentage of GDP and infrastructure positively affect FDI in developed countries. Institutional quality is a more important determinant of FDI in developed countries than in developing countries.

Hsu et al. (2019) studied whether the tax incentives had been a significant determinant of foreign investment decisions in China by using the provincial level panel data from 1998 to 2008 (before the reform activities in 2008). It was found that market size and geographic location significantly influenced FDI inflow into China but the tax incentive policies were not a prominent determinant.

In the Indian context, the following studies have been exercised to identify the various determinants of FDI.

Bajpai & Sachs (2000) attempted to identify the issues in the India's then FDI regime to understand why India remains an unattractive destination for FDI irrespective of the factors like country's large domestic market, low labour costs and a well working democracy. They identified nine specific reasons hindering FDI inflows to India as restrictive FDI regime, lack of clear cut and transparent sectoral policies for FDI, high tariff rates by international standards, lack of decision-making authority with the state governments etc.

Morris (2004) discussed the determinants of FDI over the regions of India and developed a framework drawn from the advantage concept of *Kindleberger* and from location theories rooted in regional science. Primarily, the author argued that except those industries which are strictly confined to locations due to their requirements of either natural resources or the need to be very close to markets, all others have headquartered in metropolitan cities in India. Thus, such regions attract bulk of FDI. Moreover, the quantum of FDI, the number of cases of FDI, the employment effects, and spillover effects are large for such regions. He provided empirical support for this hypothesis with a study of the intentions of foreign investment, and the distribution of investment projects in the arena of Gujarat, which has not such a metropolitan city unlike south India which has Bangalore, Hyderabad and Chennai. Moreover, in north, there is Delhi as a metro city, and for Maharashtra there is Mumbai. FDI to Gujarat was large enough when the state had grown rapidly in the first six years following the reform of 1991-92. After that period, there occurred a slowdown in the growth of the state and it has been a barrier to

the surge of FDI also as the kind of FDI that Gujarat could hope for was largely industry oriented. Likewise, regulatory uncertainty especially with regard to gas, but also electric power and more generally in the physical infrastructure sectors had hurt Gujarat more than other states. However, the author concluded that there are vast gains to be made by attracting FDI, especially in services, high tech, and skilled labour seeking industries. With FDI, the resulting operations will be more externally oriented, and investments will arise from competing firms.

Beena et al.(2004) delved deep in to the affairs of FDI in India by using the data obtained from 160 MNC affiliates in India. They tried to answer significant matters related to MNCs including the experience of MNCs invested in India, the relationship between their performance and experience with the operating environment, and the extent of spillovers in the form of transfer of technology and know-how. They found that, MNCs in India are almost or in general are satisfied with their own performance as regards MNCs' experience with respect to labour productivity, revenue growth and profit growth. A majority of the firms in both old economy sectors like machines and machine tools and new economy sectors like IT felt that their expectations with respect to these parameters of performance were largely met. Principally, neither the central nor the state and local governments were viewed as obstacles to carrying on business in India. On the other hand, the firms who couldn't meet their expectations experienced a considerable decline in the quality of executive management in India, and were largely dissatisfied with the extent of improvement in the reliability of utilities. Moreover, MNCs which are late entrants to Indian economy are less satisfied with their own performance, on average, than the early entrants. It has occurred because the growth of labour productivity, revenue

growth and profit growth of MNCs wouldn't have met with their beforehand *expectations* about the rapidly growing Indian economy. Besides, a majority of the firms making investment in India have relatively small Research and Development (R&D) budgets compared to their turnover and most of them do not render significant training to the employees in their Indian affiliates. This raises hesitations regarding the extent of transfer of cutting edge technology to India, and the extent of spillovers by way of enhancement of skills of the labour force.

Bajpai & Dasgupta (2004) undertook a comparative analysis of the FDI flowed from the multinational corporations (MNCs) into China and India between 1992 and 2001. The paper is more of a conceptual nature which tried to answer several conclusive questions like, 'What could be the possible reasons behind China's success in attracting FDI inflows?, has the Chinese FDI been said to take place at least partially, at India's expense?, can India possibly become an FDI destination as attractive as China?, who are the target groups of foreign investors in India?' etc. The authors have succeeded in bringing out reasonable explanation to all these questions. They found several areas and aspects including retail-trade sector, export-oriented manufacturing, the creation of sufficient number of special economic zones of quality and the proactive role of the state governments in aiding the FDI process in conjunction with the Central government and the private sector etc. with which it is possible for India to attract larger FDI inflows. By examining a large pool of both Indian and Chinese data, it was inferred that India falls short of China in all the above mentioned areas and aspects and the study recommended for a redesign in India's policies in each of these aspects.

Aggarwal (2005) attempted to investigate the sensitivity of foreign direct investment to labour markets across Indian states by having improvements to the conventional modelling framework related to the labour market. A Panel Corrected Standard Estimates Technique (PCSE) was employed for estimation and it was disclosed that rigid labour markets discouraged FDI inflows to India. Besides, export oriented FDI is more prone to labour market rigidity than domestic market seeking FDI. Menon & Sanyal (2005) analysed how labour conflict, credit constraints and indicators of state economy's health influence the location decisions of foreign firms in India. It was found that foreign investors tend to veer away from states that have high incidences of labour conflict, particularly as measured by the number of man-days lost due to work stoppages.

Siddharthan (2006) attempted to compare the regional differences in the FDI inflows to China and India. It was found that, FDI inflows in China and India have been confined to a few states or provinces. Besides, the determinants of regional distribution of FDI flows in China and India are very similar to the pattern of inter-country FDI flows. That is, FDI in these two countries flows to relatively developed regions and regions that are poor in physical, institutional and social infrastructure receive very little FDI. Sury (2008) identified the determinants of FDI to India by employing ordinary least squares regression on quarterly data from 1991 to 2003. It was found that FDI inflows to India did significantly determine by factors such as expected national income, tax rate, trade openness and labour cost.

Dutta & Sarma (2008) assessed the trends, challenges and prospects of FDI in India since 1991. The study is primarily descriptive with the usage of no specific estimation technique. However, the authors expected that ongoing liberalization measures and

developing infrastructure will give future impetus for the growth of FDI inflows to India. It was found that even if FDI to the country is on the increase, regional distribution in FDI is more inequitable. For securing prospects in FDI inflows, building of a transparent investment environment was suggested.

Lai & Sarkar (2011) measured the effect of labour cost on FDI in India and attempted to find out whether foreign firms pay higher wages than their domestic counterparts. Ordinary Least Square (OLS) regression was used and found that lower average wage in India attracts foreign investment. Moreover, foreign firms pay higher wages to employees than the domestic companies.

Mukherjee (2011) examined the major determinants of regional distribution of FDI in Indian states by employing fixed effect pooled least square method during the period of 2000-01 to 2010-11. It was revealed that market size, agglomeration effects, infrastructure, size of manufacturing and services base etc. have significant and positive effect on FDI inflows to particular states in India. The negative and significant relationship between FDI inflows and taxation and cost of labour was also found. However, the study couldn't establish a concrete relationship between quality of labour and FDI inflows.

Pradhan (2012) examined the determinants of FDI inflows to India by using panel data from 2001 to 2010. It was found that the principal determinants of FDI to India are power availability, domestic investment and profit. Improved profitability in states prompts foreign investors to invest in that particular state. Pillai & Rao (2013) identified the determinants of FDI inflows to India as transnational attributes (import, export, trade balance and FOREX reserve), stability, investor's confidence and institutional factors by

performing factor analysis and elasticity analysis of panel data. The quarter-on-quarter data from the year 2000 to the year 2010 were obtained for analysis. Kaur & Sharma (2013) explored out the various determinants of FDI inflows to India. It was found that factors such as openness, reserves, GDP and long-term debt have positive effect while inflation and exchange rate have negative effect on FDI inflows to India.

Chatterjee et al. (2013) strived on identifying the factors influencing wide-scale variation in FDI inflows to Indian states. A panel data set consisting of 16 Indian regions was structured for analysis. It was revealed that both physical and social infrastructure have no bearing on bringing FDI to various regions. Instead, interstate variations in FDI inflows to India occur owing to the variability in the level of profit made by existing enterprises. It was also found that, when higher profits in the existing firms attract more FDI, variability in profits reduces FDI flows.

Bickenbach et al. (2013) analysed the concentration of FDI in India at the district level based on FDI's project-specific location choices since the reform program in India in the early 1990s (1993-2004). Major types and sources of FDI were differentiated. It was found that there are a large number of districts that do not receive any FDI project and a very high share of FDI projects is located in a very small number of districts, principally in Mumbai, Chennai, Bangalore, Pune and Hyderabad. Moreover, the level of concentration of FDI projects at regional level is high with majority (in foreign ownership) and the concentration is low in the case of technical collaborations (minority in foreign ownership). Furthermore, the level of concentration also varies as regards the source (source countries) of FDI. It was also found that a rising share of Indian districts failed to participate in the boom of FDI projects in the post-reform era.

