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Determinants of FDI: A Literature Review

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Abstract:
The increase of foreign direct investment (FDI) in recent decades has stimulated a great deal of research into the behaviour of multinational companies. A vast amount of empirical literature on FDI enumerates a long list of determinants that try to explain why multinational firms invest directly in a particular location, but it is seen that the results do not have any consensus. This paper offers a complete review of the theoretical approaches to and empirical work on determinants of FDI in an attempt to give out the most robust factors responsible for geographic distribution of FDI flows globally. The result catalogues some common determinants for developing and developed nations such as GDP, economic growth, per capita income, openness, and infrastructure. They had positive effect on FDI. Developed nations have focussed more on macro stability factors such as level and method of privatisation in the host country, country risk, and political risk. Technology, communication infrastructure, governance factors, foreign exchange reserves and foreign aids are significant factors in attracting FDI in developing nations. India has consistent results with developing nations.
Countries with huge market size (GDP), higher growth rates, greater proportion of international trade and a more business - friendly environment are prone to attract higher FDI inflows. Technology, & IT based techniques have substituted cheaper labour as a source of locational advantages. There has been consolidation at the theoretical level. Academic discourse reflects that theories now focus mostly on outward FDI pursued by developing nations. It also advocates paths for future research.

Keywords: *FDI, determinants of FDI, developing, developed, India, literature review*

1. Introduction

According, to the International Monetary Fund (IMF), Foreign Direct Investment (FDI) refers to an investment made to acquire lasting or long – term interest in an economy other than that of the investor.

Foreign direct investment (FDI) is a worldwide phenomenon and is must for economic development of any economy. It is one of the easiest ways to get foreign capital without undertaking any risks linked to the debt.

Foreign direct investment (FDI) has become a substantially important factor for economic development and unification of developing countries and transition economies with the world economy. It is a source of long term capital and contributes majorly in their gross fixed capital formation. FDI has several benefits over other types of capital flows such as debts, it is stable and do not create any obligations for the host country.

It provides various benefits to countries such as higher growth, greater exports, higher wages, and greater productivity through technology spill overs to local firms.

In real terms, capital flows going across borders, have been rising at about 6% a year since 1980, faster than those of the world's GDP and trade (Ju& Wei, 2007). More specifically, over the 1996–2006, worldwide trade of goods and services increased by 8% while net inflows of FDI surged by 19%.[1]However, the advantages of FDI do not ensue automatically and are not distributed evenly across countries. The vast majority of FDI is between wealthy nations despite the availability of cheaper labour in developing economies. The poorest, slowest growing nations attract perhaps 2% of all foreign direct investment. Among developing countries, the largest flows have been to economically dynamic countries that are more technology savvy, have strong infrastructure, and provide more stable and friendly environment for foreign investors. According to (Wolf, 2008), "Capital now flows upstream, from the world's poor to the richest countries of all." Nevertheless, FDI has been credited with providing recipient nations with much-needed access to financial capital, advanced technology and employment.

The on-going process of integration of the economies in the world has led to a major change in the behaviour of the host countries with respect to inward foreign direct investment (FDI). Gone are the days when FDI is longer seen with suspicion by the developing countries and controls and restrictions over the entry and operations of foreign firms are now being replaced by liberal policies aimed at attracting FDI inflows, like incentives, both fiscal and in kind (Banga, 2003).

In the Asian Development Outlook (ADB, 2004), it is said that in recent years FDI has largely increased due to many factors, such as fast technological progress, emergence of globally integrated production and marketing networks, bilateral investment treaties, advices from multilateral development banks, and strong evidence from developing countries that have opened their doors to FDI.
Today, as mentioned in (Bouoiyour, 2003) many countries have been actively trying to attract foreign investment offering income tax holidays, import duty exemptions and subsidies to foreign firms, as well as measures like market preferences, infrastructure, and sometimes even monopoly rights.
Several empirical studies have been done on the assessment of which key determinants are responsible for the investment of multinational firms in a particular location (macro dimension). However, there is no general consensus in so far as some studies have not found any statistically significant relation with respect to certain determinants. Our study analysed the theoretical approaches to FDI and already published past empirical work to identify which factors have been most robust in terms of attracting FDI to a particular country, and to explain the geographic distribution of FDI all over the world.
The research is organised as follows. Section 2 briefly describes the various types of FDI, theoretical approaches that have tried to explain FDI flows over the years and expected theoretical relationship. Section 3 identifies the determinants of FDI in the various empirical studies. The paper ends with conclusions and suggestions for future research, in Section 4.

1.1. Objective
The objective of the study is to examine the vast amount of theoretical and empirical literature on determinants of FDI which catalogues a long list of determinants that try to explain drivers of foreign direct investment by multinational companies.
The second objective is to examine whether the determinants of FDI are different for developing and developed nations.

1.2. Rationale
There has long been a general belief that FDI offers a steadier source of external finance than equities and bonds, and the recent financial crisis has only reinforced this view. Not only does FDI enhance a country's overall investment picture, it can contribute spill over gains through technology transfer and the import of managerial expertise from more advanced economies. The table below highlights the value of FDI and access to global capital.

Economy	Innovation & Technology	Society
Accelerated growth and development through increased efficiency and investment	Technology, best-practice, and R&D transfer effects, including inventory and supply-chain management and quality-controls standardization.	Human capital increases in value as foreign firms create jobs, train workers, and launch collaborative projects.
Job creation and poverty reduction	Demonstration effects as new products and marketing techniques are introduced.	
Productivity spill over	Management know-how advances as ties between local and multinational firms expand.	
Trade effect through promoting access to foreign markets.		

Table 1: National benefits of FDI and access to global capital
Source: Global opportunity index, March 2013.

FDI has received a lot of attention due to its utmost importance for economies in the form of major source of financing. It is but obvious that FDI flows into the countries with stable, open and friendly economic environment with strong institutions, tax incentives, large market size and that political instability, poor governance and development indicators will only discourage FDI. But, there is strangely little and sure shot evidence to support these arguments.
Many empirical studies have tried to identify the determinants of FDI inflows and examined the influences that increase its flow. However, the results are rather contradictory. It still remains an open question, as to what pulls FDI into the countries.
Many countries have formulated policies in order to create stronger incentives for foreign investors who have the potential for providing FDI flows. Understanding the factors responsible for FDI inflows and uncovering the reasons why some countries are more successful in attracting FDI may help policy makers in future policy prescription. In spite of liberal policies, however, success in attracting FDI inflows has been quite different among countries. Such difference is also seen to have varied over time. So, there is a need to answer to why there is so much difference in attracting FDI, as to why some countries are successful in attracting more FDI than others and what are the factors that pulls FDI to their countries.
This paper provides a review of the theoretical approaches and past empirical work on FDI in an attempt to recognize the most robust factors responsible for geographic distribution of FDI flows worldwide. It also advocates paths for future research in this area.

2. Theoretical Framework

2.1. Types of FDI

(Dunning, 1993) describes three main types of FDI based on the motive behind the investment from the perspective of the investing firm.

2.1.1. Resource Seeking FDI

It is a type of FDI which is made to acquire particular resources that are more efficient and cheap than those obtainable in the home country. There are three types of resource seekers:

1. Seeking physical resources like, minerals, raw materials, etc.
2. Seeking human resources like cheap labour, skilled/unskilled workers, etc.
3. Seeking technological or soft resources like, managerial, technical or organizational skills.

2.1.2. Market Seeking FDI

It is a type of FDI which is made seeking new and growing markets for products. It is done to capture market share and increase sales growth in target foreign market. For example: FDI in BRICS (Brazil, Russia, India, China, and South Africa) economies. The main aim driving it is to better serve the local and regional markets efficiently and profitably. It is also called horizontal FDI, as the purpose of horizontal FDI is to fully serve a local market by undertaking local production which involves having similar production facilities in the host country. Market size and market growth of the host economy have a major role to play in promoting this type of FDI. Barriers in accessing local markets, such as tariffs and transport costs, also encourage this type of FDI. Variant of this type of FDI is tariff-jumping or export-substituting FDI.

2.1.3. Efficiency Seeking FDI

Such type of FDI is done with the intention to reap benefits arising due to differences in economic systems, policies, market structure, infrastructure and institutional arrangements between source and host economy. The investing firm can benefit from the common governance of geographically dispersed activities and with the existence of economies of scale and scope.

3. The Theoretical Framework of the Determinants of FDI

3.1. Theoretical Approaches to FDI

The vast existing literature examines a large number of variables which have been put forward to explain FDI. Some of these variables are encompassed in formal hypotheses or theories of FDI, whereas others are suggested because they make sense intuitively. One way of classifying these key determinants is based on the theories of international investment.

Many authors (cf. Table 2) have focused on the determinants of FDI and they have put forward various theories to explain them.