Sanghi & Patni (2014) identified regional disparity in FDI inflows to India. Large variance in the FDI inflows to various regions in India was observed. The positive impact of factors like market size and infrastructure on the FDI inflows to various Indian regions were disclosed. Mahalakshmi et al. (2015) found out the determinants of FDI inflows to India by using Auto Regressive Distributed Lag (ARDL) Model and innovation accounting of VAR system. It was found that FDI inflow to India is significantly influenced by both GDP and Real Effective Exchange Rate (REER).

Gupta (2017) checked the two way causality between FDI inflows and human capital across the states of India. The analysis using time series data for a period from 1975 to 2013 showed that improvement in human capital does not cause growth in FDI inflows and the growth in FDI inflows does not result growth in the human capital formation. Using a panel data set with time series length of 11 years (2000-2010), the author found that variations in the human capital base do not explain the differences in FDI inflows across states, instead, size of market, availability of cheap labour, and infrastructure affect distribution of FDI.

2.3 Influence of FDI Inflows on the Host Economies

Theoretical literature accords that FDI inflows effectuate multifarious benefits in host economies beyond the mere provision of capital. The primary role of FDI inflows in the host economy has been assimilated as bridging the gap between the desired and the actual level of capital stock. Apart from this, FDI subsumes better technology, management and marketing practices etc. which are capable of transforming the host economy more competitive through spillover effects. FDI is also presumed to affect the host economy

negatively in certain occasions. In view of these, the following section examines the empirical literature which assayed the role of FDI inflows to host economies.

Blomstrom & Wolff (1989) examined the influence of the operations of foreign-owned multinational firms on the productivity growth of Mexican manufacturing industries from 1965-1984. It was found that the extent of productivity of the locally owned firms in Mexico have converged on those of the foreign owned firms. The rate of productivity and their rate of catch-up to the multinationals increase when the degree of foreign ownership increases in a particular industry. The productivity gap between Mexico and US manufacturing has diminished between the mid-1950s and the mid-1980s. Further, the rate of productivity growth of Mexican industries and its rate of convergence to the United States are higher in industries with a greater presence of multinationals.

Blomstrom et al. (1992) examined whether rivalry in host country markets forces foreign multinationals to increase the extent of technology transfer to their foreign affiliates. It has been assumed that such technology flows should be interesting from the perspective of host country and its firms since such a rivalry may increase the potential for spillovers in the host country. By using data from Mexican manufacturing industry between 1970 and 1975, it was found that the existence of rivalry in the host economy markets will lead to increased technology imports to the foreign affiliates in the host country. To accommodate the technology imports of foreign affiliates, three alternative measures such as foreign affiliate's payments per employee for imported intellectual property rights, labour productivity levels of the foreign affiliates and the growth rate of labour productivity in the foreign affiliates have been used. A strong effect of the association between industrial rivalry in host economy and import of technology by foreign firms in

the consumer goods industries was found. The fact that foreign MNCs are sensitive to the local market environment when barriers to entry in the forms of complex technology or high capital requirements are comparatively low has also been observed.

Balasubramanyam et al. (1996) examined the role of FDI in the growth process of developing economies which have different trade policy regimes. By using cross section data of 46 developing countries, the hypothesis- advantageous influence of FDI is mightier in those economies which has an outward oriented trade policy than those countries whose policy regime is inward oriented- was tested. It was observed that world market oriented FDI is superior to purely local-market oriented FDI because the former is more in line with comparative cost advantages of host countries.

Blomstrom & Kokko (1998) reviewed the extent of spillover effects of the activities of the multinationals both on the home country and host country. The study is primarily of a conceptual nature. The authors opined that spillover effects are most likely to be happened in host countries where the operations of foreign multinationals may influence local firms in the MNCs own industry as well as firms in other industries. However, for this to be elucidated, the authors didn't get any comprehensive evidence of the exact nature or magnitude of these effects, although it is suggested that host country spillovers vary systematically between countries and industries. It was stated that the positive spillover effects from MNCs to the local firms in the host country may increase with the increase in their local capabilities. It was also stated that it is more difficult to identify the spillovers from MNCs to their home country and it is likely to depend on what activities these firms concentrate at home.

Borensztein et al. (1998) examined the impact of FDI on economic growth using cross-country data from industrial countries to 69 developing countries over two decades (1970-79 and 1980-89).An endogenous model, in which rate of technological progress as the main determinant of long-term growth of income, was developed. The most robust finding of the study is that the effect of FDI on economic growth is dependent on the level of human capital available in the host economy. Some evidences of crowding-in effect, that FDI is complementary to domestic investment were also found. The results suggested that FDI is an important vehicle for transfer of technology, which contributes relatively more to growth than domestic investment.

Aitken & Harrison (1999) observed that increase in foreign equity participation results in the enhancement in the productivity of only small recipient plants with less than 50 employees. The study was conducted using a panel data set of more than 4000 Venezuelan firms between 1976 and 1989. It was also found that increase in foreign ownership negatively affected the productivity of wholly domestically owned firms in the same industry. Overall, the evidences suggested that the net effect of foreign ownership on the domestic economy is quite small.

Agosin & Mayer (2000) addressed mainly the question of whether FDI inflows to host economies crowd in or crowd out domestic investment. By using a panel data set of 32 countries (from three developing regions as Asia, Latin America and Africa) over a period from 1970 to 1996, it was established that in Asia, crowding in is in operation and in Latin America, it is crowding out. In Africa, FDI has increased overall investment one to one during the same period. In the two sub periods of the study (i.e. from 1976 to 1985 and 1986 to 1996) the result varied only for Africa (crowding in occurred). However, it

was not assured whether FDI made any positive impact on domestic investment. It was suggested that simplistic policies towards FDI wouldn't be optimal always.

Berthélemy & Démurger (2000) investigated the relationship between FDI and economic growth in China. Their simultaneous- equation model based on a sample of 24 Chinese provinces disclosed that FDI played a fundamental role in the provincial economic growth in China between 1985 and 1996. Fosfuri et al. (2001) made a model where a multinational firm can use superior technology in a foreign subsidiary only after training a local worker. Technological spillovers from foreign direct investment arise when this worker is later hired by a local firm. Pecuniary spillovers arise when the foreign affiliate pays the trained worker a higher wage to prevent his or her moving to a local competitive firm. The conditions under which an MNE retains the trained worker and which she or he leaves to a local firm were also delineated in the study. The circumstances in which the MNE prefers exporting over investment in the host economy in order to prevent the drain of technology from it have also shown.

Krkoska (2001) addressed the question of how important is FDI in financing the capital formation in transition economies in central and eastern Europe in relation to other forms of enterprise financing like domestic and foreign credit, capital market financing and state subsidies. Variables such as gross fixed capital formation, retained earnings, domestic credit, state subsidies, capital market financing, FDI, foreign credit etc. were used for analysis. It was found that FDI, domestic credit and local capital markets are all important financing sources for capital formation, with FDI having a substantially greater impact than domestic credit and capital market financing, while such a relationship was not obvious in the case of state subsidies and foreign credit.

Blomström & Kokko (2002) carried out a conceptual analysis of the relationship between FDI and human capital. A more complex and non-linear relationship between FDI inflows and human capital formation was found in the host economies and several possible outcomes with the interaction of FDI and human capital in host economies was expected. It was also found that FDI inflows have the potential for knowledge spillovers to the local labour force. However, simultaneously, the host economy's level of human capital decides how much FDI should enter it and the absorptive capacity of the local firms (absorption of potential spillover benefits from FDI inflows) is also determined by the level of human capital prevailing in the host economy. Hence it was expected that host economies with relatively high levels of human capital will be attracting large amounts of technology intensive foreign MNCs and such MNCs will further contribute to the development of labour skills in the host economies. Concurrently, economies with weaker human capital conditions will be attracting lower amounts of FDI inflows, and such MNCs will be using simpler technologies which will contribute only marginally to the local learning and skill development.

Carkovic & Levine (2002) found that the exogenous component of FDI does not exert a robust, independent influence on growth by using the data from 72 countries. Initially, simple Ordinary Least Squares (OLS) regression was used over the 1960-95 period. Secondly, a dynamic panel procedure with data averaged over five year periods, between 1960 and 1995 was carried out. The study has primarily resolved the biases plagued past works on FDI and growth. Campos & Kinoshita (2002) tested the effect of FDI on growth in 25 Central and Eastern European and former Soviet Union transition countries

between 1990 and 1998. It was found that FDI has a positive and significant impact on economic growth in all these countries, in accordance with subsisting theories.

Misun & Tomsk (2002) attempted to examine whether FDI in countries such as Czech Republic, Hungary, and Poland crowds in or crowds out domestic investment. A model of total investment was introduced in the study which assumed foreign investment as an exogenous variable. It was found that between 1990 and 2000, FDI had a crowding-out effect on domestic investment in Poland. From 1990 to 2000 (in Hungary) and between 1993 and 2000 (in Czech Republic), a crowding-in effect of FDI was found. Hermes & Lensink (2003) contended that the extent of progress of financial system of host economies is conclusive for FDI to make positive impact on economic growth. That means, a more developed financial system contributes positively to the process of technological diffusion associated with FDI.

Basu et al. (2003) explored the two-way association between FDI and growth for a panel of 23 developing economies using a panel co-integration framework. The impact of liberalization on the dynamics of the FDI and GDP relationship was also examined. A bidirectional causality between GDP and FDI for economies which are more open was found. For comparatively closed economies, the long run causality is unidirectional which runs from GDP to FDI and it implies that growth and FDI are not mutually contributing under restrictive trade and investment regimes.

Alfaro (2003) showed that the benefits of FDI vary across sectors by examining the effect of FDI on growth in the primary, manufacturing and service sectors, using cross-country data including OECD economies between 1981 and 1999. It was found that the total FDI exerts an ambiguous effect on economic growth. FDI in the primary sector has a negative

effect while the effect is positive in the manufacturing sector. The evidence on the relationship between FDI and service sector is ambiguous.

Kim & Seo (2003) studied about the dynamic relationship between FDI inflows, economic growth and domestic investment in Korea between 1985 and 1999. Both vector auto-regression model and the innovations accounting techniques were employed and it was found that FDI's effect on economic growth is positive, but insignificant. It was also found that economic growth has statistically significant and highly persistent effects on the future level of FDI. Moreover, FDI showed strong dynamic endogeneity to domestic macroeconomic conditions. However, the authors didn't get any evidence which supports that FDI tends to crowd out domestic investment in Korea.

Bengoa & Robles (2003) explored the interplay between economic freedom, foreign direct investment (FDI) and economic growth using panel data analysis for a sample of 18 Latin American countries for 1970 - 1999. It was found that economic freedom in the host country exerts positive influence on FDI inflows. Furthermore, FDI is related positively with the economic growth in the host countries. However, the host country is required to develop sufficient base of human capital, economic stability and liberalized markets to get merits from FDI inflows.

Nunnenkamp & Spatz (2004) concluded that the positive growth effects of foreign direct investment are not guaranteed automatically to developing host economies, by analyzing the FDI stocks in major sectors and specific manufacturing industries in a large number of developing economies originating from the United States. Instead, the host economy and industry characteristics, as well as the interaction between such characteristics affect largely the growth impact of foreign direct investment in developing economies.

Alfaro et al. (2004) examined primarily whether countries with a developed financial system get more benefits from FDI. They employed cross-country data between 1975 and 1995. It showed that FDI alone has an ambiguous role in economic growth. To proxy the banking sector of countries, they incorporated four variables such as liquid liabilities of the financial system, commercial-central bank assets, private sector credit, and bank credit. For bringing the stock market in to picture, they used stock market liquidity and capitalization. Banking sector of 71 countries and stock market of 50 countries have been examined in accordance with the availability of data. They inferred that even if FDI can be attracted through specific policies, the local condition of host countries, especially the position of financial system, matters for getting the desired benefits from FDI. They emphasized that better local conditions not only attract FDI, but also help maximize the benefits from FDI.

Hansen & Rand (2004) analysed the Granger-causal relationship between foreign direct investment and GDP by taking a sample of 31 developing countries between 1970 and 2000. It was found that FDI has a lasting impact on the level of GDP when GDP has no long run impact on the FDI to GDP ratio. Thus, FDI causes economic growth. Choong et al. (2004) investigated the patterns of FDI and economic growth among selected developed and East Asian countries. In particular, the role of the level of development of the domestic financial sector in transferring the technological diffusion embodied in FDI inflows to the chosen countries was examined. The results proved that FDI inflows create positive technological spillovers in the host economy only when the domestic financial system has developed to a certain minimum extent.

Cheung & Lin (2004) found positive effects of FDI on the number of domestic patent applications in China using provincial data from 1995 to 2000. The finding is robust under pooled time series, cross-section data estimation and panel data analysis and for different types of patent applications. It was hypothesized that FDI can benefit innovation activity in the host country via spillover channels such as reverse engineering, skilled labour turnovers, demonstration effects, and supplier - customer relationships. Titarenko (2005) estimated the extent of influence of FDI on domestic investment in Latvia. The econometrics analysis of total investment model showed the evidence of crowding out-long term effect of FDI on domestic investment.

Le & Suruga (2005) studied the simultaneous impact of public expenditures and FDI on economic growth. A sample of 105 developing and developed countries for the period 1970-2001 was used. It was found that FDI, public capital and private investment play important roles in promoting economic growth while public non-capital expenditure has a negative impact on economic growth. Besides, excessive spending in public capital expenditure can hinder the beneficial effects of FDI.

Li & Liu (2005) investigated whether FDI inflows affect growth of economy by using a panel data set of 84 countries for the period ranging from 1970 to 1999. Both single equation and simultaneous equation system techniques were used. A significant endogenous relationship between FDI and economic growth was identified from the mid-1980s onwards. Besides, it was found that the interaction of FDI with human capital base in the host economy exerts strong positive influence on economic growth and host economies with technology gap get negative influence of FDI inflows on their economy.

Apergis et al. (2006), by using panel integration and co-integration tests for a dynamic heterogeneous panel of 30 countries (from all continents), examined the linkage between FDI inflows and domestic investment. It was found that there is a significant two way dynamic relationship between FDI and domestic investment. Velde (2006) examined the trends in the relationship between FDI and development in an historical context and the study is essentially in a conceptual nature. The author emphasized that the countries of the world have realized FDI as a factor contributing to their development efforts in the recent decades of the study.

Vo & Batten (2006) looked over the linkage between FDI and economic growth. Principally, it was examined whether the relationship between these two changes in different legal, educational, institutional and economic conditions. It was unearthed that FDI strongly and positively exerts influence on economic growth in countries with higher rate of education attainment, openness to international trade, and stock market development, and lower level of population growth and lower risk. Four variables were used to proxy FDI such as FDI inflows as a share of GDP, Gross FDI inflows as a share of GDP, stock of FDI inflows as a share of GDP, and gross stock of FDI as a share of GDP. It was found that countries should not only liberalize their economies towards cross border investment but also have to improve their social set ups like education, law, institutions etc. in order to get full advantage from FDI.

Herzer et al. (2006) challenged the widespread belief that FDI contributes to growth positively in developing countries. The limitations of the existing literature were addressed and re-examined the FDI-led growth hypothesis for 28 developing countries using co-integration techniques on a country-by-country basis. It was found that in

majority of the countries, FDI has no statistically significant long-run impact on growth. Positive long-run and short-run impact of FDI on growth was recorded only in very few cases.

Johnson (2006) modeled the capability of FDI inflows to affect host country economic growth. It was contented that FDI should have a positive effect on economic growth as a result of technology spillovers and physical capital inflows. By performing both cross-section and panel data analysis on a data set comprising 90 countries between 1980 and 1992, it was found that FDI inflows augment economic growth in developing countries; not in developed countries.

Vu et al. (2006) estimated the impact of FDI on growth using sectoral data for FDI inflows to China and Vietnam. It was found that for both the countries, FDI has statistically significant positive effects on economic growth operating directly and through labour productivity. It was also found that the effect of FDI is very different across economic sectors with majority of the beneficial impact is limited to manufacturing. Other sectors gain very little growth benefit from sector-specific FDI.

Aizenman & Noy (2006) examined the linkages between capital flows and trade with disaggregated measures of both by utilizing regression and a two-way feedback analyses. The authors obtained consistent results with the earlier findings that the feedback effects between trade and FDI are stronger in developing than in industrialized countries. It was also found that in the time of rapidly growing trade integration, countries cannot choose their capital account policies independently of their degree of openness to trade.

Khaliq & Noy (2007) analysed the direct effect of FDI on economic growth in different sectors in Indonesia with the use of a fixed effect estimation technology. Annual data

from 12 sectors during 1998 to 2006 was used. It was found that, at the aggregate level of the economy, FDI has some positive effects on growth. But at the sectoral level, the effects of FDI on economic growth vary. It means, while some sectors benefit positively from FDI, others derive negative impacts.

Tang et al. (2008) examined the causal link between FDI, domestic investment and economic growth in China for the period 1988-2003. Multivariate Vector Auto-regression (VAR) system with Error Correction Model (ECM) and the innovation accounting (Variance Decomposition and Impulse Response Function Analysis) techniques were employed for estimation. It was found that while there is a bi-directional causality between domestic investment and economic growth, there is only single-directional causality from FDI to domestic investment and to economic growth. Thus, in China, besides assisting to overcoming the shortage of domestic capital, FDI has also given impetus for economic growth by complementing domestic investment.