Theory/Theoretical approach	Determinants	Author(s) (year)
Neo classical trade theory (Heckscher - Ohlin Model / MacDougall-Kemp Model)	Higher return on capital, lower labour costs, exchange risk (currency risk)	(Heckscher& Ohlin, 1933), (Hobson, 1914), (Jasay, 1960), (MacDougall, 1960), (Kemp, 1964), (Aliber, 1970)
Structural Market imperfections	Ownership Advantages (product differentiation - imperfect goods market), internal or external economies of scale, government incentives, new technology or patents, managerial expertise.	(Hymer, 1976), (Kindleberger, 1969)
Product differentiation (monopolistic advantages)	Imperfect competition encouraged horizontal FDI.	(Caves, 1971)
Oligopoly markets (Theory of oligopolistic reaction)	Following rivals (Follow the leader) Reaction to rivals investing in their home country	(Knickerbocker, 1973)
Product life cycle hypothesis	Production function characteristics	(Vernon, 1966)
Behaviour theory	Suggested by government institutions, Fear of loss of competitiveness, follow the leader, and increased competition in their own country.	(Aharoni, 1966)
Internalization	Inefficient/imperfect markets leading to market failures. Imperfects markets,leads to creation of internal markets.	(Buckley &Casson, 1976)
	Transfer of technology or information leads to FDI.	(Hennart, 1982, 1991), (Casson, 1987)

	Know-how or goodwill (market power)-leads to horizontal integration, market inefficiency, incompetence or failure (leads to vertical internalisation)		
Eclectic paradigm (OLI – Ownership, location, internalisation)	Benefit of owning knowledge capital: human capital, management skills, patents, technologies, brand, reputation, tax benefits and favours. (O) Access to protected markets, Favourable tax systems, low production and transportation costs, obtaining cheaper inputs, Jumping trade barriers, lower risk. (L) Lowering the risk of revealing information, avoid damage to brand reputation, minimizing the risk of imitating technology. (I)		(Dunning 1977, 1979)
International Trade and investment theory	Profit maximizing firm chooses to serve foreign market, imperfect market, comparative advantages, and economies of scale.		(Hirch, 1976)
Kojima Hypothesis	Resource labour & market orientation, inability to efficiently compete in domestic markets.		(Kojima hypothesis, 1973, 1975, 1985)
New theory of trade	Country size Transport costs Trade barriers to entry Relative Factor endowments Benefits from economies of scale		(Dixit & Grossman 1982),(Sanyal& Jones ,1982), (Krugman, 1983), (Helpman, 1984, 1985), (Markusen, 1984), (Horstmann&Markusen, 1987,1992), (Markusen &Venables, 1998, 2000),(Zhang &Markusen, 1999), (Deardorff, 2001)
LLL	Advantage of advance technology through imitation, lower overheads & expatriate costs, similar socio- economic conditions, ethnic & cultural environment, infrastructural conditions.		(Mathews, 2002,2006), (Buckley, 2010)
Institutional Approach	Political variables	Financial and economic Incentives Tariffs Tax rate	(Root and Ahmed, 1978), (Bond and Samuelson, 1986), (Black and Hoyt, 1989), (BenassyQuere*et al.*, 2001), (Hubert and Pain, 2002), (Asiedu, 2006), (Cleeve, 2008), (Jadhav, 2012)

Table 2: Theories of FDI
Source: Adopted from (Assuncao et al., 2011)

As (Faeth, 2009) underlines, the first explanations of drivers of FDI were based on the theories related to international trade.

3.1.1. Theories of FDI Assuming Perfect Competition

Then came the early theoretical model which was proposed by (Heckscher-Ohlin, 1933)[2]of neo classical trade theory and the MacDougall-Kemp model by (MacDougall, 1960) and (Kemp, 1964), according to which FDI was driven by higher profitability in foreign markets reaping the benefits of growth, lower labour costs and exchange risks. They assumed perfect completion in factor and goods market where FDI was seen as part of international capital trade.

(Aliber, 1970) prolonged the view that capital moves due to a difference in capital returns, but claimed that this difference was due to a difference in capital endowments and currency risks, as interest rates include a premium that is charged according to the expected currency depreciation. Firms from countries with currencies with less fluctuation in value could borrow money in countries with 'weaker' currencies at a lower interest rate than host country firms due to their lower risk structure. Foreign firms could therefore

capitalize the same stream of expected earnings at a higher rate than host country firms, giving them a reason to invest in the host country. He suggested that weaker currencies compared with stronger currency had a higher capacity to attract FDI in order to take benefits due to differences in the market capitalization rate.
Above studies were based on perfect competition and similar work can be found in the works of (Caves, 1971).

3.2. Theories Based on Imperfect Competition

3.2.1. Structural Market Imperfections
Authors such as (Hymer, 1976)[3] in (Dunning, 1993) and (Kindleberger, 1969) in (Cleeve, 2008) believe that for FDI to exist there must be imperfections in the goods market or factor market. They claimed that the assumption of perfect competition in neoclassical theory could not fully explain FDI, which – in their view – needed structural market imperfections to grow.

3.2.2. Industrial Organization Approach
(Hymer, 1976) developed the FDI theory approach of industrial organization. The main core of Hymer's theory is that foreign firms operating outside their home country are at a disadvantage than local firms in host countries with regard to position in terms of culture, language, legal system, consumer's preference, tax systems, understanding of business environment, and the cost of less favourable treatment by the governments of host countries. Furthermore, foreign firms are also exposed to foreign exchange risk. These firms must have some kind of market power to setaside these disadvantages and overcome it. Market power can be possessed only under conditions of imperfect competition (Lall, 1976).)
The sources of market power[4] – the firm-specific advantage in Hymer's terms or monopolistic advantage in Kindleberger's terms – are in the form of superior technology which is patent protected, brand and reputation, marketing and management skills (imperfect factor markets), the presence of internal or external economies of scale, low-cost sources of finance, ownership advantages such as product differentiation (imperfect good markets), or government interference to balance out the disadvantages of entering a foreign market in order to compete with local firms.
Since the market is imperfect, firms are able to reap benefits from their market power by generating higher profits by investing in countries abroad.
His theory, was the early work to explain the international production in an imperfect market framework, and was reinforced by (Kindleberger, 1969), (Knickerbocker, 1973), (Caves, 1974), (Dunning, 1974) among others.

3.2.3. Theory Based on Monopolistic Advantages (Product Differentiation)
In terms of ownership advantages, (Caves, 1971) dedicated his study on product differentiation as a majormonopolistic advantage in the faith that FDI has an edge over export and licensing if product differentiation is established on the knowledge. The imperfect competition reinvigorated MNEs to differentiate products and engage in horizontal FDI.

3.2.4. Theories Based on Oligopolistic Markets
(Knickerbocker, 1973) in (Hill, 2009) based his study on the relationship between FDI and the oligopoly rivalry between firms. He contended that FDI flows reveal the strategic rivalry between the companies in the global market because FDI is a result of reactive behaviour by a firm to the entry of competitors in their domestic markets. We can say it differently, that firms often have imitative behaviour. They keep an eye on the internationalization of competitors and follow them so that the competitors are unable to gain any strategic advantage. His theory came to be known as the 'theory of oligopolistic reaction' and it is based on market imperfections.
The previous explanation changed FDI theory from neoclassical trade theories into the industrial organization theory. However, Hymer's thesis does not provide a complete explanation for FDI because it fails to provide reasons for where and when FDI takes place. This issue has been undertaken by Vernon in PLC theory, Behavioural theory by (Aharoni, 1966), the eclectic approach by (Dunning, 1977, 1979, and 1988) and the internalization theory by (Buckley and Casson, 1976).

3.2.5. Product Life Cycle Theory by Vernon (1966)
(Vernon, 1966) incorporated international trade with international investment. He said that firms need to make a choice between exporting and investing. He gave a cost based rationale for switching to being an importer than from being an exporter.
Hill (2007) in (Assuncao et al., 2011) explained that firms decide to invest directly in a given location as a substitute to exporting, in so long as goods travel along their life cycle stages (growth, maturity and decline), and to the extent that as they are at decline stage they have fewer needs in terms of specialized labour and innovative technology. In the growth stage, companies opt to invest in other developed economies where markets are still growing and are unsaturated so that local production can be absorbed easily, while in the maturity and decline stages production is shifted to developing countries as markets become fully saturated and products become less innovative, thereby creating pressure to reduce costs.

3.2.6. Behavioural Theory by Aharoni (1966)
(Aharoni, 1966) in (Faeth, 2009) explained why companies opt for FDI through competition factors than to exporting, such as the fear of loss of competitive edge over rivals, the need to follow rivals into foreign markets (reactive behaviour) and added pressures through

increased competition in the domestic market, suggestions made by government institutions, through advice given by senior executives', their personal experiences and preferences also mattered.

3.2.7. Internalization Theory

Internalization theory was first proposed by (Buckley &Casson, 1976). Their theory was an extension of (Coase's, 1937) internalization concept. Coase compared the efficiency of various forms of transactions between the firms. Since the market approach was mostly inefficient leading to market failure, firms were better off internalizing transactions. According to Buckley and Casson the same concept applied to MNEs which says, that firms choose internalising their operations through FDI when transaction costs (i.e. information and negotiation costs, arising from resorting to the market) are higher than internalisation costs (costs relating to internal communication and organisation). When market risk and uncertainty are highly present then transaction costs are high, and internalisation of operations i.e. undertaking FDI is an ideal option. Internalization theory of FDI by Buckley and Casson provided an additional explanation of FDI by putting focus on intermediate inputs and technology. They shifted the emphasis of the international investment theory from economy-specific factors of FDI towards industry-specific and firm-specific determinants of FDI as cited in (Nayak&Choudhary, 2014). Buckley and Casson analysed the behaviour of MNCs within a broad-based framework which was developed by Coase (1937).[5]

Their theory came to be known as internalization theory as they focussed on the fact it leads to the creation of MNCs. They framed their theory based on three claims:

1. Firms maximize their profits by investing in a market that is imperfect.
2. When there are imperfections in the intermediate products markets, there is benefit in
3. Internalization of markets across the world leads to creation of MNCs. A firm that is pursuing continuous research and development may develop a new modern technology or production process, or inputs.[6]

It may be very complex to transfer technology or sell the inputs to these unrelated firms because these firms may find the transaction costs too high to bear.

3.2.8. Eclectic Paradigm (OLI Framework)

The more holistic and complete approach was given by Dunning, the eclectic or OLI paradigm which is a mix of internalization theory and traditional trade theories (Dunning, 2002), and it explains the advantages for firms that operate internationally, and the various entry modes chosen by them (Faeth, 2009).

For Dunning (1977), there are three types of benefits in choosing FDI: ownership advantages - O, location advantages – L and internalization advantages - I. Ownership advantage concerns the importance of a firm owning assets such as modern technology, exclusive productive processes, patents, firm specific capital known as knowledge capital: human capital (managers), brand, reputation, management skills so that these advantages can generate high profits in the future. This capital can be easily replicated and transferred within the firm in different countries without losing its value, and without incurring high transaction costs.

Location is important when a company gains from its existence in a given market by generating profits from conditions such as: special tax regimes; lower production costs; market size; access to protected markets, and lower risk (Dunning &Lundan, 2008). Other location advantages are producing close to final consumers or downstream customers, saving high transport costs, access to cheaper inputs, jumping trade barriers, providing fast services and delivery (for most services production).

In (Assuncao, 2011), market imperfections (e.g., the imbalance of international allocation of resources) can be reduced to a great extent by internalising operations, saving in transaction costs associated with risks of imitating technology, for instance (Dunning, 2002) compared internalization with licensing or exporting – and said that the former had the advantages of lowering transaction costs, minimizing imitation of technology and maintaining the firm's goodwill and reputation through effective management and quality control.

The eclectic, or OLI paradigm, proposes that the greater the O and I advantages owned by firms and higher the opportunity of creating, acquiring and exploiting these advantages from a location outside its home country, the more FDI will be undertaken by firms.

Where firms has substantial O and I advantages but the L advantages favour the home country, then domestic investment will be favoured to FDI and foreign markets will be served by exports.

The major contribution of Dunning's eclectic paradigm to the literature was to bring together and integrate several complementary theories, identifying a set of variables (ownership, location and internalization) that drives the activities of multinational firms (Dunning &Lundan, 2008).

In (Assuncao, 2011), the crux of this approach is the wide application of these variables to trade, to international production and to the international organisation of production, which means that the same analytical framework covers three main modes of internationalisation (exports, FDI and licensing) (Ietto-Gillies, 2005).

3.3. International Trade and Investment Theories

Other theories related to international trade was given by authors such as (Hirsch, 1976) and Helpman and others (1984 and 2004) and they analysed which route is better for firms to enter foreign markets, whether to go for the FDI route or to export.

- In (Nayak & Choudhary, 2014), (Hirsch, 1976) developed an international trade and investment theory by concentrating on two aspects: (a) when a profit-maximizing firm chooses to serve a foreign market, and (b) the conditions under which foreign market servicing is carried out either through exporting or local manufacture as a result of direct investment. Hirsch asserted that FDI could be analysed within the framework of industrial organization and location theory models. However, it is not consistent with trade models that assume perfect markets, factor immobility, zero transportation costs, international identical production functions and constant returns to scale plant will be less costly to operate in countries enjoying comparative advantage. International direct investment takes place only in a world that admits revenue-producing factors that are firm-specific on the one hand, and information, communications and transaction costs, which increase with economic distance, on the other. He concluded his theory by noting that international investment facilitates specialization according to comparative advantage to a greater extent than trade, since firms that are purely exporters will incur differential export-marketing costs (M); in the case of MNCs, some exemptions from such costs are granted. Furthermore, multinationals have an incentive to enhance the gains from trade by expanding output or setting up new units in least-cost locations and by supplying to all markets from that location.
- Kojima (1973, 1975, and 1985) also integrated trade theories with direct investment theories. He strongly suggested that FDI was required in order to make factor markets more competitive and efficient globally as well as to improve production processes in a country that is well-endowed with the given resource. Kojima identified resource, labour and market orientation as the three major motives behind international investment by a firm. Kojima's theory mainly focused on Japanese investment and the inability of these firms to compete efficiently in domestic markets, which leads them to invest abroad.

3.4. New Trade Theory

Based on Kindleberger's theoretical models (1969) along with those of (Hymer, 1976) and 9Caves, 1971) cited in (Faeth, 2009), an alternative analytical framework has come up - a "new theory of trade" - that combines the ownership advantages (knowledge), location advantages(market size and low transaction costs) with technology and the factor endowments which reflect the intrinsic characteristics of a country. This new theory is an addition to Dunning's eclectic paradigm in that it aims to correlate the three variables OLI (ownership, location, internalisation) with technology and factor endowments in a rational way (Markusen, 2002). Several empirical studies have been done on this issue (e.g., (Helpman, 1984, 1985), (Markusen, 1984, 1997), cited in (Faeth, 2009). It has extra benefits like first mover advantages, economies of scale through large market size, low transportation costs (Hill, 2007).

3.5. LLL (Linkage, Leverage and Learning) Theory by Mathews

First the focus was on developed nations but now in contrast to above theories, the studies has started focussing on the FDI analysis at the level of the developing economies, the last decade was characterized by an afflux of analyses focussing on FDI attracted by and originating in the emerging economies ((Mathews, 2002, 2006), (Buckley, 2010)). Even the theoretical discourse highlights conceptual frameworks specific to this group of economies (Mathews, 2002, 2006). John A. Mathews gave a complementary model to the OLI paradigm, adapted to the level of MNEs from the emerging or developing economies: LLL (linkage, leverage and learning). (Mathews, 2006d) underlines the following aspect: the fact that MNEs from the emerging economies (especially from Brazil, the Russian Federation, India and China) are the new entrants in the international markets may be, at the same time, a benefit for them, is the access to advanced technology (by imitation), and based on this, the reduction of property gaps against MNEs in the developed countries.

(Dunning et al., 2008) says that emerging MNEs are short of the "O" component (ownership or property benefits), but this doesn't mean that such benefits are not there. While, MNEs in the developed countries make use of FSA based on assets, such as technologies, brands and other intellectual property rights, MNEs from the emerging economies resort to networks, relationships and organization structure (UNCTAD, 2006).

3.6. Institutional Theory

Also at theoretical level, in the last decade one can see the scholars' frequent return to the "origins" of the FDI theory, either those generated by Hymer or the internalization theory or the OLI paradigm, in order to consolidate the theoretical FDI construction ((Dunning, 2001a, 2001b, 2003, 2008), (Rugman, 2008), (Dunning &Pitelis, 2008), (Buckley &Casson, 2009), (Dunning&Lundan, 2010)) as cited in (Sincai, 2011).

For instance, (Dunning &Lundan, 2010) focus on a new element of the OLI paradigm, namely the institutional advantages, both endogenous and exogenous, that represent the key of the successfully regeneration of the ownership advantages (Oi).

In (Assuncao et al., 2011) it says about the effect of political variables on FDI, from the institutional viewpoint. Institutional theory says that firms operate in a very complex environment which is uncertain and sometimes challenging, and so a company's decisions will depend on the institutional forces that have an effect on it, especially on regulations, policies, and incentives (Francis et al., 2009), cited in (Assuncao, 2011). In this reference, the strategies undertaken by companies and their performance on international markets are greatly determined by institutions, that is, by the "rules of the game" (Peng, 2009). Foreign direct investment can thus be regarded as a 'game' in which the players are the multinational companies and the government of the host country, or as a contest between various governments to attract FDI (Faeth, 2009).

Government policies that include tax benefits, subsidies, incentives, and easy repatriation of capital and profits can thus impact the choice between exporting, FDI and licensing. This issue has been examined by a number of authors, such as (Bond & Samuelson 1986), (Black & Hoyt 1989) and (Hubert & Pain 2002) in (Faeth, 2009), who have concluded that financial and fiscal incentives, tariffs and lower corporate tax rates have positive effect in attracting FDI (Faeth, 2009). Corruption is another, equally important factor in firms' decisions to opt for a particular location. There are authors who say that low levels of corruption are linked to greater prosperity and have a considerable impact on the institutional quality of a country, and stimulate its development.

As a conclusion, the economists' interest for the FDI theory hasn't lost its intensity since its launch, more than half a century before, especially as the MNEs from the emerging economies, particularly from Brazil, the Russian Federation, India and China are nowadays active players in the field of the FDI.

And another way of classification is given by (UNCTAD, 2002) which classifies the determinants of inward FDI, as shown in Table 3.

Determinants Variables	Examples
Policy Variables	Tax policy, trade policy, privatisation policy, macroeconomic policy
Business Variables	Investment incentives
Market-related Economic Determinants	Market size, market growth, market structure
Resource-related Economic Determinants	Raw materials, labour cost, technology
Efficiency-related Economic Determinants	Transport and communication costs, labour Productivity

Table 3: The UNCTAD's Classification of FDI Determinants
Source: (UNCTAD, 2002)

The determinants of the FDI are great in number. Whether particular action of investor or government is responsible for increase or decrease in the investment for a given period is treated as determinant. There is not a single variable which would influence investment to rise or fall but it is comprised of a set of variables. It would be very valuable to review the key determinants and factors of FDI and to know the expected relation between FDI and these determinants before doing empirical investigation regarding relationship of FDI.

4. Determinants of FDI: Empirical Evidence

4.1. Studies Based on Determinants of FDI in Developed Countries

(Bevan &Estrin, 2004) studied the determinants of FDI from Western countries, mainly in the European Union (EU), to Central and Eastern European. They have used panel analysis to study the bilateral flows of foreign direct investment (FDI). Each observation point constitutes an FDI flow in thousands of Euros between a source country i.e., the EU-14 with Belgium and Luxembourg merged, Korea, Japan, Switzerland or the US, and host country , i.e., Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, the Slovak Republic, Slovenia or Ukraine.

The time period is from 1994 to 2000. Independent variables are GDP of host and source countries, unit labour cost in the host country, distance is measured by the distance between the capital cities of host and source country in Kms, trade variable is designed to capture the openness of the host economy, relative opportunity cost of capital in the source and host countries to capture differences in capital costs and the impact of financial and capital constraints on FDI, the credit rating of country to capture the riskiness of the host economy.