Noormamode (2008), by using a panel data set of 58 countries over a period of 1988 to 2004, attempted on analysing the causality between FDI and economic growth by controlling the influence of social and macroeconomic variables within a tri-variate framework. The author, however, didn't receive any clear cut evidence on the growth effects of FDI. Ndikumana & Verick (2008) analysed the two-way linkages between FDI and domestic investment in Sub-Saharan Africa. It was found that firstly, FDI crowds in domestic investment, and secondly, countries will get advantageous effects from measures aimed at improving the domestic investment climate.

Thilakaweera (2009) examined the long run relationship and causality between real per capita GDP, foreign direct investment (FDI) and the level of the infrastructure in Sri

Lanka over the period 1980 to 2011. The results demonstrated that there is a long-run relationship between real per capita GDP, foreign direct investment and the level of infrastructure. Besides, one way causality existed from infrastructure to FDI during the period. Wang (2009) studied the diverse effects of sector-level FDI inflows on host country's economic growth in 12 Asian economies over the period of 1987 to 1997. It was found that FDI in manufacturing sector has a noteworthy and constructive effect on economic growth while FDI inflows to non-manufacturing sectors do not have any role in economic growth.

Chee & Nair (2010) examined whether financial sector development is an important precondition for FDI to enhance economic growth in the Asia-Oceanic region. Panel data estimation methods like fixed effects and random effect have been used for analysing a sample of 44 Asia and Oceania countries for the period 1996-05. The empirical analysis showed that financial sector development enhances the contribution of FDI on economic growth in the region.

Anwar & Nguyen (2010) examined the link between FDI and economic growth in 61 provinces of Vietnam by using a panel data set ranging from 1996 to 2005. Their analysis utilizing a simultaneous equation framework disclosed that, by and large, there exists a bi-directional causality between FDI and economic growth. However, the influence of FDI on economic growth will be higher with the increase in the investment of resources in education sector and training, financial market development etc. Moreover, focus must also be paid in order to reduce the technological gap between foreign and domestic firms.

Ramirez (2010) investigated whether FDI flows had a positive and significant effect on Latin America's private investment spending over the 1980-2002 period. By employing

panel unit root and panel co-integration analysis, it was found that gross FDI, public investment spending, and real credit to the private sector have a positive and significant effect on private capital formation.

Wijeweera et al. (2010) estimated the relationship between FDI and the rate of growth of GDP using a stochastic frontier model and employing panel data covering 45 countries over the period 1997 to 2004. It was found that FDI inflows exert a positive impact on economic growth only in the presence of a highly skilled labour.

Barrios et al. (2011) questioned the validity of some basic assumptions in the previous studies about the spillovers from FDI through backward linkages using plant level data from Ireland between 1990 and 1998. These assumptions are (i) multinationals use domestically produced inputs in the same proportion as imported inputs, (ii) multinationals have the same input sourcing behavior as domestic firms, irrespective of their country of origin, (iii) the demand for locally produced inputs by multinationals is proportional to their share of locally produced output. Using the standard measures used in the literatures, the authors failed to find any spillovers through backward linkages. However, when substitute measures of backward linkages that relaxed all the above assumptions were used, evidences for positive FDI backward spillover effects in host countries were received.

Adhikary (2011) reviewed the association between FDI, trade openness, capital formation, and economic growth rates in Bangladesh between 1986 and 2008 (time series data). To reach at empirical results, the Johansen-Juselius procedure followed by VECM was used. A strong-unidirectional long-term causal flow from changes in FDI, trade openness and capital formation to the economic growth rates of Bangladesh was

identified. It was also found that the volume of FDI inflows and level of capital formation have significant positive effect on changes in real GDP in Bangladesh. Concurrently, the degree of trade openness has a negative, but diminishing effect on GDP growth rate.

Adeniyi et al. (2012) checked the causal linkage between FDI and economic growth in certain small open developing economies like Ivory Coast, Gambia, Ghana, Nigeria and Sierra Leone between 1970 and 2005 by applying Granger causality tests in a VEC setting. Three alternative measures for financial sector development such as total liquid liabilities, total banking sector credit and credit to the private sector were used. It was found that a progressed financial sector is needed for the FDI to record economic growth in Ghana, Gambia and Sierra Leone while in Nigeria, there is no evidence of any short- or long-run causal flow from FDI to growth.

El-Wassal (2012) examined the association between FDI and economic growth in a group of 16 Arab countries from 1970 to 2008. It was found that the impact of FDI on economic growth in Arab countries is limited, using a dynamic panel approach. It was also revealed that factors such as financial development, trade openness, human capital and infrastructure quality etc. are not significantly playing a role in improving Arab countries' capacity to reap growth benefits from FDI.

Al-Sadig (2013) observed the outcomes of FDI inflows on private investment in developing host countries. A panel data for 91 developing host countries over the period 1970-2000 was used and employed the system generalized method of moments for estimation. It was found that FDI stimulated private domestic investment which held up the 'crowd-in-hypothesis'. The analysis conducted after the grouping of countries on the

basis of level of income disclosed that the positive effects of FDI on private investment in low-income countries depend on the availability of human capital.

Dash & Parida (2013) examined the linkages between inward FDI, service trade (export and import) and economic output using co-integration and VECM causality test. These linkages were explored both at the aggregate and sectoral levels (manufacturing and services). Empirical findings from the study confirmed the long run association among these variables. Causality results indicated the presence of bi-directional causal relationship between FDI and economic output as well as between service exports and economic output. The results also brought out feedback relationship between service export and FDI, which reconfirmed the presence of complementary relationship between the two.

Sghaier & Abida (2013) checked the causal linkage between FDI, financial sector development in a panel of four countries in North Africa namely Tunisia, Morocco, Algeria and Egypt between 1980 and 2011. With the usage of Generalised Method of Moment (GMM) Panel data analysis, strong evidence of a positive association between FDI and economic growth was found. It was also found that a developed financial system in the host country is a prerequisite for FDI to contribute to economic growth.

Alfaro (2014) showed through a conceptual framework that FDI's positive impact on the host economy is not exogenous, but is influenced by certain local conditions prevailing in the host economy. It was delineated that complementarities such as competitive environment to ensure that market share is allocated to the most productive firms or developed financial markets to ensure that vertical supply relations develop into meaningful linkages- can act as "absorptive capacities" to facilitate the benefits from

FDI. The implication of the study is that FDI can play important role in economic growth but local conditions matter and can limit the extent to which benefits of FDI materialize.

Coniglio et al. (2014) analysed the relationship between foreign ownership and employment using firm-level data set from 19 Sub- Saharan African (SSA) countries. It was found that even if foreign firms are generally larger, the jobs they generate are relatively less skill intensive compared to those generated by domestic firms. Tang (2015) examined the effect of foreign capital flows on the economic growth of European Union (EU) from 1987 to 2012. It was found that the higher FDI and FPI received by European Monetary Union (EMU) have not contributed to growth.

Yusoff& Nuh (2015) in a study conducted to examine whether FDI and international trade have positively contributed to the economic growth in Thailand, found that both are stimulating growth in the country. Elkomy et al. (2015) investigated the role of income levels and political development in determining the magnitude of FDI - growth effects for a panel of 61 emerging and developing countries for the period from 1989 to 2013. It was found that the effects of FDI varying substantively. There is stronger growth effect of FDI in low income countries and weaker negative effects in upper-middle income countries. For more democratic countries, human capital is a more important driver of growth than FDI but this is the outcome of strongly positive interaction effects between FDI and human capital outweighing negative effects for human capital on its own. The study also provided support for the view that a critical threshold of human capital is required to generate beneficial spillover growth effects from inflows of FDI.

Goldar & Sharma (2015) examined the belief that FDI in the industrial firms in developing countries has a positive productivity enhancing effect on domestic firms. The

analysis has been done using an unbalanced panel data set consisting of 775 manufacturing companies between 2000-01 and 2011-12. The study considered growth, profitability and export intensity as performance indicators. However, the results didn't show any significant effect of FDI on growth and export performance of domestic firms. Nevertheless, they got a weak evidence that FDI tends to raise the profitability of Indian manufacturing firms after two or three years.

Pegkas (2015) carried out a study to analyze the relationship between FDI and economic growth and to estimate the effect of FDI on economic growth in the Euro-zone countries over the period of 2002 to 2012 by making use of panel data. It was revealed that there is a positive long-run co-integrating relationship between FDI stock and economic growth. Besides, it was also estimated that the stock of FDI is a significant factor that positively affects economic growth in the Euro-zone countries.

Azeroual (2016) analysed whether the impact of FDI from France and Spain on the Total Factor Productivity (TFP) in the manufacturing industrial sector in Morocco is different using GMM in dynamic panels for a subset of 22 branches of the manufacturing sector between 1985 and 2012. The results indicated that the impact of French FDI on the TFP is negative and significant in medium and high level technology industries. As regards Spanish FDI, the impact on TFP is positive and significant in all levels of manufacturing.