The results indicated that FDI is related positively to both source and host country GDP and related inversely to the distance between the countries and to unit labour costs. Hence, investment to the region has been both market seeking and efficiency seeking. Relative capital cost and the coefficient of risk is insignificant. And also the EU announcements about accession prospects increase FDI inflows to countries that are evaluated positively.

(Carstensen&Toubal, WP, 2003) examined the determinants of foreign direct investment (FDI) into Central and Eastern European countries (CEECs) using dynamic panel data methods. The time period for the study is 1993 to 1999.

The panel comprises ten OECD reporting countries, namely, Austria, Belgium (including Luxembourg), Denmark, France, Italy, Germany, Portugal, Spain, UK and US, and seven CEEC destination countries, namely, Bulgaria, Czech Republic, Hungary, Poland, Romania, Slovak Republic and Slovenia. The independent variables were classified as, traditional and transitional. Traditional variables were: the market potential of the host country, tariffs as a proxy for trade costs, relative unit labour costs between the host country and the home country, the fraction of skilled labour to total labour, the relative labour–capital endowment between host and home country, and the corporate tax rate. The transitional variables consist of the private market share of host country, a political risk index, and a measure of the method of privatization.

The results shows that the traditional determinants, such as market potential, a skilled workforce and relative endowments, have significant and direct effects on FDI inflows of host country. Relative unit labour costs and tariffs (trade cost) is significant and have inverse relationship with FDI inflows. In addition, transition specific factors, such as the level and method of privatization and the

country risk, play important roles in determining the flows of FDI into the CEECs and help to explain the differing attractiveness of the individual countries to foreign investors. Higher risk discourages FDI. The efficiency of the corporate governance also had considerable positive impact on the decision to invest in CEECs.

(Faeth, 2005) analysed the determinants of FDI inflows in Australia, using quarterly aggregate data for Q3/1985 to Q2/2002. The FDI inflows were regressed using OLS time series data where FDI inflows are explained using market size- represented by AustralianGDP, factor costs by labour and real wages, transport costs and protection by trade openness and custom duties, risk factors by interest rate, exchange rate, inflation and industrial disputes, policy variables by tax and other factors by OECDGDP.

The results showed that the change in ausGDPwas found to have the expected positive effect on FDI and reflected that a growth in market size makes Australia a more attractive place to invest. In terms of factor costs, both the number of job vacancies and the change in the real wage rate had the negative coefficient. The negative sign indicates that a higher demand for labour makes labour and thus production more expensive. Custom duties were found to be insignificant. Openness had the expected positive sign. The results for the four risk factors, interest rate, exchange rate appreciation, inflation rate and the number of working days lost due to industrial disputes, were mixed. While industrial disputes were found to be insignificant, the Australian exchange rate appreciation, inflation rate and Australian interest rate had positive coefficient. This reflects that higher returns to capital in Australia make it more attractive for firms to invest. The effect of corporate tax rates was positive on FDI.

Finally, *OECDGDP* which was meant to be an indicator of world GDP or growth trends was found to have no effect on FDI inflows.

(Mateev, 2008) examined the major determinants of Foreign Direct Investment (FDI) flows in Central and Southeastern European countries. The sample includes 12 European Union source countries (namely, Austria, Belgium, Denmark, France, Germany, Greece, Italy, Luxembourg, Netherlands, Spain, Sweden, United Kingdom) to 8 Central and Southeastern European host countries (Bulgaria, Croatia, the Check Republic, Hungary, Poland, Romania, Slovakia and Slovenia). They have examined empirically the determinants of FDI flows into the host economy. The time period is from 2001 to 2006.

The study was based on panel data set recording the FDI flows from a source county to a host country at a particular time (cross-country, time-series model). Along with that, gravity model was utilized for explaining FDI patterns of Multinational Enterprises (MNEs) that have invested in the host countries.

Independent variables were size of the market of the host country, represented by the gross domestic product per capita, the potential demand of local consumers represented by the population, the geographical distance among markets represented by the actual route distance from the capital of the source country to the capital of the host country calculated in kilometres, changes in costs of labour in the host countries, represents the percentage change in the overall cost of labour in the host country, literacy variable representing the percentage of the labour force in the host economy that possesses tertiary education or higher, Trade openness, the investment climate in the host country is represented by variable (RISK) which includes corruption and infrastructure. Dependent variable was FDI inflow in host country.

The coefficients of GDP, population, and risk had positive coefficients. Distance and wages had negative coefficients, whereas, infrastructure, trade openness, and literacy were insignificant.

The results reflected that FDI flows were significantly influenced by both gravity factors (distance, GDP and population) and non-gravity factors (risk, labour costs, and corruption).

(Pileti, 2009) analysed the determinants of foreign direct investment (FDI) in developed economies. They have also compared FDI between Europe and non-European countries, which compare the main demand and supply-side determinants of FDI. The sample included 17 developed OECD countries. The time period for the study is 1972-2000.The cross- sectional time series panel data analysis is done.

Total factor productivity and GDP per capital had direct and significant relationship with FDI inflows. On the other hand, tax, labour cost, and gross operating surplus had inverse effect on FDI inflows. Countries interested in attracting FDI should focus on policies that improve the overall business climate, firm profitability and importantly the overall productivity of the economy. Tax policies and demand issues seem to be of lesser importance in developed economies.

4.2. Studies Based on Determinants of FDI in Developing Countries

(Noorbaksh et al., 1999) empirically investigated the relevance of human capital in attracting FDI to developing countries. The study employs panel regression analysis and covers the time period from 1980 to 1994.

The secondary school enrolment ratio is employed as a proxy for the level of human capital which includes the number of accumulated years of secondary and secondary plus tertiary education present in the working age population. Other control variables used in the study are growth of market size in host countries is measured by the rate of growth of GDP, three alternative variables are used to measure the cost of labour, growth rate of the labour force measures the availability of labour, openness is measured by the ratio of total trade to GDP, domestic credit to the private sector as a percentage of GDP is used as a proxy for financial liberalization/macroeconomic stability, shortage of energy is measured by net energy imports (energy use less energy production) as a percentage of energy use.

The findings reveal human to be one of the most important determinants and it has gained importance increasingly through time. The coefficients of trade openness, shortage of energy, the growth of the domestic market and macroeconomic stability, all are important determinants of FDI. The results relative to other variables are less robust. Wage cost is found to be statistically insignificant.

(Cevis and Camurdan, 2007) studied only the economic determinants of FDI inflows by employing GLS pooled panel data analysis with fixed – effect model of 17 developing countries and transition economies for the period of 1989:01-2006:04. Various explanatory

economic variables are, as follows, the previous period FDI (the pull factor for new FDI), GDP growth (measures market size), wage (unit labour costs), trade rate (measures the openness of countries), the real interest rates (measures macroeconomic policy), inflation rate (as country risk and macroeconomic policy), and domestic investment (business climate). Dependent variable was FDI as a percentage of GDP. Various other tests were done i.e. panel root tests, lafrange multiplier test, hausman test.

The empirical results indicate that all the variables except inflation have positive effects on FDI which indicates that inflation has inverse relationship with FDI.

The coefficients of variables of inflation, the previous period FDI and interest rates are statistically significant at 1 percent significance level, the coefficient of variables of trade rate is (openness) statistically significant at 5 percent significance level and the coefficient of variables of growth rate is statistically significant at 10 percent significance level which means all variables except for wages and inv variables all are suggested economic determinants of FDI inflow to developing countries and transition economies. The most important economic determinant is previous period FDI in host countries giving power to them.

(Palit&Nawani, 2007) studied the role of modern technology as a major element in attracting FDI in some of the developing nations who have used technology as a source of competitive advantage. The research focussed on identifying some location-specific factors that have helped some developing economies from Asia to become attractive destinations for FDI over time.

They empirically studied the role of 14 developing economies from East, Southeast, and South Asia, during the period 1994-2003. They have also studied the factors influencing FDI inflows into India through an inter-temporal approach. The explanatory variables used for the study are size of domestic market (per capita GDP), exchange rate stability, cost of capital (capital in terms of benchmark lending rates), quality of communication infrastructure, technological capabilities, outward orientation (ratio of international trade in goods and services to GDP for measuring openness), and political stability. Two new extra variables are studied in case of India. The first is return on investment and the second variable is human resources.

For studying country wise variations, they have employed panel regression techniques with FDI inflows as a dependent variable. Under fixed- effect model, they have applied OLS technique along with least squares dummy variables (LSDV) and under random effects model, they have applied feasible generalized least squares (FGLS) technique. They also conducted Breusch and Pagan, and Hausman tests in their research. They have used a simple time-series model along with OLS technique for identifying key determinants explaining FDI inflows in India**.** The Augmented Dickey Fuller (ADF) test was applied for checking stationary.

The results for country wise variations analysis showed that domestic market size was inversely related to FDI inflows not a significant factor in influencing incoming FDI. Exports were inversely related to FDI and were influential in affecting FDI. Large variations in bilateral exchange rates, reflecting higher volatility in domestic currency, appear to discourage inward FDI. Similar, results were also found for cost of capital. The variable openness is found to be positively significant at 1 percent significance level. Political stability was an important factor for attracting FDI and politically unstable economies do not attract FDI. This could be one of the main factors behind lower FDI inflows to South Asia given the region's vulnerability to conflict and ethnic unrest.

Results in case of India, indicates that while the size of the domestic market have significant and positive influence on FDI inflows, exports were insignificant that means FDI in India is more of the market-seeking variety, rather than the resource-seeking, export-oriented types. The result is converse for East, Southeast and South Asian economies, where outward orientation was found to be a key determinant of FDI inflows. Both price earnings ratio and cost of capital did not influence FDI inflows into India and it was again a converse of what was observed in the cross-country analysis. Exchange rate stability was inversely related to FDI inflows and it was a significant variable in explaining FDI inflows. Technology, communication infrastructure and quality of human resources had a positive and influential effect on FDI inflows in India. It indicates that national technological capabilities, the quality of communications infrastructure, as well as human resources were the major elements attracting FDI inflows into India. The main sectors drawing FDI in India (software, electronics, telecommunications, automobiles, pharmaceuticals) is not only technology and skill intensive, but they are also the segments that have witnessed efficient and widespread application of ICT facilities.

(Mottaleb&Kalirajan, 2010) focussed their study on identifying the factors that determine FDI inflow to developing countries and why only some of the developing nations are successful in attracting FDI. The study uses panel data of 31 low-income and 37 lower-middle income developing countries for three years from 2005-2007.

This study is based on information collected from 68 developing countries in 2005, 2006 and 2007. Of the sample developing countries, 37 are from Africa, 8 are from Latin America and the rest are from Asia.

Various hypothesis were drawn in this study which were tested such that "Countries with larger GDPs and higher GDP growth rates, which are more open to the global market through international trade, have more business-friendly environments, and developing nations that receive more foreign aid can easily attract FDI than others."

In order to test the hypothesis various variables were used i.e. GDP measured at current US dollars and the annual GDP growth rate (size of the host country), Trade is calculated as the sum of exports and imports of goods and services as

a share of GDP (it shows host country's openness and linkages with the global market) foreign aid inflows into the host economy (as a percentage of gross national income that includes both official development assistance (ODA) and official aid) and labour quality (includes the variable industrial value-added measured as a percentage of GDP and the growth rate of industrial value-added to GDP. Industrial value-added comprises value-added in mining, manufacturing, construction, electricity, water and gas, measured as a share of GDP), resources and infrastructure in host economy (we consider the availability of labour and the number of internet and telephone users both fixed-line and mobile phone per 100 people) business environment, regulatory framework and macroeconomic stability in the host economy (covered by the number of days required to start a business, time required to prepare and pay taxes and

inflation (measured as the annual growth rate of the GDP implicit deflator) were the explanatory variables whereas FDI inflows was the dependent variable.

The factors that were important and had positive influence on FDI inflows were GDP size and its growth rate, linkages with the global market through international trade, foreign aid inflows and a business-friendly environment. The variables such as inflation, industrial value-added, hours required to prepare and pay taxes and total labour force all were unimportant in attracting FDI inflows in developing nations. The results also revealed that mostly Asian countries in the lower-middle income segment with large market size, highly opened, and linked with the global market, providing more business- friendly environment for the investors were able to attract more FDI than other developing nations. So, in order to be FDI driven an economy should have more outward-oriented trade policies and provide a more business-friendly and stable macro environment to foreign investors.

(Jadhav, 2012) examined the role of economic, institutional and political factors in attracting FDI in BRICS nations using panel data for a period of ten years (2000- 2009) using panel unit- root test, and multiple regression.

Results showed that traditional economic determinants are more important than institutional and political determinants of FDI. The results indicated that market size measured by real GDP is a significant determinant of FDI which implies that most of the investment in BRICS is motivated by market-seeking purpose. Trade openness and inflation rate were found to have a positive significant effect on total inward FDI. Natural resource availability has a negative effect, this particular result suggest that in BRICS economies FDI is not resource – seeking FDI. Only rule of law and voice and accountability were statistically significant in the institutional and political determinants of FDI.

(Akpan et al., 2014) studied the determinants of foreign direct investment in BRICS and MINT. Panel analysis was used for 9 countries using data for eleven years i.e. 2001 – 2011. It has divided the research into three parts. Firstly, they have employed pooled time-series cross sectional analysis to study only the BRICS countries then MINT countries individually, and finally BRICS and MINT combined and after that random effects model is also employed to estimate the model for BRICS and MINT combine.

Panel analysis was used to regress the net FDI inflows on explanatory variables: GDP, used as a proxy for market size i.e. market-related economic determinant, NResGDP, the share of natural resources in GDP- used as a proxy for resource-related economic determinant, infrastructure, number of mobile phones per 100 persons the proxy used as a proxy for efficiency-related economic determinant. inflation, (consumer price index) of a country – used as a proxy for macro-economic stability, trade, representing openness to trade i.e. ratio of total trade (exports + imports) to GDP – used as a policy variable and six indicators of governance and institutional quality drawn from the database of World Bank's world development indicators. Principal component analysis (PCA) was used to calculate institutional efficiency. The analysis showed that depending on the set of countries considered, the determinants of FDI to fast-growing developing differ. For the combine sample of MINT and BRICS estimated all the variables indicating market size, infrastructure availability, and trade openness play the most positive and significant roles in attracting FDI to BRICS and MINT and the availability of natural resources and institutional quality are insignificant. Inflation had positive and insignificant coefficient. This means that countries that have higher inflation rate tend to attract more FDI. Given that FDI inflow to a country has the potential of being mutually beneficial to the investing entity and host government, the challenge is on how BRICS and MINT can sustain the level of FDI inflow and ensure it results in economic growth and socio-economic transformation. To sustain the level of FDI inflow, governments of BRICS and MINT need to ensure that their countries remain attractive for investment. BRICS and MINT also need to ensure that their economies absorb substantial skills and technology spill overs from FDI inflow to promote sustainable long-term economic growth by investing more in their human capital.

4.3. Studies Based on Group of Nations

(Vazquez & Zhang, 2006) examined the role of government expenditures (both investment in infrastructure and consumption) as well as tax, classical location factors, institutional factors that may hinder business investment (such as corruption), and agglomeration effects in attracting FDI.

The data was analysed in a sets of 47 countries from 1995-2002 and 37 countries from 1996- 2002 using unbalanced panel data methodology. They have used fixed country and year effects to control for unobserved country differences and examined the different infrastructure measures (agglomeration effects).

Per capita GDP and population, as a proxy to market size, labour costs, and finally government consumption spending all were found to have a significant negative effect on FDI inflows.

The results also implied that lower taxes, lower corruption, and better infrastructure would strongly attract more FDI. Deterioration of corruption, lower down of taxes and to spend in infrastructure rather than spending money for consumption expenditure by government will attract more FDI to the country. When significant, exports are also positively related to FDI inflows.

(Buchanan et al., 2011) explored the impact of institutional quality on foreign direct investment (FDI) levels and volatility.

The study employed panel data analysis of 164 countries for a period of 11 years from 1996 to 2006 and regressed foreign direct investment (FDI), measured as net inflows (% of GDP) on various factors. The volatility of FDI is measured by the variance of FDI.

Data was collected on 20 macroeconomic variables but the most important explanatory variables were, GDP per capita growth (annual %) to indicate economic growth and standards of living, and Trade (% of GDP), to measure an outwardly oriented trade policy, Domestic investment, proxied by Gross capital formation (% of GDP), to represent a country's domestic investment climate. Another important variable was Governance. PCA of six variables of governance viz., voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption was done using factor analysis. To

regress the volatility of FDI the explanatory variable was money and quasi money growth (annual %) — a variable controlled by monetary policymakers, to proxy for monetary policy distortions.

The result shows that governance and trade has a positive and significant effect on FDI which means good institutional quality will attract more FDI into the country and the countries that are less restrictive will have more FDI inflows. The coefficient of domestic investment is also positive but insignificant, indicating that countries that are capable of mobilizing domestic resources are attractive to FDI. The coefficient of GDP per capita growth (GDPPCG) is negative and insignificant, indicating that higher growth negatively effects FDI because standard of living of people rises with FDI which increases the costs of doing business (labour and physical capital).

Econometric tests (Hausman tests) revealed that one standard deviation change in institutional quality improves FDI by a factor of 1.69. On the other hand, institutional quality is negatively and significantly associated with FDI volatility which may have an adverse effect on economic growth. It says that if there are institutional determinants of FDI volatility and if such volatility is associated with lower economic growth, and if one country is attracting FDI by offering the "stable and good" macroeconomic environment would be of no use, without an equal emphasis on institutional quality.

4.4. Studies on the Based on Individual Countries

(Boermans et al., 2010) have empirically tested the factors that leads to uneven regional distribution of foreign direct investment (FDI) across Chinese provinces from 1995 to 2006. They have followed an inductive approach by doing a factor analysis on around 40 variables that determine FDI and have come across four major FDI determinants i.e.,' institutional quality' it explains the largest part of regional heterogeneity and consists of infrastructure (transportation and communication known as 'hard' institutions) as well as quality of government and rule of law ('soft' institutions) reflected by governance indices, 'labour costs' it includes wage rates, education variables, and labour endowment variables, 'market size' it includes variables common in economic geography that relates to 'market size' and final factor 'geography' it shows first nature' geography such as local climate conditions and natural resource endowment. The China Statistical Yearbook (1995–2007), provides data on FDI for Chinese provinces. From this dataset, they have taken the number of foreign funded enterprises (FFE) and their investment levels as the dependent variables to measure the extensive and intensive margins of FDI. After deriving at the factors they have applied conventional panel regression methods. They have used fixed and random effects estimators to control for province-specific effects and after that employed instrumental variable (IV) estimation to alleviate the problem of endogeneity.

The results indicated that provinces with good institutions, low labour costs, and large market size are attractive destinations for foreign investors. However, as a single factor, labour costs matter most in explaining the FDI distribution across regions and over time. More specific, 'hard' institutions complements labour costs and market size to have major impacts on inward FDI. The Arellano-Bond dynamic panel generalised method of moments (GMM) results show strong agglomeration effects that multinationals tend to invest in provinces which attract other foreign firms, consistent with the economic geography literature. Several robustness tests indicate that low labour costs combined with improvements in institutions are the key for attracting FDI in China.

(Dinda, 2014) explored the role of natural resources along with other standard factors in determining FDI flow to Nigeria, during the time period (1970-2006).