Masron & Hassan (2016) attempted to investigate the spillover effects of US FDI on Malaysian economy. By applying Seemingly Unrelated Regression (SUR) method, the study observed that there is no guarantee that FDI inflows into various sectors within manufacturing industry in Malaysia will generate positive externalities. Dritsakis & Stamatiou (2016) investigated the prominence of budget deficit and FDI on economic

growth in Baltic countries[2]. A panel data set for all the three countries in the Baltic region from 1995 to 2012 was used. Panel unit root test, panel co-integration methods and panel causality test through the VECM were applied. Empirical findings disclosed the positive and significant long-run relationship between foreign direct investment and economic growth in Baltic countries. In contrast to that, a negative relationship between budget deficit and economic growth was found. Besides, the causality results showed that both in the short and long-run, there exists unidirectional causal relationship from foreign direct investment to economic growth as well as from budget deficit to economic growth. Results also indicated that the transition countries, which implement the privatization programs successfully, attract foreign direct investment faster which in turn promotes economic growth. Adams et al. (2016) analysed whether the inflow of foreign capital promotes domestic investment in 25 SSA countries. FDI and external debt were used as proxies for foreign capital flows and data was estimated using Pooled Mean Group (PMG) estimator over the period 1981-2010. It was found that FDI positively impacts while external debt affects domestic investment negatively in the long run.

Alfaro & Chauvin (2017) studied about the FDI, finance and economic development in host economies in a more conceptual nature. They reviewed the empirical literature by primarily addressing the question 'How does FDI affect economic development of host countries and what is the role of local financial markets in mediating the potential benefits?' They concluded that greater microeconomic benefits from FDI spillovers, positive linkages, and competitive pressures are more likely to accrue in economies with well-developed financial markets where local firms can respond to these opportunities and competitive threats via investments that increase their productivity.

[2]The countries those have shorelines along the Baltic Sea.

Rasiah et al. (2017) revisited the argument of causality relationship between net FDI inflows and GDP among the pioneering Association of Southeast Asian Nations (ASEAN-5[3]) members using data from 1970 till 2013 by using the FMOLS regressions and the VEC model. Their results showed that causality exists only with Thailand but the relationship is negative. In Thailand, growth in GDP makes FDI outflows, but not FDI inflows.

Carbonell & Werner (2018) analysed the influence of FDI on the economy of Spain and found that FDI didn't contribute anything positively to the growth of the economy of Spain during 1984 to 2010. They used estimation methods like OLS, Two-stage least squares etc. for analysis and used a wide range of variables including FDI inflows, nominal GDP, productive credit creation, bank lending etc.

Nilofer & Qayyum (2018) determined the role of three types of investment i.e. public, private and FDI in the growth of Pakistan economy with a special focus on the contribution of FDI in GDP growth of the Pakistan. Co-integration analysis of time series data was done. ARDL approach has been used to analyze the long run relationship between GDP growth, investment and government expenditure for Pakistan using data (from 1970 to 2015). The results indicated that while public and private investment and lending rate have a positive impact on growth, public consumption and FDI decelerated GDP growth.

In the realm of India, the following studies have been taken place regarding the influence of FDI inflows.

[3]Malaysia, Indonesia, Philippines, Singapore and Thailand.

Dua & Rashid (1998) examined the association between FDI and economic activity in India in the post liberalization period. Their Granger causality test and innovation accounting analysis provided the result that both the approved and actual FDI flows to the country responded to the level of industrial production. However, actual FDI flows did not Granger-cause industrial output. Chhibber & Majumdar (1999) investigated the data of 1001 private sector firms in India in the pre and post reform periods and observed that foreign ownership had no effect on a firms's performance in the pre reform period. Nevertheless, foreign ownership positively influenced firm performance in the post reform period, mainly after allowing foreign ownership in the domestic firms up to 51 per cent.

Sharma (2000) investigated the determinants of export performance in India in a simultaneous equation framework using time series data from 1970-98. Basically, the author sought whether FDI had been a key factor in boosting the export performance in India. The results suggested that demand for Indian export increased when its export prices fell in relation to world prices. Appreciation occurring in the rate of rupee adversely affected India's exports and export supply is positively related to the domestic relative price of exports. Higher domestic demand reduced export supply. Relationship between FDI and India's export is that, FDI plays no significant role in the variation in the volume of India's exports, though the coefficient of FDI on exports is positive.

Aggarwal (2001) analysed using panel data, the inter-firm determinants of export performance in the Indian manufacturing in the late 1990s with two hypothesis viz. in a liberalized regime, MNE affiliates perform markedly better than local firms in the export markets and MNE affiliates have greater comparative advantages in high-tech than in

low- and medium-tech industries. The study used Tobit model (censored regression model) estimation technique and it supported the first hypothesis. However, the author didn't get strong evidence to suggest that India is attracting efficiency-seeking outward oriented FDI. Even firms with higher foreign equity participation have not performed better than domestic firms. The results also showed that high-tech industries are not attracting efficiency seeking FDI as expected. The two major implications of the result are: one, the Indian economy is not fully integrated with the global economy and that the existing industrial and technological capabilities need reorientation to attract efficiency seeking FDI; two, India's competitive advantages still lie in low-tech sectors. There have not been dynamic changes in the export structure even after liberalization.

Chakraborty & Basu (2002) explored the two-way link between FDI and growth for India using a structural co-integration model with VECM. It was found that the causality runs more from GDP to FDI and not from FDI to GDP in India, India's liberalization regime has made some positive short run impact on the FDI flow and FDI in India is labour displacing.

Kathuria (2002) tested two hypotheses. The first one is whether liberalization has improved the productivity of local firms in India and the second one is, whether the spillovers from the technology transfer have increased in the liberal regime in India. For testing these, the author employed techniques from panel data and stochastic production frontier on 487 firms for the period from 1989-90 to 1996-97. Thus, it was found that the productivity of Indian industry, especially the foreign owned firms has improved after liberalization.

Banga (2003) highlighted the export-diversifying impact of FDI in India in the post liberalization period. The study utilized both industry level and firm level data between 1994-95 and 1999-00. For industry level analysis, a panel data set consisting of 74 disaggregated manufacturing industries was used. The results demonstrated that FDI has prominent effect on the export-intensity of industries in the non-traditional export sector and to a certain extent, led to diversification in India's exports. In the non-traditional export sector, however, only US FDI has a positive and significant effect on export-intensity while Japanese FDI has no significant influence. FDI has no impact on the export-intensity of the industry in the traditional export sector and when taking the aggregate manufacturing sector. A panel data set consisting of 1448 domestic firms has been used for firm level analysis in the study. It showed that U.S. firms have larger spillover effects on the exports of the domestic firms as compared to Japanese firms.

Pradhan et al. (2004) analyzed the role of FDI in two important labour market outcomes, in determining the wage rate and employment performance in Indian manufacturing. It was found that foreign firms have no adverse effects on the manufacturing employment in India and instead, they pay relatively higher to the workers. Kathuria (2004) examined the impact of increased FDI flows on the R&D investment of manufacturing firms in medium- and high tech industries in India. The study has a conjecture that increased FDI to India has brought down the quantity of R&D in the manufacturing firms in India. This was tested for two time periods, 1994–1996 (just after foreign entry regulations were relaxed) and 1999–2001 (after a second period of reforms in 1997). During 1994-1996, the inflow of FDI had a negative impact on R&D investment by Indian manufacturing firms, but no significant effect in 1999-2001.

Mathiyazhagan (2005) examined the long run association of Foreign Direct Investment (FDI) with the Gross Output (GO), Export (EX) and Labour Productivity (LPR) in the Indian economy at the sectoral level by using the annual data from 1990-91 to 2000-01. The results of the study demonstrated that flow of FDI has raised the output, labour productivity and export in some sectors but a better role of FDI at the sectoral level is still expected. There is no significant co-integrating relationship among the variables like FDI, GO, EX and LPR in core sectors of the economy.

Kumar & Aggarwal (2005) analysed the determinants of R&D behavior of Indian enterprises over the 1990s in the context of the reforms of 1991 and their impact on the R&D behavior of MNE affiliates and local enterprises. The analysis suggests that although average levels of spending have fallen, increased competition due to liberalization seems to have pushed local firms to rationalize their R&D activity and make it more efficient. Also, R&D spending seems to rise more than proportionally with firm size after a certain threshold level has been reached. The analysis brings out differences in the nature of R&D activity of MNE affiliates and local firms. Local firms direct their R&D activity primarily towards the assimilation of imported technology, and to providing a backup to their outward expansion via exports and FDI. MNE affiliates, on the other hand, focus on exploiting the advantages of India as an R&D platform for their parents.

Kamalakanthan & Laurenceson (2005) examined essentially the role of foreign capital in the income growth of both India and China by revisiting the Krugman's contention that foreign capital can hardly be considered an important income growth driver, when in most developing countries it only accounts for a fractional share of gross capital

formation. They explored out that foreign capital accounts only for a small size of the gross capital formation in both India and China.