The research investigated the long run relation with short run dynamics and interlinking causal mechanism using vector error correction model (VECM). Time series econometric technique along with tests such as unit root test, co-integration test Augmented Dickey Fuller (ADF) and Phillips Perron (PP) (1988) tests were used in the study.

The results revealed that the endowment of natural resources, trade intensity, macroeconomic risk factors such as inflation and exchange rates are all significant determinants of FDI flow to Nigeria whereas market size is not the significant factor, it contradicts the existing literature. This indicates that FDI to Nigeria is resource-seeking. Natural resource outflow significantly affect inflation rate, as it curves down inflation in Nigeria. FDI flow, resource outflow directly influence foreign exchange rate whereas openness affect it inversely. In the long run, GDP and openness become statistically insignificant in the presence of exogenous factors. Trading partner like the UK in North-South (N - S) and China in South-South (S - S) trade relation exert strong influence on Nigeria's natural resource outflow.

4.5. Studies Based on Determinants of FDI in India

(Siddharthan, 2006) analysed the inter-state or inter-province differences in FDI inflows in India and China. The methodology used is GLS cross sectional regression analysis.

The variables that are used in the regression equation are: Per capita stock of FDI approvals since 1991 (liberalisation), socio-economic index presented by the government, human development index prepared by the government, enrolment ratio in schools in the age group 11 – 14 years, per capita income at current prices, percentage of urban population in total population, gross annual per capita consumption of electricity, per capita gross industrial output in rupees, per capita income at constant prices, overall teledensity, life expectancy at birth. With regard to India all variables except socio-economic index have positive coefficients.

The paper reflects that the determinants of regional distribution of FDI flows in China and India are very similar to the pattern influencing inter-country FDI flows, namely, it flows to relatively developed regions and regions that are poor in physical, institutional and social infrastructure attract very less FDI. Exceptions apart, by and large, regions that are bypassed by FDI are also the regions that have lower life expectancy, are low in human development and socio economic indicators, and poor in governance indicators. Furthermore, these regions do not attract domestic investments either.

(Sury, 2008) analysed the determinants of FDI in India, by employing OLS regression analysis on quarterly data for the time period 1991- 2003. FDI inflows were the dependent variable whereas the independent variables were growth rate of GDP, taxes, trade openness, labour cost, and political stability. Growth rate of GDP and trade openness were significant and had positive effect on GDP inflows. On the other hand, labour cost and taxes had significant negative impact on GDP. Political stability had no impact on GDP inflows.

(Lenka, 2013) studied the exchange rate as a determinant of FDI in India. The study has used time series data from 1980 -2010 and applied models such as OLS, lagged and Newey-West. To check the heteroscedasticity, hottest and immest tests were conducted. And Durbin 'd' statistics and Durbin alternative was done to check the presence of auto-correlation. In order to remove the problem of multicollinearity, autocorrelation and the heteroscedasticity in time series data Newey – west error estimation for OLS or HAC model was applied.

Dependent variable was FDI inflows and independent variables were: GDP growth rate, interest rate, exchange rate and openness.

The empirical results suggested that both exchange rate and openness are positively and significantly related to FDI inflows. They have a direct relationship with FDI inflows. And the results also reflected that India is more open now as compared to in the year 1991 which is one of the reasons for fluctuations in the exchange rate. But, the conclusion could not be drawn that whether exchange rate fluctuation responsible for bad performance of FDI in India or not. GDP had inverse relationship with FDI.

(Sarasa et al., 2014) explained the factors responsible for inward FDI flows in India from many source, using extended gravity model and extended allometric models by incorporating variables such as common language, tax status, interest differential, distance, hi-tech exports %age, trade openness, inflation, growth in world FDI outflows, GDP of source country, GDP of host country, GDP per capita of source country to arrive at the importance of these variables. Additionally, GDP is not representing the "size" in the both models but as a constitution of per capita income and population.

OLS panel data analysis was applied on collected data.

The signs of the coefficients for GDP per capita of source, population of the source, GDP of the host had positive coefficients whereas the distance between the host and source had inverse relationship with FDI inflows. The coefficient of growth in world FDI outflows is found to be negative. This means a fall in the growth of these flows could imply that more FDI into the developing countries may be expected. The tax haven indicator is found to be extremely significant and positive. Countries with a sound tax infrastructure are found to be great sources of investments into India. The common language indicator also has a positive impact on FDI inflows into India as countries that share a common language find it easier to do business.The final analysis showed that the allometric model explains FDI inflows better than the augmented gravity model.

(Devi, 2014) identified the factors that determine the inflow of FDI in India during the period 2001-02 to 2011-12. OLS regression model is used for the analysis in the study. The variables taken are the inflows of FDI in the economy, market size variable, foreign exchange reserves variable, exchange rates, and economic as well as social expenditure of the central government and lastly, openness of trade in the economy.

The results indicated that coefficients of market size as measured by the GDP and foreign exchange reserves variable are significant and positive. Whereas, variables like Openness, government expenses on economic and social goods and exchange rate variables gave negative coefficient and were insignificant. The coefficient of exchange rate variable was found significant with opposite sign, which had negative impact on the inflow of FDI.

4.6. Other Studies

(Silva &Lagoa, 2011) examined the impact of corporate taxes on the location of FDI in Europe. This study was based on 9 years data on 29 European countries and estimated conditional logit model using firm-level data set.

Firstly, three types of corporate taxes were calculated to analyse the impact of the level and volatility of these tax rates on FDI. To study taxes' volatility, they have included standard deviation of the current and last two periods of the EATR (effective average tax rate) as a determinant of investment and it had a significant negative impact on FDI. And when statutory taxes were used the result was converse of EATR, only the changes in opposing directions of the statutory tax rate have a negative impact on FDI. Secondly, they explored how economic and monetary integration influences the effect of taxes on FDI and the results implied that countries within the main euro zone are able to charge relatively higher taxes than other European countries, to some extent, without negatively effecting FDI. The interaction between taxes and the cycles of FDI expansion and contraction was also studied. The results indicated that during periods of FDI expansion, the corporate tax rates have a little effect than during periods of FDI contraction. And, lastly, they examined how the impact of taxes depends upon specific characteristics of each project, such as that it being a new investment or an expansion, as well as its sector, level of technology and capital intensity. The tax imposed on profits by a particular government is more important than the tax incentives it gives on initial investment expenses.

Empirically it was shown that taxes are an important element in attracting FDI, EATR has largest effect on FDI and it is possible to attract specific types of foreign investments by manipulating corporate taxation. And these results are also useful for multinational corporations.

4.7. In the light of earlier studies the major determinants of FDI for developing and developed nations are shown in the table below:

Direction of effect	Developing countries	Developed countries
Positive	Technology, political stability, Infrastructure, openness, wages, taxes, access to foreign aid.	GDP of host and source country, Lagged FDI, Skill ratio, Relative factor endowment, level & method of privatisation, country risk index, openness.
Negative	Inflation, wages, exchange risk, taxes, corruption, governance, and cost of capital.	Political risk, exchange risk, unit labour cost in host country, corporate tax rate, tariffs (trade cost), distance (proximity), taxes, interest rate in host country.

Table 4

4.8. In the following section, some of the determinants and their relations to FDI will be explained in the light of earlier studies.

4.8.1. Market Size

The market size is measured by GDP or GDP per capita and it is the most robust determinant of FDI. It is one of the chief determinant of horizontal FDI where as it is immaterial for vertical FDI.

The countries with larger market size should receive more inflows as compared with countries having lesser market size as wider market is required for optimum utilization of resources and exploitation of economies of scale and scope: as the market-size grows to some extent, FDI will start to rise thereafter with its further increase. This hypothesis has been quite popular and this variable has been used as an explanatory variable in almost all empirical studies conducted on the determinants of FDI.

4.8.2. Portfolio Diversification

The diversification of portfolio is also considered to be another determinant. The approximate mix of bonds, securities, stock, debenture, depository receipts, etc. refers to portfolio investment. The maturity of these instruments may differ from few months to few years. The worry of an investor is for these instruments at a time of risk perceptions. It implies that the investors are able to invest in or take out their capital for diversification of their portfolio assets due to perceived risk in a country. The higher is the perceived country risk due to political, economic and financial changes in one country, an investor would like to take out his capital out of the country **(**Gedam, 1996).

The diversification motive, encapsulated by countries' riskiness, has statistical as well as strong economic significance, and investors while taking their investment decisions do take into account this diversification. Riskier countries are prone to attract less total FDI and portfolio investment. This shows that there is a strong and significant correlation between measure of country's riskiness and the foreign investment made allocations by multinationals worldwide (Tabova, 2013).

4.8.3. Resource Location

Location- specific determinants have a vital impact on FDI inflows in a particular country. The relative importance of various location-specific determinants depends basically on three facets of investment:

1. The motive behind investment (e.g., market, resource or efficiency-seeking),
2. The various types of investment (e.g., services or manufacturing), and
3. The extent of investors, basically size of investor i.e. small and medium MNEs or large MNEs.

Natural resources protected from global competition by levying high tariffs or quotas by a number of developing and developed economies, still play a vital role in attracting FDI. (UNCTAD, 1998).

4.8.4. Differential Rate of Return

This theory elucidates the belief which is very often held that the FDI flows to that country which has relatively higher return on the capital/investment. No investor will invest in a country where the rate of return on investment is not high. Therefore, the flow of capital will mostly be in those countries which guarantee the highest possible rate of return on investment. **(**Gedam, 1996).

4.8.5. Openness

It is usually measured by the ratio of exports plus imports to GDP. The maintained hypothesis is: given that most of the investment projects are engaged towards the tradable sector, a country's level of openness to the international trade should be relevant criteria to be taken into consideration while making the decision. Trade openness is considered to be a key determinant of FDI as represented in the previous literature. The more an economy is open to external trade, the more the country is able to attract FDI. As much of FDI is export oriented, it depends upon how liberal the trade policies are, how much tariffs and trade barriers have been imposed on trade, as it may also be required to import the complementary, intermediate and capital goods. In either case, volume of trade is boosted and thus trade openness is normally expected to have a positive and significant coefficient in determining FDI (see: (Akpan et al., 2014),

(Mottaleb&Kalirajan, 2010), (Cevis&Camurdan, 2007)). Open policies are basically undertaken to encourage FDI while restrictive policies on the other hand such as taking way nationalization of foreign affiliates, can effectively discourage FDI.

4.8.6. Labour Costs and Productivity

Higher labour cost results in increased cost of production and will probably discourage FDI inflows; therefore, we expect a negative and significant relationship between labour cost and FDI. There is a mix view regarding effect of wage cost in the empirical analysis.

4.8.7. Political Risk

The reliability and political stability determines the FDI inflows. Investors prefer stable government so that their investment is safe. A reasonably stable political environment, as well as conditions that sustain physical and personal security, is an important factor taken into consideration while scrutinizing investment climate of any country for making investment by foreign firms (IMF, 2003).

4.8.8. Infrastructure

Infrastructure has a wide scope ranging from roads, ports, railways and telecommunication systems to institutional development (e.g. accounting, legal services, etc.). The well developed, quality infrastructure is an important factor attracting FDI flows. Therefore, we expect positive and significant relationship between FDI and infrastructure. Poor infrastructure is considered as an obstacle in foreign investment.

4.8.9. Growth (Economic Stability and Growth Prospects)

A country which has a stable macroeconomic condition with high and sustained growth rates will receive more FDI inflows than a more volatile economy. The proxies measuring growth rate are: GDP growth rates, industrial production index, interest rates, and inflation rates. A rapidly growing economy provides relatively better opportunities for making profits than the ones growing slowly or not growing at all.

4.8.10. Institutional Quality

Institutions that provide a good conduicive environment for conducting business are also important potential determinants of FDI. Corruption and governance concerns have a significant bearing on investment prospects. The investment regime and the environment for business - including the licensing system, the tax structure, and the attitude and quality of the bureaucracy—are important factors to be taken into consideration. Recent crises have increased awareness about the regulatory risks and greater attention is now being put on the legal framework and the rule of law. “A reliable legal system, which among other things respects the sanctity of contracts and aids in a level playing field, will further help a country attract large amounts of FDI on a long time basis” (IMF, 2003).

4.8.11. Tax

Other things being equal a country with lower tax rates will have a greater chance of attracting FDI project as compared with a country with higher tax rates. But, there has been a mixed view over taxes as a significant determinant. Some studies say taxes are not significant determinant. In contrast, a growing set of studies on taxation has arisen in the public finance literature that generally find significant tax effects, though the estimated elasticity varies significantly between them depending on the data set used and whether the study is cross-sectional or panel. Given these contrasting results, it is somewhat difficult for policymakers to know what to make of this literature.

4.8.12. Foreign Exchange Rate

It is the rate at which one currency may be converted into another. In other words it is the relative strength of the domestic country in relation to the foreign country. High volatility of the exchange rate of the currency in the host country discourages investment by the foreign firms as it increases uncertainty regarding the future economic and business prospects of the host country (Banga, 2003).

4.8.13. Domestic Income

In a transition economy, improvements in the investment climate help to attract higher FDI. It has shown positive relationship with FDI inflows.

4.8.14. Inflation

Low inflation rate is considered as a sign of internal economic stability in the host country. High inflation rate reflects incapability of the government to balance its budget and failure of the central bank to pursue suitable monetary policy. Changes in inflation rates of the domestic or foreign country can change the net returns and optimal investment decisions of the MNEs. It is expected to have a negative impact on FDI (Banga, 2003). The inflation rate is used as a measure of overall macroeconomic stability of a country (Asiedu, 2002). High inflation rate can discourage FDI flow in a country as it raises the user cost of capital. Empirically it has the same expected relationship with FDI inflows.

4.8.15. The Level of External Debts

The level of external indebtedness means the net external help to any country in the form of debts, loans and advances. It is expected to have a negative impact on FDI inflows as it is a liability on country. There is a burden of repayment and debt servicing on the economy, thus making the country less attractive for foreign investment (Chopra, 2003).

The direction of the effects of above mentioned determinants on FDI may be different from expected. A variable may affect FDI both positively and negatively. For example, factors, such as labour costs, trade barriers, trade balance, exchange rate and tax have been found to have both negative and positive effects on FDI. In the empirical studies a various combination of these determinants have been used to explain FDI inflows.

(Moosa, 2005) states that due to inconsistent theoretical framework to guide empirical work on FDI; there is no broadly recognized set of explanatory variables that can be regarded as the "*true*" determinants of FDI.

And, also irrespective of the underlying hypothesis or the classification of these variables, existing empirical studies have taken different combinations of these variables with mixed results, not only with respect to the importance or otherwise of these variables (statistical significance) but in terms of the direction of the effect. Most important is that the existing results lack robustness in the sense that they are sensitive to small changes in model specification. While many potential determining variables may found to be statistically significant in cross-sectional studies, the estimated relationships typically depend on which variables are included in the regression equation. (Chakrabarti, 2001) has given the following examples to explain this point:

- Most of the studies are reporting a significant negative coefficient of the wage rate when it is combined with the growth rate, inflation and trade deficit. But, reporting a positive coefficient when it is combined with taxes and openness.
- The real exchange rate produces a positive effect when it is combined with openness, domestic investment and government consumption. When domestic investment is omitted, it becomes negative.

The difficulty here is that there is no theoretical and meaningful reason to back a particular combination of variables that why they are producing coefficients of a particular sign. After all, these relationships represent reduced and simpler form of models, which cannot be used to trace out the effect from one variable to another within the system (the so-called "black box" problem). Moreover, if there is some valid theoretical reasoning applicable for a particular country or group of countries, it may not be applicable for all countries, which may explain the typically poor goodness of fit of models based on cross-sectional data.

He concludes that "the relationship between FDI and many of the controversial variables (namely, tax, wages, openness, exchange rate, tariffs, growth and trade balance) are highly sensitive to even small alterations in the data set". What complicates the matter is the fact that the underlying theory does not give a definite prediction of the direction of the effect of a particular factor on FDI."

Hence, there is a big question mark on the reliability of the results of past existing literature, basically with the robustness of the results and their sensitivity to model specification (the variables included in and excluded from the underlying regression equation) and goodness of fit.

Furthermore, keeping aside the quantity and quality of studies on FDI determinants, there are some variables that have been neglected and not focussed upon, e.g., human capital, production costs, technology, factor endowments. The role of other socio-economic variables, such as the role of business environment, in attracting FDI is still unexplored or sometimes it has been wrongly predicted. As a result, empirical findings on the determinants of FDI are quite confusing and misleading sometimes. This necessitates the need for undertaking more and more empirical study with well-defined variables and new datasets to clearly understand the determinants of FDI.

In addition, to that most of the studies focussed on very specific regions and countries, such as Sub-Saharan Africa (Asiedu, 2006), the MENA countries (Moosa, 2001), China & India (Siddharathan, 2006), India (Sury, 2008), Nigeria (Dinda, 2014), and BRICS (Vijayakumar*et al*., 2010). Only a very few studies cover a wider range of countries.

I therefore feel that future empirical work in this area should examine some of the less tested determinants (e.g., production costs, natural resource endowments) and could cover countries from different regions of the world.

5. Conclusion

The main findings of the study are:

- Vast amount of literature is there on determinants of FDI but they have not produced consensual results. In fact, in a large number of studies we do not find any statistically significant relation for some determinants for e.g., in case of wage cost which have an inverse relationship with FDI in case of developed nations but the same holds a mix view in case of developing nations. There is no broadly recognized set of explanatory variables that can be considered as the "true" determinants of FDI.
- (Chakrabarti, 2001) entitles this lack of consent to "the huge differences in viewpoints, methodologies, sample-selection and diagnostic and analytical tools". Results in the literature review have been found to be very sensitive to the data set, indicating a lack of robustness. For example, factors such as labour costs, trade barriers, trade balance, exchange rate and tax have been found to have both negative and positive effects on FDI.
- Most of the determinants of FDI for developing and developed nations are almost same and have same effect on FDI inflow such as GDP, economic growth, per capita income, openness, and infrastructure. They positively affect FDI- a result consistent with the market-seeking behaviour of multinational corporations (MNCs).
- Developed nations have focussed more on macro stability factors such as level and method of privatisation in the host country, country risk, and political risk. These all factors have been major determinants of FDI in developed countries. Their

focus has been more on factors of source countries making them responsible to invest in host countries. Geographical proximity between host and source countries is a major factor in determining FDI.

- On the other hand, technology, communication infrastructure, governance factors such as corruption, rule of law, foreign exchange reserves and foreign aids are under taken into consideration in studies conducted on developing nations and these factors have been significant in attracting FDI. Inflation rate have negative impact on FDI. Countries with large market size (GDP) having higher growth rates, higher proportion of international trade and a more open, business - friendly environment are prone to attract higher FDI inflows. Technology, & IT based techniques have become more locational advantages than cheaper labour.
- The results in case of India, is consistent with the results of developing nations. FDI inflows into India are found to be significantly determined by national income, tax rate, trade openness, and labour cost. Technology, R&D driven innovation capacities have made India as major FDI destination, reinforced by the quality of its human resources that is capable of handling complex technology.