Chakraborty & Nunnenkamp (2006) identified the growth effects of FDI in India by putting industry-specific FDI and output data in a panel co-integration substructure. They found that the growth effects of FDI differ widely across various sectors. They found a causal relationship between FDI stock and output in the manufacturing sector, while such a relationship is not in existence in the primary sector. Similarly, they found only some transient relationship between FDI and output in the service sector, to which most of the FDI flowed after reforms. They also found that, for the whole Indian economy, FDI and output are co-integrated in the long run. The impact of output growth in attracting FDI is greater than that of the power of FDI in fetching economic growth.

Nunnenkamp & Stracke (2007) analysed two major issues related to FDI and regional development in India in the post reform period. First, they analysed the location choice of foreign investors in India. Their evidences indicated that the concentration of FDI in a few relatively advanced regions in India may have prevented the effects FDI from spreading across the Indian economy. Secondly, they analysed whether the link between FDI and economic growth has become strong after reforms. It was found that various types of FDI have positively correlated with the growth of per-capita income across Indian states. However, it is only for richer states, FDI seemed to be associated with growth. It was concluded that FDI is likely to increase regional income disparity in India.

Saji (2013) examined the causal relationship between FDI and economic growth in India under a framework of Johansen's Co-integration based on 21 years of data from the post reform period. The author found that there is a strong positive relation between FDI and

economic growth in India. Sundari (2014) investigated the causal nexus between FDI and economic growth in India by using Granger causality test with annual data from UNCTAD between 1995 and 2013. The author found a positive relationship from GDP to FDI.

Sahu & Solarin (2014) analysed the spillover effects from FDI using firm level panel data of Indian manufacturing firms between 2000-01 and 2009-10. The study used the IMF guideline of 10 percentages promoter's holdings to classify the manufacturing firms on the basis of foreign and domestic. They found a marginal and positive impact of FDI on productivity spillovers. Their findings show a significant impact of FDI on output growth. This indicates that any increase in foreign equity at the firm and sector level directly affects productivity.

Malik (2015), by hypothesizing that the incidence of technology spillovers from FDI is conditional upon the technology content of domestic firms and structure of foreign ownership in affiliates, found that there is occurrence of technology spillovers to Indian firms via backward linkages from foreign firms. The paper asserted that firms in high technology industries benefit more from technology spillovers compared to others. It also observed that minority-owned foreign firms are more prone to technology spillovers than majority-owned foreign firms. Nonetheless, it is observed that the majority-owned foreign firms benefit only firms in high technology industries.

Agarwal & Atri (2015) empirically analysed the influence of FDI flows on poverty in India for the period 1980-2011. For rendering more dimensions to India's performance, they also analysed the link between FDI flows and poverty for the South Asian Association for Regional Co-operation (SAARC) countries. The authors found that FDI

inflows in to India contributed to increase in poverty while FDI inflows became a cause for significant reduction in poverty in other SAARC countries. The authors got a contradictory result on Impact of FDI outflows on India compared to other SAARC countries. They got the result that FDI outflows contributed to significant reduction of poverty in India while it is not the case in the other SAARC countries.

Ghosh & Roy (2015) investigated the impact of FDI on firm-level labour demand in India. It is based on the hypothesis that FDI inflows and MNE participation during the post reforms period have serious implications on the labour market. This paper specifically estimated the impact of ownership, labour productivity and technology acquisition on firm level employment across industries after 2000. Their Hausman-Taylor estimation results demonstrated that foreign ownership plays no significant role in determining firm level labour demand in Indian manufacturing.

Pradeep et al. (2017) checked the direct and indirect spillover effects from research and development, exporting activities and FDI on the productivity of foreign and domestic manufacturing firms. Their empirical model utilizes data from 1000 Indian manufacturing firms during the period of 1994 and 2008 and they made use of GMM and system-GMM (sys-GMM) for analyzing their balanced panel. They found that foreign presence has a significant positive spillover effect on the productivity of Indian manufacturing firms when compared to alternative spillovers from R&D and export initiatives. They also found that spillovers may vary between FDI and non-FDI firms and with the technological advances of industries.

Sinha et al. (2018) examined the effect of FDI inflows on the growth of industrial sector between 2009 and 2015 in India by using a dynamic panel model with monthly data.

They formed a balanced panel for three basic industrial sectors, namely mining and quarrying, manufacturing and electricity over the entire period. They found that FDI significantly enhances production growth in Indian industries.

Malik (2018) examined the employment effects of FDI in India's manufacturing firms. The author has employed 54 three-digit industries from the Annual Survey of Industries (ASI) of India for the period from 2008-09 to 2015-16. An extended dynamic labour demand model through the System-Generalized Method of Moment developed by Blundell and Bond (1998) has been used for estimation. The author did not observe any considerable impact of FDI on employment in the manufacturing industries in India. Even after controlling for the nature of employees, FDI inflow is not found to have any significant effect on domestic demand for labour in Indian manufacturing industries. Thus, the author does not consider FDI as an important channel for employment generation in the manufacturing industries in India.

The following table (Table 2.1) shows the major findings gathered from the survey of literature.

Table 2.1
Major Findings from the Review of Literature

Sl No	Author/Authors	Major Findings	Country/Region
Category 1. Determinants of FDI Inflows to Countries/Regions across the Globe			
A. Host Economies other than India			
1	Schneider & Frey (1985)	High real per capita GNP and low balance of payment deficit in the host economies are the economic determinants of FDI inflows.	Cross-Country
2	Cassou (1997)	Home and host country corporate tax rates as well as their income tax rates determine FDI inflows.	Cross-Country
3	Noorbakhsh et al. (1999)	Human capital is a most important determinant of FDI inflows	Developing Countries
4	Fazekas (2000)	FDI is attracted to regions where unemployment is lower due to better educational levels	Hungary
5	Blomström&Kokko (2001)	Host economies with high levels of human capital will attract large technology intensive foreign MNCs and they will contribute to the development of labour skills in the host economies.	Cross-Country
6	Asiedu (2002)	Factors affecting FDI inflows to SSA countries are different from non-SSA countries to a small extent.	Sub-Saharan African (SSA) Countries and some non-SSA countries
7	Shotar (2002)	FDI is attracted by government spending and GDP.	Qatar
8	Banga (2003)	Fiscal incentives do not have impact on FDI, but removal of restrictions attracts FDI. Bilateral Investment Treaties (BITs) have significant effect on the FDI inflows to developing countries.	Developed and developing countries
9	Kandiero & Chitiga (2003)	FDI to GDP ratio responds well to increased openness in the whole economy and in the service sector in particular	African Countries
10	Janicki & Wunnava (2004)	Size of the host economy, host country risk, labour costs in host country, and openness to trade etc. are the key determinants of FDI inflows	Central and East European Candidate (CEEC) Economies
11	teVelde & Bezemer (2006)	Membership of a host economy as such in any regional integration will not augment FDI inflows. But if the host economy is equipped with some minimum level of trade and investment provision and is a member of any regional integration, brings FDI to that particular country.	Developing countries
12	Asiedu (2005)	Factors such as large local markets, natural resource endowments, good infrastructure etc. attract FDI.	African Countries
13	Quere et al. (2005)	Public efficiency is a major determinant of inward FDI.	Developing countries
14	Busse & Hefeker (2005)	Government stability, the absence of internal conflict and ethnic tensions, basic democratic rights etc. are highly significant in determining FDI inflows.	Developing countries
15	Xing (2006)	The devaluation in the Chinese Yuan played a key role in hiking FDI from Japan.	China

16	Udo & Obiora (2006)	High per capita income, better infrastructure and political stability determines FDI inflows.	West African Monetary Zone (WAMZ) Countries
17	Sahoo (2006)	Market size, labour force growth, infrastructure index and trade openness are determinants of FDI inflows.	South Asia
18	Mottaleb (2007)	Large GDP and high GDP growth rate, business friendly environment and modern communication facilities encourage FDI inflows.	Low income and lower-middle income countries
19	Wahid et al. (2009)	Abundance of natural resources, trade openness, size of market, human capital etc. played positive and significant role in attracting FDI inflows.	African Countries
20	Bellak & Leibrecht (2009)	Tax-lowering influenced foreign firm's location decisions.	Central and East European host countries (CEECs)
21	Dhakal et al. (2010)	Exchange rate volatility has a favorable effect on FDI inflows.	East Asian Countries
22	Khachoo & Khan (2012)	Market size, total reserves, infrastructure and labour costs are the main determinants of FDI inflows.	Developing countries
23	Hussain & Kimuli (2012)	Market size is the most important determinant.	Low income and lower-middle income countries
24	Lautier & Moreaub (2012)	Domestic investment is highly significant in attracting FDI inflows	Developing countries
25	Liargovas & Skandalis (2012)	Trade openness is a significant determinant of FDI inflows	Developing countries
26	Cleeve et al. (2015)	Human capital significantly influences FDI inflows	Sub-Saharan African (SSA) countries
27	O'Meara (2015)	Traditional variables like size and scale of economic activity in the host countries are more significant rather than the new variables like economic freedom, tax incentives, human capital etc.	Cross-country
28	Ibrahim & Abdel-Gadir (2015)	FDI flows in Oman are positively influenced by the market size and natural resources, and negatively by inflation rate and degree of openness.	Oman
29	Hanafy (2015)	Domestic private investment, well-functioning Free Zones, and labour abundance affected advent of FDI inflows.	Egypt
30	Prashar (2015)	Market size is the common factor which brings FDI inflows.	India and China
31	Yong et al. (2016)	The motive of FDI in the eastern region is efficiency seeking while that to the central and western regions is market seeking.	China
32	Asongu et al. (2018)	Market size, infrastructure availability and trade openness play an important role in attracting FDI	BRICS (Brazil, Russia, India, China and South Africa) and MINT (Mexico, Indonesia, Nigeria and Turkey) countries
33	Hsu et al. (2019)	Significant impact of market size and geographic location and insignificant impact of tax incentives on FDI inflows.	China