In more recent times, especially during the past decade, the academic discourse related to the FDI is characterized by two distinct features:

1. A number of developing economies have come up on the map of international investors. The third world economies have been actively pursuing outward FDI. Even the theoretical discourse through light on conceptual frameworks specific to this group of third world economies (Mathews, 2002, 2006).
2. In the last one decade, there has been consolidation at the theoretical level in FDI construction, the scholars' are frequently returning to the "origin" of the FDI theory, either those generated by Hymer or the internalization theory or the OLI paradigm (Dunning, 2001a, 2001b, 2003, 2008), (Rugman, 2008), (Dunning &Pitelis, 2008), (Buckley &Casson, 2009), (Dunning &Lundan, 2010). New components are being added to the old theories. For instance, (Dunning &Lundan, 2010) in (Sincai, 2011) focus on a new component of the OLI paradigm, namely the institutional advantages, both endogenous and exogenous, that represent the key of the successfully regeneration of the ownership advantages (Oi).

Despite their different approaches, these theories have a common viewpoint that a firm goes abroad to reap the benefits of advantage enjoyed by them in the form of location, firm- specific or internationalization of markets and reap higher profits.

5.1. Scope for Further Research

One can undertake more empirical study with well-defined variables and new datasets to clearly recognize the determinants of FDI. The further research can focus on finding that variables that are irrepressible and bounce every now and then as the determinants of FDI, are they truly significant and robust in attracting FDI. There is a need to choose the most robust factors responsible for attracting FDI inflows. Robust results on the determinants of FDI have higher academic value as well as the possibility of revealing why some countries are able to attract FDI while others are not. And also that future empirical work in this area should examine some of the less tested determinants (e.g., production costs, natural resource endowments) and could cover countries from different regions of the world.

5.2. Limitation of the Study

The limitation of the study is that the paper is based on theoretical analysis and does not have any empirical analysis.

6. Notes

1. (World Development Indicators, 2009). The World Bank: Washington D.C.
2. Bertil Ohlin wrote and published his book in 1933 which first explained the theory. He wrote the book alone, Heckscher was credited as co-developer of the model, because of his earlier work on the problem, and because many of the ideas in the final model came from Ohlin's doctoral thesis, supervised by Heckscher.
3. Hymer's dissertation was subsequently published in book form in 1976.
4. Market power refers to the ability of firms, acting singly or in collusion, to dominate their respective market.
5. As Ietto-Gillies notes (2005), internalisation theory dates back to Coase (1937) and his theory of the firm, but it was extended to international firms by Buckley and Casson (1976).
6. This is known as the internalization of firms' activities.

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APPENDIX

S. no.	Author	Sample size and period	Methodology	Results		
				+	-	0
1	Carstensen and Toubal (WP 2003)	CEEC, 10 OECD countries (source)- 7 transition economies (host)	Cross sectional dynamic panel model	Lagged FDI, Skill ratio, Relative factor endowment, level & method of privatisation, country risk index	Unit labour cost in host country, corporate tax rate, Tariffs (trade cost)	Relevance of private market share (-)
2	Bevan and Estrin (2004)	EU,CEEC (1994-2000)	Panel Analysis, gravity models	GDP in source and host country, openness	Distance, Unit labour cost in the host country.	Relative capital cost (differential rate of return), Risk
3	Bos and Lear (WP, 2004)	EU to 10 EU accession. 207 countries, (1987 - 2001).	Gravity model, unbalanced panel analysis.	GDP of host country, EU accession, method of privatisation, similar religion, good infrastructure, income inflow in host country.		Population of host country (+), imports (+), exports (-).
4	Faeth (2005)	Australia Q3(1985) – Q1 (2003)	Regression – OLS	Aust. GDP, trade openness, Aust. interest rate (risk factor), tax (policy variable)	Factor cost (real wages & labour supply)	Aust. Custom duties,
5	Mateev (2008)	8 host & 12 source European countries (2001 - 2006)	Cross sectional panel data analysis, gravity models	GDP & population, risk (credit rating variable), corruption	Distance (proximity), wages	Infrastructur-e, trade openness, literacy.
6	Piteli (2009)	17 Dev. OECD countries	Cross- sectional time series panel analysis, fixed and random effect model.	GDP per capita, total factor productivity.	Tax, labour cost, gross operating surplus.	

Table 5: Determinants of FDI in developed nations
Source: Self compiled by author. + positive and statistically significant effect;
- negative and statistically significant effect; 0 no statistically significant effect. EU- European union

S.no.	Author and Year	Sample Size & Period	Methodology	Results		
				+	-	0
7	Noorbaksh et al. (1999)	36 DCs from Africa, Asia, and Latin America (1980-1994)	Panel analysis	Secondary school enrolment ratio (human capital), growth rate of GDP, Trade openness, Macroeconomic stability.	Shortage of energy	Wage cost (+)
8.	Cevis and Camurdan (2007)	17 DCs& transition economies, 1989:01-2006:04.	GLS pooled panel data analysis with fixed effect model	GDP growth rate,wage, Trade openness, Real interest rate	Inflation	Previous period FDI (+), Wage(+),DI(+)
9.	Demrihan and Muscat (2007)	38 DCs, 2000-2004	Cross-sectional regression analysis	Per capita GDP,openness, infrastructure	Inflation	Labour cost (+),Tax (-)
10	Palit and Nawani (WP 2007)	14 DCs-east, south east, south Asia, and India	Panel analysis-OLS, fixed effect model. India- OLS time series panel analysis	Technology, political stability, Infrastructure, openness. India – technology, communication infrastructure, human resources(gross tertiary enrolment ratio), LGDP (+),political stability,	Exchange rate stability, exports, cost of capital. India-Exchange rate stability	Domestic income(-) (lagged growth rate in per capita GDP (LGDP) India- export s (+), cost of capital (+), Price earnings ratios.
11.	Mottaleb and Kalirajan (2010)	68 low-income, lower middle income DCs. (2005 - 2007)	Panel analysis, Fixed and random effects model.	Growth rate of GDP, foreign aid, infrastructure.		Inflation
12.	Vijayakum-ar et al. (2010)	5 BRICS (FDCs), (1975 - 2007)	Panel analysis-pooled OLS, Fixed effect and Random effect model.	GDP, infrastructure	Wage rate, gross capital formation	Trade openness (+), inflation rate, industrial production (-), exchange rate (+).
13	Kachoo and Khan (2012)	32 DCs, (1982-2008)	Panel analysis, FMOLS.	GDP, total reserves, inflation	Wage rate	Openness
14	Jadhav (2012)	BRICS (2000-2009)	Panel analysis, multiple regression	GDP, trade openness, Inflation	Natural resource availability	
15	Akpan et al. (WP /14/002)	5 BRICS 4 MINT (2001 - 2011)	Panel analysis	GDP, infrastructure, trade openness		Institutional quality, natural resources, inflation (+)

Table 6: Determinants of FDI in developing nations
Source: Self compiled by author. + positive and statistically significant effect;
- negative and statistically significant effect; 0 no statistically significant effect. FMOLS – Fully modified ordinally least squares. OLS-ordinary least squares. DCs- developing countries

s. no.	Author	Sample size and time period	Methodology	Results		
				+	-	0
16.	Vazquez and Zhang (2006)	47 countries (1995-2002), 37 countries (1996- 2002)	Unbalanced panel data analysis (fixed country and year effects)	Infrastructure, exports	Per capita GDP & population, labour cost, government spending on consumption, corruption, taxes	
17.	Buchanan et al. (2011)	164 countries (1996- 2006)	Regression	Governance & trade (institutional quality), openness		Domestic income (gross capital formation) (+), GDP (-)

Table 7: Determinants of FDI – studies on groups of nations
Source: Self compiled by author. + positive and statistically significant effect;
- negative and statistically significant effect; 0 no statistically significant effect.

s.no.	Author	Sample size and time period	Methodology	Results		
				+	-	0
18.	Boermans et al. (2010)	Chinese provinces (1995-2006)	Factor analysis, panel analysis, fixed and random effect model	Institutional quality (infrastructure, governance & rule of law), market size (economic geography)	Labour cost	Climate & natural resources.
19.	Dinda (2014)	Nigeria (1970 - 2006)	VECM, time series panel analysis	Natural resources, trade intensity	Inflation &exchange rate (macro-economic stability)	GDP, openness (-)

Table 8: Determinants of FDI – individual countries
Source: Self compiled by author. + positive and statistically significant effect;
- negative and statistically significant effect; 0 no statistically significant effect. VECM- vector error correction method

S. No.	Author	Sample size and time period	Methodology	Results		
				+	_	0
20.	Siddharthan (2006)	India & china (2000-2004)	GLS cross – sectional regression analysis	Per capita stock of FDI, HDI, life expectancy at birth, education enrolment ratio, per capita income at current prices, %age of urban population, per capita gross industrial output and stock of FDI, overall teledensity.	Socio- economic index	
21.	Sury (2008)	India (1991-2003)	OLS – regression analysis	Growth rate of GDP, trade openness	Labour cost, tax	Political stability
22.	Lenka (2013)	India (1980-2010)	OLS time series panel analysis, lagged and newey-west test	Openness	Growth rate of GDP, interest rate	Exchange rate (+)
23	Devi (2014)	India (2001 - 2012)	OLS regression analysis	GDP, foreign exchange reserves		Openness (-), infrastructure-re (-) (expenses by government. on economic and social activity).
24.	Sarasa et al. (WP no. 2014-11-05)	India (host), 125 Countries (source) (1996-2012)	Extended gravity model, extended allometric models, OLS – panel data analysis.	Tax haven, common business language, GDP per capita &population of source country, GDP of host country.	Growth in world FDI outflows, distance proximity.	High technology, exports, lending rate differential of source & host country.

Table 9: Determinants of FDI in India

Source: Self compiled by author. + positive and statistically significant effect; - negative and statistically significant effect; 0 no statistically significant effect.