B. India Based Studies			
1	Bajpai& Sachs (2000)	Restrictive FDI regime, lack of clear cut and transparent sectoral policies for FDI, high tariff rates, lack of decision-making authority with the state governments etc. make India an unattractive destination of FDI.	India
2	Menon & Sanyal (2005)	Foreign investors tend to veer away from states that have high incidences of labour conflict.	India
3	Aggarwal (2005)	Rigid labour markets discouraged FDI inflows.	India
4	Sury (2008)	Expected national income, tax rate, trade openness and labour cost etc. significantly affected FDI inflows.	India
5	Dutta & Sarma (2008)	Ongoing liberalization and developing infrastructure will give future impetus for FDI inflows.	India
6	Lai & Sarkar (2011)	Low wage rates in India attract more FDI.	India
7	Mukherjee (2011)	Market size, agglomeration effects, infrastructure, size of manufacturing and services base have significant and positive effect on FDI inflows to particular states in India.	India
8	Pradhan (2012)	Power availability, domestic investment and profit attract FDI inflows.	India
9	Pillai & Rao (2013)	Transnational attributes (import, export, trade balance and FOREX reserve), stability, investor's confidence and institutional factors determine FDI inflows.	India
10	Kaur& Sharma (2013)	Openness, reserves, GDP and long-term debt have positive effect while inflation and exchange rate have negative effect on FDI inflows.	India
11	Chatterjee et al. (2013)	Both physical and social infrastructure has no bearing on bringing FDI to Indian states. Interstate variations in the FDI inflows in India occur mainly because of the variability in the level of profit made by the existing enterprises.	India
12	Bickenbach et al. (2013)	Increased regional concentration of FDI.	India
13	Sanghi&Patni (2014)	Market size and infrastructure positively influences FDI to various regions in India.	India
14	Mahalakshmi et al. (2015)	FDI inflow is affected by GDP and real effective exchange rate.	India
15	Gupta (2017)	Variations in the human capital base do not explain the differences in FDI inflows across states, instead, size of market, availability of cheap labour, and infrastructure affect FDI distribution.	India
Category 2. Role Played by FDI in Countries/Regions across the Globe			
A. Host Economies other than India			
1	Borensztein et al. (1998)	Effect of FDI on economic growth is dependent on the level of human capital available in the host economy.	Cross-country
2	Berthelemy & Demurger (2000)	FDI played a fundamental role in the provincial economic growth in China.	China
3	Krkoska (2001)	FDI, domestic credit and local capital markets are important financing sources for capital formation. FDI has a greater impact than domestic credit and capital market financing, while such a relation is not found for state subsidies and for foreign credit.	Cross-country
4	Campos & Kinoshita	FDI has positive impact on growth.	Transition Economies

	(2002)		
5	Carkovic & Levine (2002)	FDI does not exert a robust, independent influence on growth.	Cross-country
6	Misun & Tomsk (2002)	Crowding out effect of FDI in Poland and crowding in effect both in Czech Republic and Hungary.	Czech Republic, Hungary, and Poland
7	Hermes & Lensink (2003)	A more developed financial system contributes positively to the process of technological diffusion associated with FDI.	Cross-country
8	Basu et al. (2003)	Bidirectional causality between GDP and FDI for economies which are more open.	Developing countries
9	Alfaro et al. (2003)	The local condition of host countries, especially the position of financial system, matters for getting the desired benefits from FDI.	Cross-country
10	Alfaro (2003)	The total FDI exerts an ambiguous effect on economic growth. FDI in the primary sector has a negative effect while the effect is positive in the manufacturing sector. The evidence she got about the relationship between FDI and service sector is ambiguous.	Cross-country
11	Kim & Seo (2003)	FDI does not crowd out domestic investment.	Korea
12	Bengoa & Robles (2003)	FDI is positively associated with economic growth. However, the host country's domestic situation is to be improved in order to draw merits from FDI inflows.	Latin America
13	Nunnenkamp & Spatz (2004)	To derive the growth benefits from FDI inflows, the host country needs to have some basic characteristics.	Developing countries
14	Hansen & Rand (2004)	FDI causes economic growth.	Developing countries
15	Cheung & Lin (2004)	Found positive effects of FDI on the number of domestic patent applications.	China
16	Choong et al. (2004)	FDI inflows create positive technological spillovers in the host economy only when the domestic financial system has developed a certain minimum extent.	Developed and East Asian countries
17	Li & Liu (2005)	FDI positively and significantly influences economic growth.	Cross-country
18	Titarenko (2005)	FDI crowded out domestic investment.	Latvia
19	Apergis et al. (2006)	Significant two way dynamic relationship between FDI and domestic investment.	Cross-country
20	Vo & Batten (2006)	FDI strongly and positively exerts influence on economic growth in countries with higher rate of education attainment, openness to international trade, and stock market development, and lower level of population growth and lower risk.	Cross-country
21	Vu et al. (2006)	FDI has statistically significant positive effects on economic growth operating directly and through labour productivity.	China and Vietnam
22	Ndikumana & Verick (2008)	FDI crowds-in domestic investment.	Sub-Saharan African (SSA) Countries
23	Tang et al. (2008)	FDI influences economic growth by complementing domestic investment.	China
24	Wang (2009)	FDI in manufacturing sector alone has a significant and positive effect on economic growth.	Asian Countries
25	Chee & Nair (2010)	Financial sector development enhances the contribution of FDI on economic growth in the region.	Asia and Oceania countries
26	Anwar & Nguyen (2010)	Bi-directional causality between FDI and economic growth.	Vietnam

27	Ramirez (2010)	FDI has a positive and significant effect on private capital formation.	Latin America
28	Wijeweera et al. (2010)	FDI positively affects economic growth only if the host country has skilled labour force.	Cross-Country
29	Adhikary (2011)	A strong-unidirectional long-term causal flow from changes in FDI, trade openness and capital formation to the economic growth rates.	Bangladesh
30	El-Wassal (2012)	FDI is not significantly contributing to growth.	Arab Nations
31	Al-Sadig (2013)	FDI stimulated private domestic investment.	Developing countries
32	Goldar & Sharma (2015)	No significant effect of FDI on growth and export performance of domestic firms.	Developing countries
33	Yusoff & Nuh (2015)	FDI and international trade stimulate growth.	Thailand
34	Tang (2015)	FDI and FPI have not contributed to growth.	European Union
35	Pegkas (2015)	Stock of FDI significantly and positively affects economic growth.	Euro-zone
36	Adams et al. (2016)	FDI positively affects domestic investment.	Sub-Saharan African (SSA) Countries
B. India Based Studies			
1	Chhibber & Majumdar (1999)	Foreign ownership had no effect on a firm's performance in the pre reform period. Nevertheless, foreign ownership positively influenced firm performance in the post reform period, mainly after allowing foreign ownership in the domestic firms up to 51 per cent.	India
2	Sharma (2000)	Relationship between FDI and India's export is that, FDI plays no significant role in the variation in the volume of India's exports.	India
3	Chakraborty & Basu (2002)	The causality runs more from GDP to FDI and not from FDI to GDP in India, India's liberalization regime has made some positive short run impact on the FDI flow and FDI in India is labour displacing.	India
4	Mathiyazhagan (2005)	Flow of FDI has raised the output, labour productivity and export in some sectors but a better role of FDI at the sectoral level is still expected.	India
5	Chakraborty & Nunnenkamp (2006)	A causal relationship between FDI stock and output in the manufacturing sector, while such a relationship is not in existence in the primary sector.	India
6	Sahu & Solarin (2014)	Significant impact of FDI on output growth.	India
7	Malik (2015)	There is occurrence of technology spillovers to Indian firms via backward linkages from foreign firms.	India
8	Pradeep et al. (2017)	Foreign presence has a significant positive spillover effect on the productivity of manufacturing firms when compared to alternative spillovers from R&D and export initiatives.	India
9	Sinha et al. (2018)	FDI significantly enhances production in industries.	India
10	Malik (2018)	FDI is not an important channel for employment generation in the manufacturing industries.	India

2.4 Summary and Research Gap

The recent developments in the literature on FDI inflows in the whole world scenario (host economies) recounted several factors such as ***human capital*** (Noorbakhsh et al., 1999; Blomström & Kokko, 2001; Cleeve et al., 2015;), ***market size*** (Asiedu, 2005; Sahoo,2006; Khachoo& Khan, 2012; Hussain & Kimuli, 2012; Ibrahim & Abdel-Gadir, 2015; Prashar, 2015; Asongu et al., 2018), ***infrastructure*** (Asiedu, 2005; Udo & Obiora, 2006; Sahoo, 2006; Mottaleb, 2007; Khachoo & Khan, 2012; Hanafy, 2015; Asongu et al., 2018;), ***openness to trade*** (Kandiero & Chitiga, 2003; Janicki & Wunnava; 2004, Liargovas & Skandalis, 2012; Asongu et al., 2018), ***endowment of natural resources*** (Asiedu, 2005; Wahid et al., 2009; Ibrahim & Abdel-Gadir, 2015), ***growth of host country economy***(Schneider & Frey, 1985; Shotar, 2002; Janicki & Wunnava, 2004; Udo & Obiora, 2006; Mottaleb, 2007; O'Meara, 2015;), ***domestic investment*** (Lautier & Moreaub, 2012; Hanafy, 2015), ***signing on bilateral investment treaties*** (Banga, 2003; Velde & Bezemer, 2004), ***host country labour cost and growth of labour force*** (Janicki & Wunnava, 2004; Sahoo, 2006; Khachoo & Khan, 2012; Hanafy, 2015), ***host economy's political stability and risk element*** (Janicki & Wunnava, 2004; Quere et al., 2005; Busse & Hefeker, 2005; Udo & Obiora, 2006), ***tax regime*** (Cassou, 1997; Bellak & Leibrecht, 2009), ***exchange rate*** (Xing, 2006; Dhakal et al., 2010) etc. as major determinants of FDI inflows.

In India, it was found that factors such as restrictive FDI regime, lack of clear cut and transparent sectoral policies for FDI, high tariff rates, lack of decision-making authority with the state governments etc. make India an unattractive destination of FDI (Bajpai & Sachs, 2000). Labour conflicts and rigid labour markets discouraged FDI inflows to India (Menon & Sanyal, 2005; Aggarwal, 2005). Notwithstanding, low wage rates in India attracted more FDI (Lai & Sarkar,

2011) and labour cost is a significant factor of determining FDI (Sury, 2008). Moreover, huge size of the domestic market (size of the domestic economy) worked as a factor attracting FDI to India (Mukherjee, 2011; Kaur & Sharma, 2013; Sanghi & Patni, 2014; Mahalakshmi et al., 2015). Infrastructure in India is also found to have significant impact on FDI inflows (Dutta & Sarma, 2008; Mukherjee, 2011). Nevertheless, Chatterjee et al. (2013) found that both physical and social infrastructure have no bearing on bringing FDI to Indian states. Instead, interstate variations in the FDI inflows in India occur mainly because of the variability in the level of profit made by the existing enterprises. Extent of Profitability subsisting in states is found a factor attracting FDI inflows to India also by Pradhan (2012). It was also revealed that FDI inflow to India is influenced by REER (Kaur& Sharma, 2013; Mahalakshmi et al., 2015).

From the enumeration of the influence and role of FDI inflows in the scenario of the whole world (host economies), the researcher derived mixed results. In certain studies, it has uncovered that FDI positively affects economic growth in host economies without the need of subsistence of any preconditions in the host country (Berthelemy & Demurger, 2000; Campos & Kinoshita, 2002; Hansen & Rand, 2004; Li & Liu, 2005; Vu et al., 2006; Anwar & Nguyen, 2010; Yusoff & Nuh, 2015; Pegkas, 2015). However, certain studies found that FDI has not contributed to economic growth in host economies (Carkovic & Levine, 2002; El-Wassal, 2012; Tang, 2015). Certain studies got ambiguous relationship between FDI and growth. For instance, Alfaro (2003) estimated that the total FDI exerts an ambiguous effect on economic growth. FDI in the primary sector has a negative effect while the effect is positive in the manufacturing sector. The evidence received about the relationship between FDI and service sector is also ambiguous. However, most of the studies emphasized that the subsistence of certain pre-conditions in the host economy is inevitable in order to reap the growth effects from FDI inflows. To cite examples, Borensztein

et al. (1998) established that effect of FDI on economic growth is dependent on the level of human capital available in the host economy. Alfaro et al. (2003) found that the local condition of host countries, especially the position of financial system, matters for getting the desired benefits from FDI. Bengoa & Robles (2003) estimated the necessity of improving the host country's domestic situation in order to draw merits from FDI inflows. Nunnenkamp & Spatz (2004) also held that better domestic condition is a prerequisite to get advantageous effects from FDI inflows. Vo & Batten (2006) made it clear that FDI strongly and positively exerts influence on economic growth in countries with higher rate of education attainment, openness to international trade, and stock market development, and lower level of population growth and lower risk. Chee& Nair (2010) also highlighted the prominence of financial sector development to enhance the contribution of FDI to economic growth. Wijeweera et al. (2010) estimated that FDI positively affects economic growth only if the host country has skilled labour force. FDI also has some crowding in and crowding out effect on domestic investment. Krkoska (2001) found out that FDI inflow is an important source for financing domestic capital formation. Misun & Tomsk (2002) found FDI's crowding out effect in Poland and crowding in effect both in Czech Republic and Hungary. Kim & Seo (2003) found that FDI does not crowd out domestic investment in Korea. (Ndikumana & Verick, 2008; Adams et al., 2016) found that FDI crowded in domestic investment in Sub-Saharan African countries. Tang et al. (2008) found that FDI influences economic growth by complementing domestic investment in China. Ramirez (2010) found that FDI has a positive and significant effect on private capital formation in Latin America. Al-Sadig (2013) found that FDI stimulated private domestic investment in developing countries. The relationship between FDI and various kinds of spillovers in host economy has also been empirically proved. For instance, Hermes & Lensink (2003) found that a more developed

financial system contributes positively to the process of technological diffusion associated with FDI in a cross-country framework. Cheung & Lin (2004) found the positive effects of FDI on the number of domestic patent applications in China.

In the context of India too, a good deal of empirical studies has been carried out to segregate the role of FDI. For instance, Chhibber & Majumdar (1999) found the effect of foreign ownership (positive) on domestic firm's performance only in the post reform period. Whereas, Sharma (2000) found that FDI played no role in the variation in the volume of India's exports. Chakraborty & Basu (2002) found out that the causality runs more from GDP to FDI rather than from FDI to GDP. Mathiyazhagan (2005) found that FDI has raised the output, labour productivity and export only in some sectors of the economy. Chakraborty & Nunnenkamp (2006) found a causal relationship between FDI stock and output in the manufacturing sector alone. Sahu & Solarin (2014) found a significant impact of FDI on output growth. Malik (2015) found that there is occurrence of technology spillovers to Indian firms via backward linkages from foreign firms. Pradeep et al. (2017) found that foreign presence has a significant positive spillover effect on the productivity of manufacturing firms when compared to alternative spillovers from R&D and export initiatives. Sinha et al. (2018) also found that FDI significantly enhances production in industries. Malik (2018) assessed that FDI is not an important channel for employment generation in the manufacturing industries.

Internationally, even if the inflow of FDI has increased much after the reform activities under taken in many parts of the world, regional concentration and disparity in the distribution of FDI inflows is a matter of fact. Globally, developed countries attract a substantial volume of FDI similar to the scenario of developed regions within individual developing countries receive much of FDI. This predicament has been empirically studied by many scholars. For instance,

Siddharthan (2006) estimated that the determinants of regional distribution of FDI flows in China and India resembled to the pattern influencing inter-country FDI flows. In both China and India, substantial volume of FDI has flowed to relatively developed regions, while regions that were poor in physical, institutional and social infrastructure received very little FDI. In China, Eastern zone provinces with high per capita income, better socio-economic indicators, better infrastructure facilities in terms of electricity, road and rail network and higher international orientation in terms of their per capita international trade, received higher FDI flows. Similarly, in India, the states with high per capita income, high industrial output, and situated at the coasts attracted high levels of FDI. Moreover, the regions that received low FDI flows were also the regions that attracted lower domestic investment. In India, not many studies have been carried out regarding the inequality in the regional distribution of FDI inflows except a few studies conducted by (Nunnenkamp & Stracke, 2007; Mukherjee, 2011; Chatterjee et al., 2013). These studies focused on interregional variation in the FDI inflows to India by viewing the entire regions collectively and identified the same set of determinants for the entire regions. Though it was apparent that the trend and pattern of FDI inflow is quite different in these regions, no attempt has yet been carried out to classify these regions on any basis. Thus the researcher postulated the possibility of categorizing the entire regions on the basis of magnitude of FDI in the presumption that the determinants and role of FDI inflows in these regions couldn't be the same.